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Examining the Relocation of Minority Businesses and Its Relationship with Gentrification and the Banking Industry

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Abstract: Gentrification involves the introduction of innovative business prospects. Bringing new and diverse residents to a community necessitates the emergence of novel businesses and the revitalization of existing ones, thereby fostering opportunities. To accomplish this, businesses old and new often need financial services from banking institutes. Banks provide small businesses with business-specific financial services that support small business owners in managing their money. Studies add that banks also provide business owners with checking account services, business credit, debit cards, merchant services, lines of credit, and business loans. When the right relationship exists, a business owner's bank does more than hold their money. It serves as a vehicle to address immediate business needs and plan for the future. Banks are vital to the life and growth of small businesses. While banks have provided these services for new white-owned businesses entering gentrified communities, research has demonstrated that these offerings are altered when minority small businesses are engaged. The research has found that minority businesses experience various issues when seeking financial services from banking institutes. These issues include a higher percentage of loan denials as compared to their white counterparts and higher interest rates, to name a few. The research sought to gather data on these disparities, utilizing various studies from cities and states experiencing gentrification, linking this information with past and presenting banking practices towards minorities and their businesses. The research also sought to demonstrate the importance of minority businesses to their communities and the results when those minority businesses are denied financial services from banking institutes. Finally, the research demonstrates the tools and resources accessible to aid minority businesses in redeveloping and thriving as their communities undergo transformation during gentrification and in the subsequent phases.

Keywords: Banking, Gentrification, Inequities, Minority Business, Lending Practices

1. Introduction

The research and study of gentrification and its effect on minority low-income individuals, their communities, and minority small businesses has become a subject of debate as society considers the benefits and difficulties of this trend. Low-income communities have been identified for their high crime rates, high property vacancy rates, high poverty, undervalued real estate, and many other issues. The introduction of gentrification has allowed low-income communities to experience revitalization through the introduction of developers and affluent residents. Developers are eager to purchase abandoned houses and invest in rebuilding all aspects of the community. At the same time, affluent residents seek the benefits of these reinvented communities while the city also benefits [1]. Gentrification reverses low-income community decline and brings new benefits to cities through a growing tax base, increased socioeconomic integration, and improved community services [2].

While most merely consider gentrification to benefit the real estate segment, its influence and effects go far beyond just that segment. The retail, food, hospitality, construction, and education segments all benefit from the introduction of gentrification. Gentrification means introducing new business opportunities. Introducing new and different residents to a community presents the need for new businesses and updating current ones, creating opportunities. These business opportunities signify opening and relaunching new retail businesses, restaurants, coffee shops, boutiques, and specialty stores.

These new businesses often cater to new residents' needs and wants and introduce new and trending products and services. The rise of new businesses that cater specifically to the needs of new residents frequently encourages residents to shop within their communities. While minority businesses often make up about eighty-eight percent of businesses in low-income communities, gentrification is changing this trend with many new businesses owned by whites [3].

In an effort to contribute to analyses of how the urban business landscape is being negatively transformed in many low-income minority communities, here we want to outline a connection between gentrification and the relocation and closure of minority businesses.

To do so, we examine the importance of the minority businesses to their community, noting their historical significance. We then examine gentrification's effect on minority businesses, exploring several studies that link the relocation and closure of minority businesses to the disparity of the banking industry to minority businesses.

In developing a framework for such a connection, we examine the historical practices of the banking industry towards minority businesses and how those practices are still being perpetuated today. We then explore systems established to combat discriminatory practices against minority businesses and how those systems can assist minority businesses in remaining in the communities in which they were established.

2. The Importance of Minority Businesses

While segregation was not legal in the North, racism, and prejudice were prevalent. Whites reacted to Blacks by establishing new barriers that sharply restricted where Blacks could work and live. Though not as overt as Jim Crow Laws, Blacks were denied access to communities throughout the United States based on real estate structure, giving landlords, primarily whites, most rights. Blacks were assigned residency in areas of cities that whites did not occupy. These communities were densely crowded and lacked the amenities (lighting, sanitation, police patrol) granted to their white counterparts communities [4]. With a lack of support or concern from the cities they resided in, Blacks were forced to create their own community services. Blacks developed their own medical, financial, and service businesses to cater to their communities. Parshina-Kottas et al. emphasize that although these were minority communities, the diversity in income allowed them to prosper with no white business reliance [5]. They added that these communities were vibrant and profitable, with homes along the well-treated landscape, Black-owned grocery stores, hotels, nightclubs, billiard halls, theaters, doctor's offices, and houses of worship.

Current research has indicated that minority-owned small businesses increased by seventy-nine percent, ten times more rapidly than U.S. small business growth [6]. Minority businesses are also responsible for employment growth of four percent, while during the same period, employment declined by seven percent among non-minority businesses. Research revealed that in 2002, four million minority-owned businesses grossed $661 billion and employed 4.7 million workers. According to the research, if minority-owned businesses had access to adequate capital, their employee growth would have employed over 16.1 million workers, their income would have been over $2.5 trillion, and minority-owned businesses would have been around 6.5 million. The research added that if the current growth rate continues, minority-majority small businesses will outnumber U. S. small businesses between 2040 and 2050. Despite this, the study stated that minority-owned businesses have considerably more difficulty obtaining finances from lending institutions than white-owned businesses. This lack of capital access slows new business growth and employment growth, in which new businesses created forty percent of new jobs in the United States.

3. Gentrification's Effect on Minority Businesses

While gentrification offers some clear positive benefits for developers, new businesses, and new residents, the study also adds that these benefits come at the cost of displacing minority-owned businesses because of the environmental increases gentrification produces within the community and the inability of minorities to receive the resources needed to adapt.

With the development and revitalizing efforts that gentrification creates, prices of property, goods, and services experience a considerable increase, leaving long-time minority residents with no means to afford the increases in their community [7]. This inability to afford to live in their community has forced long-time minority residents to relocate to other affordable low-income communities. This adverse gentrification outcome also affects minority-owned businesses through rent increases and the inability to compete with entering white businesses. With the migration of their customer base, minority businesses suffer from the loss of customers and revenue, forcing relocation and closure throughout major cities, as noted in the diagram below.

Although this new influx of affluent residents should positively affect minority businesses, their outdated stores are often unappealing and not frequented. The inability to update present businesses or for minorities to open new businesses in their communities is often a factor in industry banking practices. Research revealed that because of banking practices, many minority business owners could not receive the resources necessary to update, renovate, and purchase businesses.

When communities are experiencing gentrification and the increase of new businesses, current minority-owned businesses need to be remodeled and updated to reflect the trending direction of the community. Studies have demonstrated that remodeling will help business owners compete to increase new customers while retaining the current customer base [8]. The studies add that remodeling and updating increase sales, enhance the customer experience, and make the business space more efficient for the customers and the employees.

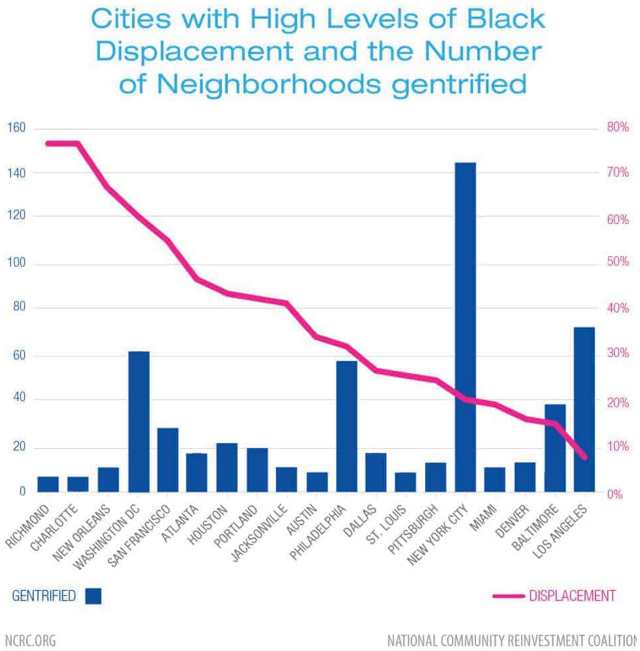

Figure 1. *Cities with minority displacement.*

Updating, remodeling, and improving products and services will take access to capital, which, unfortunately, most minority businesses lack and, due to the current banking culture towards minorities, do not receive. The U. S. Department of Commerce notes that capital access remains the most critical factor limiting minority-owned businesses in establishing, expanding, and growing their businesses [9]. The research notes that data reveals the disproportional capital access differences between minority-owned businesses and white-owned businesses.

The diagram below notes the disparity between capital access for minorities versus whites.

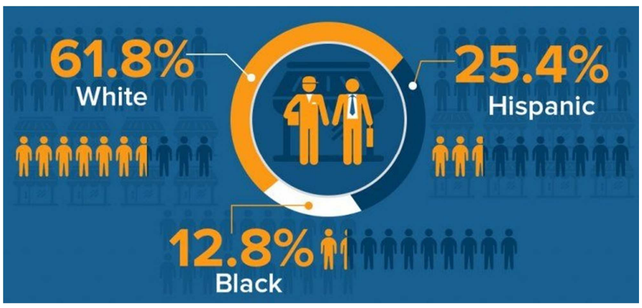

Figure 2. *Capital Access.*

However, minority-owned businesses make up more than fifty percent of the two million new businesses established over the past ten years. Minority-owned businesses account for $700 billion yearly in sales, adding significant value to the national economy. Access to capital is critical to maintaining and sustaining minority-owned businesses' growth.

A study has shown that business owners of all racial categories depend on three primary startup capital sources: personal and family savings, business loans, and personal credit cards [10]. The study added that minorities often rely on personal and family savings to finance their businesses at a rate of seventy-three percent and seventeen percent on personal credit cards. When faced with the challenge of obtaining startup capital, minority entrepreneurs will turn to family and friends and access their personal savings to fund their business endeavors and dreams. Still, with a median income of a tenth of their white counterparts, most lack the resources to maintain or upgrade their business to meet new customer needs or compete with businesses in their industry [11]. The research reported that minorities have described that they are disproportionally hurt by the cost of and lack of access to capital. Another study adds that minority business owners lack business networks for peer support, investment, and business opportunities. They also lack the essential skills to lead their businesses to survive and grow [12]. Research demonstrates that customers, especially affluent customers, avoid spending money in outdated stores or stores with poor physical appearances [13]. This research is especially true when gentrification introduces new cultures to predominately minority communities with higher expectations.

4. Banking Disparity and Impartiality

According to a U. S. Department of Commerce report, forty-eight percent of minority-owned businesses are less likely to receive loans than non-minority businesses [14]. Non-minority business owners are three times more likely to get approved for small business loans than their minority counterparts. The study adds that minority businesses that grossed over $500,000 received more denials than white-owned businesses with gross incomes under $500,000. One bank study indicated that approximately eighty percent of its customers, most Black-owned businesses, have been denied business loans or had their applications put on hold [15]. The study added that only thirty-one percent of Black-owned businesses received the requested loan amount. The U. S. Federal Reserve documented that Black business owners' failure to receive total financing was the highest among category classes by more than ten percent [16]. The study noted that if minority-owned businesses are approved, the approval is often lower than requested and at a higher interest rate than their white counterparts. One reason for this disparity was their lack of a strong banking relationship.

The diagram below notes that banks find minority businesses a higher risk, and minority businesses, even stable ones, are accessed differently.

The report noted that one in ten Black-owned businesses had a borrowing relationship with a bank compared to one in four among their white counterpart [17]. The report added that many minority business owners complained about the lack of minority bankers in the institutes that served them. Many felt intimidated by bankers who did not look like them or understand their business or community needs. Studies have shown that white bankers expect clients to understand the lending process and fail to assist them when they do not. This lack of relationship and the intimidation that minority business owners felt made most refrain from applying for loans because they believed they would be denied. Finally, the report added that even profitable Black-owned businesses were denied financing compared to white-owned businesses in the last five years. Another study indicated several reasons why financial institutions often deny minority-owned business loans.

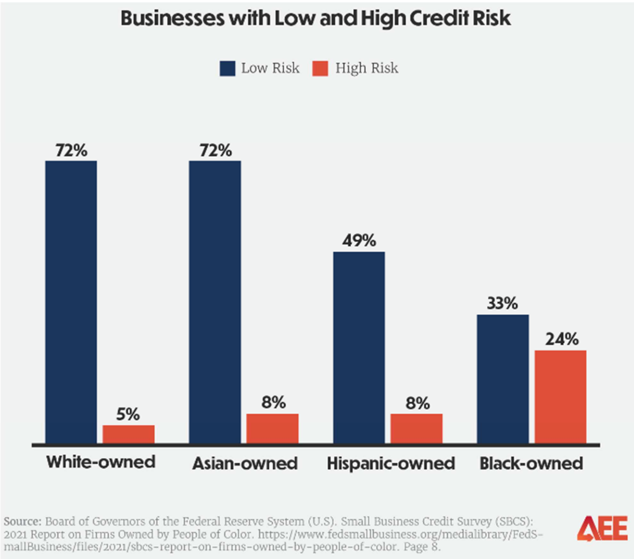

Figure 3. *Businesses with Low and High Credit Risk.*

Weitz noted that minority-owned businesses were denied loans mainly because of their inferior net worth or lack of assets. They credited these two factors with the inability of many Black-owned businesses to produce a sizeable profit, resulting in lower credit scores. The study noted that wealth quantities for Blacks and Latinos are eleven to sixteen times lower than for whites, with white business owners having an average income of over $100,000 and Blacks averaging $35,000. The previous study indicated that even when Blacks demonstrated a marginally healthier income than white business owners, they were asked to give more information or their application was placed on hold.

Another reason for denial was minority business owners' poor or little credit history. Although Black and Latino business owners are devoted and responsible business owners, they tend to have fifteen percent lower scores than whites, increasing the denial rate for minorities. The researchers noted that, as referenced above, their lower credit rating was directly correlated to the lack of profitability. Finally, business location has a significant effect on financing approval. Along with the lower wealth quantities, minority business owners faced lower asset and property values.

One study notes that credit discrimination by a financial institution is often concealed or unintentional because of predisposed biases, making it hard to identify [18]. The study noted that data has demonstrated for minority business owners, the following are some signals that discrimination might be a factor:

1. The borrower is handled differently in person than on the phone or online;
2. The borrower is discouraged from applying for credit;
3. The borrower is persuaded to apply for a different type of loan that has less favorable terms or interest rates;
4. The borrower heard the lender making negative comments about race or national origin;
5. The borrower is denied credit, though they qualify for it based on requirements and conditions;
6. The borrower is recommended credit with a higher rate than applied for, though they qualify for a lower rate based on requirements and conditions.

The diagram below demonstrates the disparity of lending by banks to various ethnic groups.

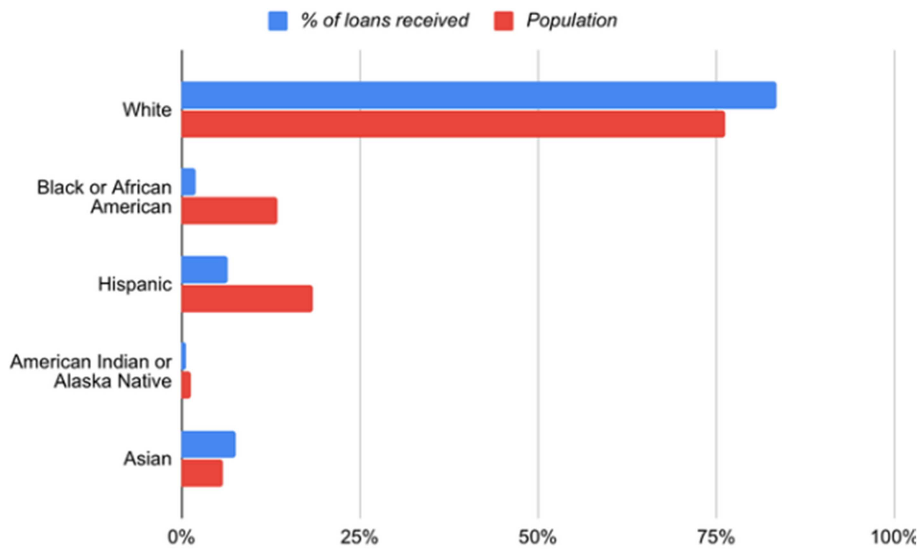

Figure 4. *Loans received.*

5. Combatting Banking Inequities and Disparities

As noted above, discriminatory practices in banking have been an issue for minorities for decades, but new laws and regulations are seeking to assist in changing practices and behaviors.

In 1977, the federal government enacted the Community Reinvestment Act (CRA), which requires the Federal Reserve and various federal banking regulators to persuade banks to assist in meeting the credit needs of minority communities with low and moderate incomes [19]. The report also states that the CRA was created to promote the rebuilding and revitalization of low-income neighborhoods through lending institutes' fair lending practices that benefit the institution and the community. Congress found that with the deterioration of many minority communities, financial institutions located in these communities were not meeting the credit needs of individuals and businesses nor providing adequate services. The CRA does not ask lending institutions to make risky loans because they are in a minority community but to design ratios and benchmarks that meet the communities they serve while practicing sound business operations. This philosophy will promote good and safe business practices while providing the community's necessary services. The report adds that the CRA offers a structure for banks, businesses, and community groups to promote the accessibility of credit and other banking services cooperatively. When banks and lending institutions understand the communities and businesses they serve and those different communities have different needs, they can create policies and strategies for specific communities. The CRA provides a bridge between financial institutions and the community and serves as a monitor for upholding fair business practices. Since its inception in 1977, the CRA has been amended several times between 1989 and 2005. These amendments provided the public with information on the institutions' lending practices, data, and ratings. Previously, banks' lending practices and services were not disclosed to the public but only to CRA officers and Congress, but these amendments allow the public to know what institutions are doing in their communities. The CRA reports are designed to examine and report financial institutes' lending and service practices in minority communities.

The CRA allows financial institutes to be examined and rated for compliance. Banks are evaluated based on their capacity, restraints, organizational strategies, competitors, and colleagues. Also, the communities they serve include demographics, lending data, and how well they create service opportunities [20]. Each category is examined and graded into four types: Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance. After grading, the bank is issued an overall rating that demonstrates how well it serves its communities and meets their needs. If compliance is not met, the institute receives a less-than-satisfactory grade, affecting approval applications for charters, bank mergers, acquisitions, and branch openings. All expansion and growth attempts are halted until the issues are rectified and compliance is experienced, which is time-consuming and alters the organization's long-term strategic planning. A negative rating damages the organization's reputation, image, and brand since all rating information is public knowledge.

Studies have demonstrated how a negative image can damage an organization, its leadership, and its stakeholders [21]. The study adds that a negative image can lead to loss of trust, investments, profits, brand equity, and many other factors. Finally, regaining a positive image and reputation is time-consuming and an uphill battle that may never be recovered. All of the mentioned factors work to assist the minority business owner throughout the application process. Before applying for finances, minority business owners can search for a bank's evaluation and rating through the CRA. This search will reveal a financial institution's lending practices, services, and community rating before applying so the business owner will know how customer-friendly the institution has been in the past. If business owners feel that they have experienced discriminatory or unfair lending practices, they have several actions that they can choose.

The customer can protest directly to the lender and the lending officer. This direct approach has assisted borrowers in persuading lenders to reevaluate and reconsider their applications [22]. The borrower can also check with their state Attorney General's office to see if local state laws have been violated because various states have equal credit opportunity laws for financial institutions. While CRA assists on the federal level, the state Attorney General's office can locally have existing data to help the borrower's cause. The borrower can consider suing the banking institute. Suppose they do not have the finances to pursue a lawsuit. In that case, many organizations, such as the NAACP, ACLU, and even the American Bar Association, might consider representing the borrower based on discriminatory practices and the visibility the case will have on the cause and their organization. The report also notes that legal representation may find others to design a class-action suit against the lender. Finally, the borrower should always report all suspected violations to the appropriate government entity. If denied, the lender must give the applicant the name and address of the agency they need to contact. The borrower can also file a complaint to the U. S. Department of Housing and Urban Development or the Consumer Financial Protection Bureau.

6. Conclusion

The trend and pace of gentrification through low-income minority communities continue to grow and expand, bringing new residents and businesses into these communities. These new affluent residents often seek businesses that market to their needs and product wants. While many minority businesses seek to meet these needs and compete, they lack the resources. This lack of resources directly correlates with the lack of banking support minority businesses have historically received. With this lack of support, minority businesses are often left with no other recourse than to relocate or close.

The banking industry is critical in the lives of minority business owners attempting to revitalize or start a business in their communities. With gentrification viewed as a direct threat to the survival of local minority businesses, the government and organizations are shifting towards creating a more balanced and equitable business environment. There are steps minority business owners can take to assist before and during gentrification efforts. While discriminatory practices have been prevalent, resources have been provided to assist minority-owned businesses in combatting this practice. Research has revealed the tools and resources available to assist minority businesses in redeveloping and growing as their communities change and evolve during gentrification and beyond.

Conflict of Interest

There is no conflict of interest.

Social Media Profiles

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