VIEWPOINTS

Message to banks: Se habla dinero (yes, money talks)

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Money talks. It can buy an education, help start a business, buy a home, and bestow a variety of other privileges that are deeply valued in our society. Despite higher levels of poverty, Hispanics and blacks aspire just as much for these societal privileges as other Americans.

The American dream, however, is not readily available to Hispanic and black Americans, as evidenced by recent news from the Federal Reserve Board about the lending practices of the banking industry: Banks are rejecting mortgage loan applications from Hispanics and blacks at significantly higher rates than whites, even at similar levels of income.

While banks appear to have difficulty lending money to minority applicants, they have no problem accepting their deposits. In 1987, Dallas County Hispanic-owned enterprises had gross sales of $241 million while black-owned enterprises earned $206 million. These earnings translated into considerable deposits in Dallas area banks.

The personal earnings of Hispanic and black wage earners easily approaches several million dollars in the Dallas area alone.

Why are minority applications rejected at higher rates that whites? Bankers explain that compared to white applicants, minority applicants tend to show higher debt ratios, less stable employment histories and other characteristics that reflect more negatively on their overall credit profile.

However, the way banks traditionally define credit worthiness is a highly subjective enterprise. The billions of dollars lost by bankers on bad loans, bankruptcies and credit card charges suggest that such credit criteria have a questionable relationship to successful loan performance.

Apparently, it's OK for real estate investors, banks and "credit-worthy" consumers to fail, but minority consumers appear to require a special type of "insulation" from such failure.

Also, nearly half of Hispanic (44 percent) and black (49 percent) enterprises in the U.S. are in the service sector, meaning that the traditional "hard assets" desired by bankers for loan collateral are not likely to be present. Instead, such enterprises are more likely to offer "human capital" as collateral, including education and business experience.

As the financial industry begins to feel the bite of the Community Re-investment Act, more aggressive efforts will likely follow to inform minority consumers about their lending opportunities. The financial industry is to be commended for these awareness campaigns as well as their occasional sponsorship of minority programs and events.

Hispanic and black communities, however, should not settle for such short-term efforts.

Lending institutions should be encouraged to:

- Re-evaluate the statistical methodology that defines credit risk. Are the same factors equally useful for determining risk among white, Hispanic and black loan applicants? If not, there may be a need for race-specific predictors of credit risk.
- Develop special loan programs for service-oriented businesses that have fewer "hard" assets. Otherwise, tell Hispanic and black businesses directly that nearly half of their enterprises will experience difficulty in getting a business loan.
- Offer training to lending officials as well as minority applicants about the lending experience. Teaching minority applicants to "know their lender" or "prepare a business plan" is useful; however, lenders may be basing their decisions on stereotypes and assumptions about minorities.
- Develop an employee mix that reflects the racial/ethnic diversity of the community. The employee work force of the banking industry continues to be predominately white and monolingual.
- Racially diversify boards of directors with Hispanics and blacks who are knowledgeable and sensitive to the economic needs of their communities.
- Strive to eliminate racial disparities in lending practices through ongoing evaluation of lending outcomes.

The banking industry will continue to play a significant role in determining the extent to which Hispanic and black Americans achieve their educational and economic dreams. However, the slow pace at which the banking industry changes and their general reluctance to disclose information concerning their lending outcomes suggest a need for the Hispanic and black communities to apply a constant level of "gentle persuasion" that will motivate bankers to go beyond the typical image campaign to a more aggressive results-oriented program — where money talks, or *se habla dinero.*

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