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Fear of Asking: Factors that Inhibit Latinos in Seeking and Obtaining Credit for Small Business

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Honors Thesis

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Introduction

Latino owned businesses and any minority business in general are important for the economy of the United States. They generate money that helps the economy grow and work. In the fiscal year of 2010, the Minority Business Development Agency of the United States Department of Commerce created 6,397 new jobs and helped minority owned businesses obtained almost 4 billion in contracts and capital (MBDA report 2010:1). The numbers are record highs for the MBDA and it shows that minority businesses are growing now more than they were ever before. While the number is growing, the number of minority owned businesses is still small compared to the number of White owned businesses. When we walk down the street or read in a business magazine, we do not see many Latino owned business. If we do then they are mostly small business such as small food shop or neighborhood restaurant but rarely have the chance to grow to medium size businesses.

After the economic downturn in 2008, it has been found that banks are stricter now when it comes to giving out loans because of fears that they are not going to get paid back. “Banks are reluctant to lend to minority-owned firms and other businesses in the current economic recession because of concerns about the ability to repay loans” (Fairlie 2010:8). The fact that the banks are now stricter has made it more difficult for Latino owned businesses to get credit from the bank. While the Minority Business Development Agency of the United States Department has helped minority owned businesses get 4 billion in contracts and capital in 2010, many Latino owned businesses are still being denied loans to start their own business. But is it just the fact that banks are stricter now that has prevented Latino entrepreneurs from getting credit from the bank or is there more to it such as discrimination practices by the banks? What are the factors that are making it difficult for small Latino owned businesses to get credit from the bank?

In this thesis, I will review the obstacles to obtaining credit and assess where they are particularly challenging for aspiring Latino business owners. Next, I discuss the method I used to probe these challenges further, including interviews with experts and participant observation of informational sessions for entrepreneurs. Then, I present the findings, including some factors not emphasized in the literature. I close with implications for creating more promising conditions for potential or current Latino business owners to overcome obstacles, obtain credit, and ultimately improve economic conditions for the Latino community.

Literature Review

This literature review summarizes the main obstacles to obtaining credit, which apply to all borrowers, but perhaps more intensely to potential Latino business owners. I searched across multiple disciplines to find answer to my research question about what are the obstacles to getting credit. The articles I review come from the business literatures on banking, entrepreneurship, and equal economic opportunity. In addition, these literatures point to studies from psychology on factors that inform the "fear of asking" that become the focus on this study. In this section, I present six factors that I distill from the literature. One contribution of this thesis is to bring these factors together into one account because they are usually treated one at a time.

Low levels of personal wealth

When it comes to getting credit from the bank, one thing that is critical is the applicant's personal wealth. Do they have assets such as a large amount of money or a house that they can use collateral to get the loan? "Low levels of wealth and liquidity constraints create a substantial barrier to entry for minority entrepreneurs because the owner's wealth can be invested directly in the business, used as collateral to obtain business loans or used to acquire other businesses

(Fairlie, 2010:17). If they do not have the assets to put as collateral then the lender feels that it might be too much of a risk and therefore choose not to lend the business the money. The business need money to get money and this seems to the major issue with Latino businesses. This is a difficult cycle for anyone to break, but it is even more difficult for Latinos and minorities because they tend have lower paid jobs. In Robert Fairlie's, economic professor at the University of California, other studied of Mexican American entrepreneurs, he reported that "first generation Mexicans have average annual interest income of $113 and only 52 percent own homes. In contrast, non-Latino whites have average annual interest income of $822 and 82 percent owe a home" (2010:10). As we see from the statistics that Fairlie has provided that there is a big gap (30 percent) between the numbers of Latinos owning a house and the number of Whites owning a house. Thus, we see that Latinos are at a disadvantage when it comes to getting a loan because of their low levels of personal wealth.

Self selection out of loan pool based on group experiences

Numerous studies have found that Latinos and minorities are more likely to be denied a loan then Whites. For example, Robert Fairlie stated that "out of firms that had gross receipts under $500,000, 23 percent of non-minority firms received loans compared to 17 percent of minority firms" (2010:5). Ken Cavalluzzo, professor at the Georgetown University, also founded that after controlling everything (firm and credit history) African Americans were more than twice likely be denied credit compared to Whites (2002:664). That fact that Latinos and minorities are more likely to get denied a loan has had a psychological effect on them. In the report of "Disparities in Capital Access between Minority and Non-Minority-Owned Business: The Troubling Reality of Capital Limitations Faced by MBEs," it stated that the "minority owned business firms are more likely to not apply for loans due to rejections fears" (2010:5).

The report found that “firms with gross receipts under $500,000, 33 percent of minority firms did not apply for loans because of fear of rejection compared to 17 percent of non-minorities.” Cavalluzzo also found in his research that,

> “Of the firms that expressed a need for credit, fully half reported that they didn’t apply for credit sometime within the last 3 years because they didn’t expect to be able to get credit. These “fear” rates ranged from between 45% and 50% for whites owned businesses to the low 60s for business owned by Hispanic and Asian males and to the mid- 80s for business owned by African Americans and Hispanic females” (2002:667).

Latinos and minorities have conformed to the idea that they are going to be denied a loan that they choose to not even apply even if they do have a chance of getting the loan. So instead of the banks denying them the chance of getting their business up and running, they deny themselves this opportunity in, a vicious cycle of disappointing experiences and readjusted expectations. Not much information has been found to see what is being done to get these applicants to see that they do have a chance of getting the loan and that they should not prevent themselves from trying. We know that there are support systems that are provided by Latino Chamber of Commerce and other agencies that are helping Latinos open their business but we do not know if this issue of avoiding applying because of fear of denial is being addressed directly.

Higher interest rate

Prior studies have found some different findings when it comes to the issue of Latinos and minorities getting higher interest rates then non-minorities. Some studies have found that there is not a difference between minorities and Whites while others have found a difference. For example in a study by Ken Cavalluzzo of small business financing, he found that when everything is controlled (such as the firm and owner characteristics, information on the financial institution) there was no differences in rates across the races (2002:661). He did find a difference in the interest rates when he looked at the different lender market concentration. He stated, “However, there is some evidence that interest rates paid by Hispanic owned firms increased with increases in lender market concentration. This result is significant at the 5% level” (2002:663). When it came to median market, he found that there were no differences between the races (2002:663). In Karlyn Mitchell’s, finance professor at NC State University, study, her evidence also suggested that there are differences between races in different levels of business competition. She writes that are evidence suggest “that relative to comparable white small business owners, minority in low competition markers have less access to credit and in high competition markets have less access to non-line of credit loans from banks” (2009:21). If we look that the statistics provided by the “Disparities in Capital Access between Minority and Non-Minority-Owned Business: The Troubling Reality of Capital Limitations Faced by MBEs” report it tells us that, “For all firms, minority firms paid 7.8 percent on average for loans compared with 6.4 percent for non-minority firms” (2010:5). Even the smallest difference in the interest rate can be significant one because the longer the loan is the greater the total interest difference will be.

Other Racial Discrimination

While laws have been made to prevent from discriminating people because of their race, racial discriminating still occurs in today’s society. Some banks have been found to practice racial discrimination against minorities. As stated before we see that Latinos tend to be denied a loan more often and receive higher interest rates than Whites even when everything is controlled. Another way that bank discriminate is by stereotyping minorities. For example, some banks believe that minorities are less likely to pay back loans than White therefore are less likely to lend them the credit (Farlie 2010: 8). When banks look at applications, they also look at the "character" of the applicant and start to think of stereotype beliefs that society shares such as African American being "criminals". As Tamara Nopper, sociology professor at Temple University, stated in her article,

> "…African Americans are racially disadvantaged when it comes to getting loans from a bank, regardless of the type of financial institution. For one, many banks inquire into an applicant 'character,' a process that involves reporting convictions. Given their over-representation in the criminal justice system, African American may be disadvantaged from receiving loans. SBA-guaranteed or otherwise, from banks" (2011:661).

Cheryl Wade, law professor at St. John University of Law, made an interesting point when she mentioned that since that there are federal and local programs that help minority owned business in getting loans and thus putting them in an unfair advantage, has had a negative effect on the chance of the applicant's getting the loan. She says, "This perception (minority entrepreneurs have an unfair advantage) may cause many of the decision makers at large, publicly held companies to overlook minority entrepreneurs and give business opportunities to white-owned firms that are seemingly disadvantaged by minority business programs" (2010: 485). While this point is interesting, I do not feel that is this the case. I feel that the federal and local programs if anything put minority and non-minority businesses at an equal level (not taking into an account the person's person wealth).

Fear of Asking

So if discrimination is not the root issue, there may be more subtle factors, such as discriminatory in impact, at work, which the next two sections explore in greater depth. As previously mentioned above, prior studies have found that Latinos and minorities tend not to apply for loans for their businesses because they believe that they will be denied the loan. Discouraged borrowers have tended to be owners or entrepreneurs of small businesses (Han 2009:416). Y. Kon, professor of management and economics at Aomori Public College, defines a "Discouraged Borrower" as "a good firm requiring finance that chooses not to apply to the bank because it feels its application will be rejected" (2003:47). Most Latino businesses tend to be small businesses thus one can make a connection between Latinos owners being discouraged in applying for loans from the banks or money lenders.

Latinos can feel discouraged from applying for loans because of many different reasons such as not having enough personal wealth that the banks require for them to have so they can get the loan or because of racial discrimination that they feel is still going on in the banks and money lenders. Before we look at what studies that have been done on Latino, we are going to see a general view of discouraged borrowers. After we can a general view of why some business owners and entrepreneurs feel discouraged in applying for loans, we will take a look at what research has been done on Latino owners and entrepreneurs.

Theory of Discouraged Borrowers

Y. Kon came up with a theory of discouraged borrowers that can give us a better understand why business owners in general feel discouraged from borrowing money from the bank or money lenders. Kon's research looks at the "implications for the SME financing market of application costs that vary between firms, and of imperfect screening of applicants by banks" (2003:37). In this study, application costs are considered "to cover financial, in-kind and psychic costs" (2003:38). Method used in this study was an institutional framework and model the banks' decisions. Kon examined two types of firms, one that was considered a “good” and another one considered a “bad” firm. Kon used ten assumptions to do the research. Some of the assumptions were that “firms know for a certain whether their investment will be a success, whereas the banks does not. All banks use the same screening procedure and have the same error ratios. The use of collateral for the Bank or the Money Lender is not considered” (2003:38-39). Kon findings were,

> “That discouragement doesn’t exist where banks and firms are perfectly informed, and is minimal where banks have zero information and allocate funds by lottery. Discouragement is therefore at a maximum where there is some, but not perfect, information” (47).

Thus, we see that having a better understand of what information is important in getting the loan is very important. The firms or entrepreneur who does go and apply for the loan should know whether they do have the requirements that are needed and should not feel that they will not get it because of their race. If they have the requirements then they should apply and the chances of them getting the loan would be high. And more importantly the banks need to inform as well because they are the ones that decides who get the loans and who does not. Kon also found that interest rates, application costs, and screening errors makes the applicant feel discouraged.

Liang Han, Warwick Business School, built from Y. Kon’s theory of discouraged borrowers by looking at whether discouragement is an “efficient self-rationing mechanism” (2009:416). Han defined discouragement differently from how Kon did. In Han’s research, Han defined “discouragement” as “efficient when ‘bad’ borrowers are discouraged but inefficient when good borrowers are discouraged and/or if bad borrowers get into the loan pool”

(2009:416). Using the 1998 U.S Survey of Small Business Finances, Han looked at the "effects of demographic profiles, borrower quality, information issues and application costs" had on the chance of financial discouragement taking placed (416). In the method used in this study was an empirical study. They had four groups for their independent variables. The four groups were "characteristics of the owner and firm, borrower quality, application costs and information issues and the nature of the primary lenders" (2009:416). They first started by comparing the "key variables between the samples with and without external capital demands and between applicants and discouraged borrowers" (2009:418). They found that they discouraged borrowers were less experienced, poorer, did not have a college degree and belong to a minority group (2009:418). Thus as we see for the result in the first part of their study that Latinos fill the description of who they found are discouraged borrowers. Latino have one of the highest high school dropout rate so may are not going to college and getting their degrees. Many of them do not have experienced running a business here in the United States thus putting them in a disadvantage.

The second part of the research examined the "determinant of discouraged borrowers" by having four logistic models (2009:419). The other part looked the influence of information and the nature of the primary lender had on "discouragement" by using three logit models (2009:420). Han's findings were that "both the demographics of the entrepreneur and of the business influences discouragement. These characteristics include business size, the use of financial products, age and the personal wealth of the entrepreneur" (2009:424). As we see from these results are that small business owners are more likely to feel discouraged then larger business owners. It also restates how critical it is for the entrepreneur to have a high level of personal wealth when applying for a loan. As previous mentioned, high levels of personal wealth is need because it can used as collateral and can show the banks that the person will be able to pay back the loan. After controlling these characteristics, they found that “riskier borrowers are more likely to be discouraged” (2009:424). Han stated, “Indeed, among high risk borrowers, this likelihood increases as information quality improves with longer financial relationships whereas the likelihood for low risk borrowers decreases” (2009:424). This seems pretty oblivious since banks are not willing to take a chance of someone that they are not sure will pay them back thus they would rather choose an applicant for they know will pay them back.

Susan Coleman looked at the 1998 Survey of Small Business Finances to explore the use of debt capital by small firms (2002:1). In her research, she used a logistic regression model so that she could take into account the combined effects of many variables had on the dependent variable (2002:82). The dependent variables in her study were getting the loan, applying for the loan and not applying for the loan in the past three years (2002:82). She found that when the dependent variable is MLPapp (whether or not the firm applied for a loan within the previous three years) that “variables representing race and ethnicity were not significant. Thus, black, Hispanic, and Asian small business owners were just as likely to have applied for a loan within the previous three years as white business owners” (2002:83).

The results changed when the dependent variable was MLPget (whether or not the firms received the loan it applied for within the previous three years) (2002:83). She found that “Black, Hispanic, and Asian borrowers were significantly less likely to be approved for a loan than white borrowers. Thus, although minority borrowers were no less likely to apply for a loan, they were less likely to receive one” (2002:84). Therefore, from the research that Coleman did it seems that Latino are just as likely to apply at about the same rate that Whites are.

While Coleman found no difference in the number of Hispanics and White applying for loans, Christian Weller, senior fellow at American progress and professor at the University of Massachusetts Boston, did in his research of credit access and credit market discrimination. Weller did an empirical study on financial constraints and the costs of credit with information provided from the Federal Reserve's Survey of Consumer Finance. Instead of just looking at Latino entrepreneurs and owners, Weller looked at household credit. He was able to find different issues that Latino dealt with when it came to getting credit from the banks. He found that, "With respect to discouraged applications…African Americans were 89.3% more likely than whites to feel discouraged between 1989 and 1995, while the difference between Hispanics and Whites was 50.0%" (2009:15). While African Americans tend to be the one that feel discouraged more often, the number of Hispanics is still pretty high.

Kon and Han had a general view of discourage borrowers that did not focus on any race in particular. Han mentioned that discouraged borrowers tended to belong to a minority group that was all that was mentioned. Weller, Coleman and other researchers did not mentioned exactly why Hispanics borrowers feel discouraged from applying for a loan for their businesses. Weller did mention how minorities tend to get denied loans more often than Whites but did not explore the psychological affect it has on the Hispanics borrowers. Is this the only reason why Latinos do not apply for loan or is there more? Some researchers have said that racial discrimination is still in play in some cases. For example, David Blanchflower, economic professor at Dartmouth College, did research on the changes in self employment since the early 1980s here in the United States. He found that one of the reason why there is a difference between white self employment rates and minorities self employment rates is because of discrimination in the credit market. He writes, "Firms owned by minorities in general and blacks in particular are much more likely to have their loans denied and pay higher interest than in the case for whites males. It does not appear that these results are driven by missing variable such as creditworthiness" (2009:393). Thus, it is seems that racial discrimination still plays a role and therefore Latino feel that they will not get the loan because they are Hispanic.

Research Question

The dependent variable in this study is whether or not the Latino entrepreneur's intentions are to apply. What were the factors that keep them from applying or what factors influenced them in applying for the loan? Thus, independent variables in this study would be the factors or attitudes about applying for business loans. I expected to receive different answers but there were a couple factors that were similar. One factor that I think will be consistent in most of the answers was the Latino entrepreneurs and business owners lacked the knowledge about the resource currently available to them that want to help them. The control variables would that they are all Latinos, entrepreneurs, and attended information seminar or a training session at the Massachusetts Small Business Development Center Network's Boston Office & Minority Center.

The research will explore different factors and whether they prevent Latino entrepreneurs from applying for loans for their businesses. One the most common factors mention will be racial discrimination.

Hypothesis 1: Racial Discrimination will be a recurring factor that prevents Latino entrepreneurs from applying for loans.

The ability to speak English well while contribute to their fear of applying for a loan.

Hypothesis 2: Language differences will be a recurring factor as well.

The ideology that Latinos get a higher interest rate will be common factors even if it is inaccurate assumption.

Hypothesis 3: The entrepreneurs will mention that they are going to get higher interest rates and thus not apply.

Now that the questions are derived and situated in the literature, I want to focus on the remaining questions. We have learned that there could be a numerous of factors such as lower levels of personal wealth and lack of loan application that are preventing them from asking for loans. My research questions focus on what the factors exactly are making it difficult for small Latino owned business to get credit from the bank. Using the information that I gather from the literature, I picked the method that I thought would be best able to get me answers to the questions that I am looking at.

Method

To understand more fully the fear of asking, I looked at two sides of the issue. First, I conducted expert interviews to hear from the lending side whether the fears of asking were warranted, as well as what factors might make it less likely that Latinos would receive loans. Second, I investigated settings where people who were doing the asking might learn more about the expectations of lenders and those who have more power in the economic system.

The study involved collecting primary and secondary data. The first piece of the puzzle was addressed by doing expert interviews. Due to the time constraints of this study, I was able to do three expert interviews. As while I was planning on doing my participant observations at the Massachusetts Small Business Development Center workshops and seminars, I was able to schedule interviews with some of the counselors that work there. I was able to interview two that have given the workshop and seminar that I attended to do the participant observation.

The questions that were asked to the counselors gear to what they had noticed were the biggest concerns for the Latino entrepreneurs and business owners. For example, one of the questions was about how they often asked about loans and how the entrepreneurs and business owners talked about their feelings about applying for loans. One of the interviews was done by phone while the other interview was done at the Massachusetts Small Business Development Center. The third interview that was done was with one of the assistant manager at one of the local banks in Massachusetts. Similarity to the questions asked to the counselors the focus of the interview was about what they have seen from prior experiences were factors that were making it difficult for Latino business owners and entrepreneurs to get the business loan for their business.

The second approach was doing participant observation at workshops and seminars for minority businesses. The workshops and seminars that I attended were provided by the Massachusetts Small Business Development Center Network's Boston Office & Minority Center (MSBDC) located in the University of Massachusetts Boston. The MSBDC offers informative seminars and training sessions to minority entrepreneurs to help them develop business plans, answers questions they have, and etc. I chose these seminars because they would permit me to see what it looks like when people are coached to ask and maybe even have an opportunity to ask question and therefore maybe over their fear of asking. Seminars and sessions were offered in English.

Two of the workshops/seminars took place in one of the room in the Boston Public Library while the other one was also sponsored by ACCION USA took place online as a webinar. These workshops/seminars were advertized online on their website so people could register for it. The workshops/seminars were all free of charge and opened to anyone. The workshops/seminars took place in the evening around 6pm allowing people to work and then come to the workshop.

The first seminar I attended was “Getting Started in Business” which focused on the big picture of how to decide what business and also talked about the legal issues and the different business strategy a business can employ. This seminar lasted roughly 2 hours. The second seminar, a webinar, was called; “Pursing a Business Loan” and the speaker talked about what are the types that one needs to take in order to get the business loan. The last seminar was called, “Accounting and Finance Your Business” and as the title suggests the seminars talked about how one can finance and account their business in order to have it running successful for a long period of time. This seminar was cut a bit short of two hours because of unexpected emergency.

While at the seminars and sessions, I observed and saw what questions the entrepreneurs and business owners asked. I also looked to see if any Latino men and women asked any questions while they were there. I also take for body language or signs to see how involved they were into the presentation and maybe see how much valued they put into the information that was given at the presentation. I totaled the amount of Latinos there and also if they had stayed the whole period of the presentation or left before the presentation ended. As mentioned as above, due to the time constraints of this study and the availabilities of the workshop, I was able to do only three workshops and seminars. My secondary data was the using and analyzing the slides that were handed out that the workshops and seminars by the presenters.

Participant observation and interviews are the best methods because people will have different attitudes and opinions about applying for loans and thus by using these methods it will not be limiting their answers. It allows me to do a more open-ended inquiry about an issue that we do not know much about. If a survey is done, the responses will be already picked out for them that we will not be able to fully understand what the real cause of them not applying for loans is. Participant observation allows me to observe their body language when they are asked about the loan application process or about their experience with the loan application process.

Results

Participant observation

Once arriving to the workshop, the participant received a copy of slides to follow on with the presentation. The speaker allowed the participants to ask questions during the presentation but prior to the presentation they said that they would leave thirty minutes at the end of the presentation for questions. Unfortunately at the first workshop, the presenter ran out of time to do questions and answers so the only questions that were asked were the ones that were asked during the presentation. This relates to the finding of fear of asking because while the presenter said it was fine to ask questions during the presentation, the Latinos men and women there might have felt uncomfortable interpreting the presenter as he spoke.

It is worth noting that all the Latino men and women attending the first seminar left before the seminar was over so even if there was time for questions and answers at the end, they would not have been present to ask questions. The fact that they left early could potentially tells us how much value they put into the information that was being presented. Maybe they had prior commitment and therefore had to leave early or maybe they did not feel that the information or the presentation was important. I feel that personalize to get the whole understanding of the information provide it is important to listen to what the presenter has to say because while they provided information on the slides, the presenter is not going to put all the information on there. Usually slides are outlines of the topic or terms being discussed and the presentation tell us more about that certain topic and term and therefore we get the full understanding of it.

There were a total of 65 people attending the first workshop and only 9 of them were Latinos. In the second presentation, the webinar presentation about pursing a business loan, only 2 out of 37 was Latinos. This is important to note because it shows that Latinos lack the knowledge about the resources available to them. This shows that there is a gap between the Latinos entrepreneurs and owners and getting them to the seminars and workshops. As I mentioned before some other type of advertisement should be done to get more Latinos going to these seminars that I thought were very informative and well set up.

At the seminars, the presenters handed out that provided useful information that deals with the question that I am looking to answers. For example at one of the seminars, the presenter talked about what he calls the C's of borrowings and I feel relates to my questions about what factors are making it difficult for Latino business owners to get a bank loan. I picked a couple of the slides that I will talk about next that I thought were important and how they felt to my research question.

C's of borrowing:

The C's of Borrowing of as the presenter liked to call them are six factors that are taken into consideration when people are applying for business loan by the bankers and lender. Thus, they relate to Latino applicants who are looking for a business loan. The six C's of Borrowing are as following: credit history, character, capital, collateral, cash flow and condition. I will go more into depth about each C's of Borrowing.

Credit history and character

After the mortgage crisis of 2008, loan lenders seem to pay even more attention to the applicant's credit history then they did in prior years. The bank wants to make sure that they will be getting their money back. They want to limit the risk they are will to take. As the manager of the bank said, "Are you able to pay us back?" is the critical question that the bank wants to know. They determine this by looking at the person's capital, collateral but more they look even more into the credit history. The credit history tells them so much about the applicant that can help them figure out the amount of risk they are taking if they give them the business loan. The credit history can also tell the bank something about the applicant's character.

As seen in graph #1 in appendix 2, credit history is made up of five different aspects and each are valued at different levels. Payment history makes up thirty-five percent of the credit history, thirty percent is amounts owned, fifteen percent is length of credit history and both types of credit used and new credit makes up ten percent each. The banks have money to loan as the manager of the bank said but they need people that are responsible and will pay on time that is why they payment history is a very critical. The payment history tells them if the person pays on time and has not had problems pay their payment. The longer the length of credit history of the person can benefit an applicant because if they have a long history of paying their payment there chance are greater of getting a loan then maybe someone who has not had a long time to build their credit history. The length of credit history can help the bank determine if there is a low risk if they choose to give that person the loan or not.

Capital and collateral

As the prior literature pointed out, the applicant's capital and collateral are critical parts of the loan process. This was pointed out in all the workshops/seminars and in the interviews conducted. As mentioned before the banks have money that they can give out but they have to pick applicants that they can count on that will pay them back. The applicants needs to have the funds necessary to pay back the loans thus the more capital and collateral that the person has the higher the likelihood that they would get the loan from the bank. When it comes to capital, there is a80/20 rule that banks have that will help them narrow the applicants that have a chance of getting the loan. In order to get money, the applicant needs to have money and this is where the problem lies for the Latino business owners. As mentioned in the literature, Latinos tend to have low level of collateral or personal wealth because many do not own a house that they could as collateral in case anything were to happen. Low level of person wealth will decrease anyone's chance of getting a business loan from the bank.

Cash flow (business plan)

Another critical factor in getting the business loan is the applicant's business plan. The business plan tells the lender the market strategy the applicant is thinking and the projected numbers of the company's future revenue and expense. The lender wants to know if the company will be able to be make a profit in the first six months that is has been in business. Even if the applicant says that the company will make profit in the first year, the lender will look at it closely to make sure those numbers are realistic even the location, economic conditions, the type of business it is and other factors. Thus, it is important to have a well design and realistic business plan. This is an issue when it comes to the Latino community. For example, some Latinos do not to their research where exactly the right location of the business is. Others have trouble coming up with the right statistical numbers that tell what the company profit will be in the first year of the business. During one of the interviews, I asked the counselor what were some of the reason why Latino businesses do not succeed and he mentioned that lack of planning or organization. He went on to say that lack education or business experience was a critical issue on why the business does not succeed. Some of them do not know how track what is coming in and what is going out or they do not know their market and what they need to do to be successful in their market. For example, he talked about how they sometime can isolate their market by putting a Spanish restaurant in Asian community or a community where there is not many Latinos living there. Also of those are critical parts of the business plan and therefore, banks and lenders tend not to lend them money because their business plan is not well put together. Something must be done to help them better understand to put a well business plan together and thus be able to succeed.

Conditions (economics)

The sixth C of borrowing that was mentioned in the workshop was the economic conditions. Currently the United States economy is recovering from recession that it was in for the past couple of years. Since the banks and the economy is still recovering from the mortgage crisis of 2008, banks are being very selective when it comes to who they are going to be investing their money with. Banks have more pressure of not getting into bad debts that they got into that year. Maybe if the economy was in a better and more stable condition that applicant with that small bit of risk could have a higher chance of getting the loan then it does right now in the economy that we are not currently in.

As we see these C's of borrowing play a critical role in the loan application process. Thus, it is important to inform the applicants of it and I think that these workshops are doing a good job with that. That being side I think that the workshops should spend an extra amount of time talking about the importance of credit history since it plays a big role in the application process. Maybe if they spent ten to fifteen minutes on credit history instead of three to five minutes, I think it would make a great difference for the people that are planning to apply. They can get a better understand of it and therefore allowing them to make some changes that they might have to do to get their credit history in good shape just has paying their payments on time.

Interviews

After conducting the three expert interviews and the participant observations, the following were the main results of the study.

Fear of higher institution/authority

Fear of higher institution and/or authority was the topic that came up in most of the interviews conducted. Higher institution and/or authority are referenced to banks, bank lenders, counselors who are giving the seminars and workshops, FBI and any legal institutions. The counselors mentioned that this was an issue that they noticed when working with the minority business owners and entrepreneurs. They mentioned that many of the business owners and entrepreneurs are children of immigrants and that they were afraid that their information would somehow reach the FBI and government. They fear that they would somehow be in trouble with the government.

One of the counselors also mentioned that Latino seem to have a lack of trust. History has shown that Latinos and minorities in general have had bad experiences with the banks and people in higher authority because of races and therefore are still very picky on who to trust. Well the banks are “color blind, race blind and ethnicity blind” some Latinos still feel that they cannot trust the banks because they think they might get discriminated against. This is why they noticed that many of them that come to visit them are very picky on what information that they are willing to share even when they are counselors that are there to help them get their business loans. In order for the counselor to provide the best advice and service, they need information that applicants do not feel comfortable giving out and that were a problem lies. The counselors can only do some much to help with a limited amount of information so it is important that the applicant provide a little bit more of information to help them. Because of the fear of higher institutions and higher authority many of them ultimately do not apply for the loan. The applicant in a sense is eliminating themselves from the getting the loans before they even apply for the loan.

Lack of knowledge about resources available

Another common factor that was talked about in all the interviews was the lack of knowledge about resources available to them that can help them with get their business loan. For example there is the Massachusetts Small Business Development Center, who worked with me on this research, who gives seminars and workshops for minority entrepreneurs and business owners that need help them with their business. They offer seminars on how to start a business and how to finance your business. There is also Accion USA that also help minority with their business. They help small business get loans for their business. Both Massachusetts Small Business Development Center and Accion USA have website that tell people how they can help them with their business.

As we see, the resources are there but the people just do not know about it. There is a gap between the people needing the help and the centers getting to the people that need help and this gap needs to be close so everyone can benefit from the services provided by these centers. The question is how can we do that? Maybe these centers need to go to the communities and reach out to them and let them know that they are there if they need help with their business. They could also put more advertisements in the Spanish newspaper and radio that can help them get their name in the minds of the Latino business owners looking for somewhere to go for help with a problem they might have with their business or a question that they might have and want to get it answered.

Table 1: Factors discussed

Factors	Literature	Expert Interview Banker	Expert Interview Counselors	Participant Observation
Discrimination	✓	Strong Rebuttal	Strong Rebuttal	Silent
Low Wealth/ Collateral	✓	Not mention	✓	✓
Fear of Asking / Discouraged Borrowers	✓	✓	✓	No chance to practice asking
Business Plan	Not mention	✓	✓ *main focus	✓
Credit History	Not mention	✓ *main focus	✓	✓

Conclusion

The table above is an overview of what factors were discussed in the literature, the expert interviews and the participant observation. As we see from the table, not all factors were discussed in all four sources of information. For example, fear of asking was discussed in the literature and expert interview (both with the banker and the counselors) but when it came to the workshop it wasn't mentioned during any of them. During some of the workshops, there was not any time to practice asking questions. Before the presentation started, the presenter said to leave the questions to the end of the workshop unless it was a question that you really needed to have answer at that moment. But the presenter ended up running over time and therefore didn't have time for question and answer at the end of the presentation. In this following section, I want to focus on three differences presented in the table. First, I want to discuss why the business plan and credit history were not discussed in the literature that I review. Then, I will discuss how the question of discrimination was handled by the interviewees. Lastly, I will talk about the surprising finding of how much of a role credit history plays in the loan application process.

As we see from the table, the importances of credit history and business plan were not mentioned in the literature review that I conducted before doing my participant observation and expert interviews. Maybe it was the selections of the literatures that I read that did not focus on it or maybe it is because these two items have gain more importance in the last couple of years. Like mentioned before, credit history has probably gain more importance because of the economic conditions the economy in the United States has been in for the last couple of years. Maybe if the situation was different then maybe more importance would be paid to the collateral of the applicant as most of the literature I have read focused on. I found that the fact that business plan was not mentioned in the literature was very surprising. The business plan was a major focus in the workshops and in one of the interviews with the counselors but yet it wasn't a main focus in the literature. Maybe it could be because there is not a single correct business plan. Each business plan is different because all businesses are different in some way.

Racial discrimination

The hypothesis of racial discrimination being a topic that was brought up in the interview was null. The interviewees were quickly to note that in the loan process there was no race, color or ethnicity discrimination. They tried to make it very clear that banks and lenders do not discriminate against anyone, no matter their race, color, ethnicity or sexuality early and often in the interviews. For example, right from the beginning of one of the interviews, the interviewee quickly stated that the banks are "Color blind, race blind and ethnicity blind." All applicants were judged fairly and equally. They were judged by their credit history, capital, collateral, business plan and other factor business factors. As mentioned by that during the interview with the assistant manager of one of the local banks, the banks are actually doing training with their employees to make sure they know how to work with people of different cultures better and therefore making every applicant comfortable.

With that being said we do not know exactly if that is entirely true that all the banks are fair to every applicant. For example, a banker cannot say that the banks discriminate because then he or she could be sued. Thus, they have to be careful what they are saying during an interview even if all information is kept confidential. Also, banks can teach their employees to be fair to everyone but that doesn't mean that subtle discrimination can occur. For example, we sometimes see it in the real estate field when people are trying to buy a home. A Latino man or a woman who is looking for a home is likely to be taken to an area that has a large population of

Latinos even when they don't mention that they want to go to an area where there is a large population of Latino. Also the existences of Minority Business Centers would not have happened if banks did not discriminate against minorities in the past.

Role of culture

The second hypothesis centered on language being a factor that makes it difficult to get a business loan for their business. The findings shows that language might be an issue if we look more closely to why Hispanics tend to have a fear of higher institutions and authority. The fear of higher institution and authority could be a result of culture differences between Latin American and the United States. In the Latin American people tend to obey the people that have higher authority because they perceived to know what they are talking about since that what they have studied. For example, it is very common that when a Hispanic patient goes to see the doctor and the doctor said that they must take this certain medication that they are more inclined to go with what the doctors says because they are the "doctor." They believe that the doctor knows the best because they had been studying and doing that for years that they do not questions the doctors and maybe look at different alternatives that there might be. They tend to just agree with the doctor and if they do not agree sometimes they are more likely not to voice their opinion on the matter. Another issue that could be involved the fear of higher institution and authority is the language barrier. Applicants might worry that they are going to say the wrong thing or that they might miss a critical part that the lenders says because of the language barriers that exist.

Credit history

The most surprising to come out of this study was the role that credit history plays when it comes to getting a business loan for one's business. Prior literature that I read did no really mention credit history when they talked about the factors that are considered in the loan process. Credit history came out to be one of main factors why Latino business owners were not able to get business loan. I decided to go back research more about Hispanics and credit history and how they relate to one another and then connected to my research question.

As seen from table provided in Appendix 2, Hispanics tend to have a low credit score therefore making it extremely difficult for them to get a business loan. 23% of Hispanics are more likely to have a low credit score of 500-599 which to loan lenders are too risks for them to invest into. The applicant's application would quickly be rejected by the banks and would not get even a quick second look. The bank will see that the person is too much of risk and therefore investing in their business would big a large risk. The banks want to eliminate any risk they have in their investments especially after the mortgage crisis of 2008. Going by the table above, 56% of Hispanics have a credit score of 500 - 674 which very troublesome because the banks typically choose applicants who credit is 640 or more (Huebsch 2012). Another key finding about credit history that came out during one of interviews was that Latino lack a paper trail that show that they pay back any debt reliably. Instead of borrowing because of some certain reasons they choose to not to borrow money from the banks. Therefore, the length of their credit history is shorter and can work against them with the loan process. The bank might feel that they do not have enough sample of the person credit payment history and therefore might decide to not them the loan.

Limitation/Future Research

One of the limitations of this study was that due to the time constraints, I was not able to interview a couple of people that went through the process of getting a business loan. Preferably

I would have interviewed someone that actually got the business loan and someone that was not able to get the loan. Thus, future research should try to interview applicants that have successfully gotten the loan and ones that were not as lucky and have them talk about their experiences during the loan process. In order to full tackle the issue, we need to see the issue from both sides of the field. I think once we interview more people about this issue we can see how much of a role higher authority, for example, played in their process of getting a loan.

Recommendation

After conducting the expert interviews and doing the participant observation, one the recommendation that could potentially help Latinos overcome their fear of higher authority and higher institution would be to have development center such as Massachusetts Small Business Development Center give workshops and seminars about talking to higher authority. If they can ask questions during the workshop it will help them overcome their fear of asking. The more practice they can get, the more comfortable they will be when they go to the meeting with the lenders. If possible, a role playing type of workshop whether one of the counselors pretends to be the lender and the participant acts as if they are really going for a loan would be very beneficial for them. It will give them a sense of how the meeting would be likely and what potential questions might be asked. The role play will help them overcome their fear of asking.

Another recommendation would be for Latinos to gradually and conservatively take on debt to demonstrate a credit history. As mentioned before, the length of the credit history is a factor when it comes to one's credit history score. The length of the credit history also tells something about the character of the applicant. If they have a long length of paying their payments on time we can concluded that they are reliable will pay on time. Therefore, if Latinos gradually start taking on debt and pay it on back on time, they can show the lenders that they are reliable and will be able to pay back the debt on time. The lenders will see them as less of a risk then if they had a very short credit history length.

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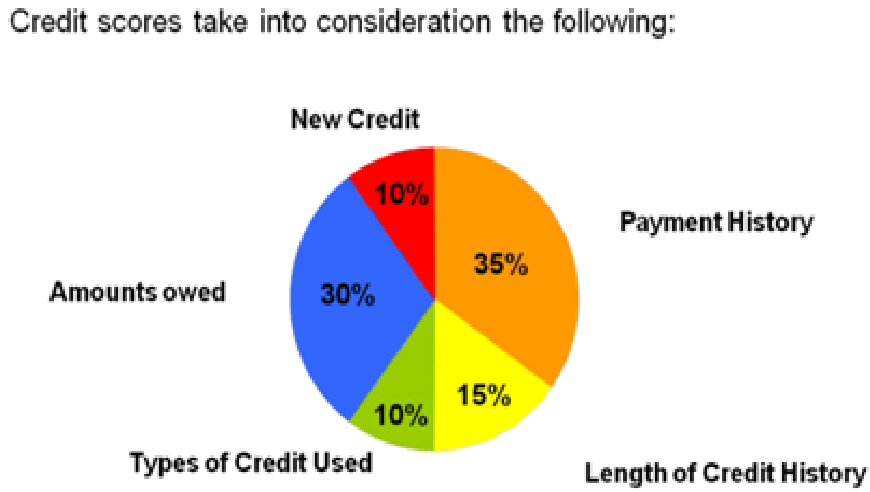
Appendix 1

Sample

The target population for this research would be Latino entrepreneurs. There was no limit for age range but most of them were around the years of 22-50 years old. The participants took part in one of the information seminars or training sessions provided by the Massachusetts Small Business Development Center Network's Boston Office & Minority Center. The sample size for the participants observation would be around 30-70 people. The sample size for the interviews would be 2-6 entrepreneurs and at least 2 speakers that lead the seminars and sessions. Speaking English is not a requirement. Interviews can be conducted in both Spanish and English depending on which one the participants feels most comfortable. All information will be kept confidential. The data collected will be analyzed by doing an interpretive analysis. For example, the tone of voice of the interviewee when answering the question on banks practicing racial discrimination could tell us something about the bank's practices. The body language of the Latino participants at the seminars and workshop can also tell us a lot about how much value they put into the information giving to them.

Appendix 2

Graph 1



*Source: Allio, Mark (Massachusetts Small Business Development Center Network)

Table 1

Table 1. Race and County Credit Score Profiles

	The average racial profile of counties in each risk category	
Credit Score Risk Categories	Proportion Black	Proportion Hispanic
850–720 (Very Low Risk)	1%	4%
700–719	5%	5%
675–699	5%	8%
620–674	12%	14%
560–619	28%	19%
500–559 (Very High Risk)	26%	23%

Source: Author's analysis of data from TransUnion's trend database and the U.S. Census Bureau. Note: All available data in the TransUnion trend database was aggregated from depersonalized consumer credit reports. Credit score categories correspond with the credit score risk categories reported by Fair Issac in October 2005.

* Source: Fellowes, Matt. "Credit Scores, Reports, and Getting Ahead in America." *Metroplitan Policy Program The Brookings Institution. Survey Series (*May 2006)