Management Consultants & Engineers
Women Owners, Bankers Argue Over Loan-Bias Allegations

By SAMANTH L. JACOBS
Staff Reporter of The WALL STREET JOURNAL

HEARD THE ONE about the woman entrepreneur who was not taken seriously when she applied for a business loan? The banker insisted that her 17-year-old son cosign the note. The anecdote is one of the many cited to prove that banks discriminate against women business owners.

Women talk of not being taken seriously when they ask to discuss their businesses, or of being questioned about their husbands’ home and income—when their husbands have nothing to do with their businesses. They complain that banks treat men more professionally, and a man can obtain a loan easier than a woman.

Women acknowledge that financing is a problem for small companies, regardless of the owners’ gender. “It’s a major issue for all small business,” says Mary Kelly McCurry, president of the National Association of Women Business Owners, which has made gaining access to credit a top priority this year.

But to show that the problem is worse for women, McCurry tells of her own experience. A bank where she had done business for two years offered to lend $10,000 to the CPA firm she operates in Denver only if her husband cosigned the note and the bank got a lien on their home. “Needless to say, I moved to another bank,” she says, and got the money on her signature alone.

WOULD A MAN have been offered easier terms at the first bank? McCurry thinks so. But some bankers argue that her experience could be due to a difference in lending practices, not discrimination. “There are banks who are not comfortable unless they have hard assets for collateral,” says Patrick L. Finn, executive vice president of Citizens & Southern National Bank, Atlanta. When collateral is jointly owned, as McCurry’s home is, a bank wants both owners to sign the note.

Another factor is the type of business. “Women have been very successful in the service industries,” says Mr. Finn, who is also president of Robert Morris Associates, a bank credit and lending officers group. “But we in the banking industry are still trying to figure out how to bank service industries. There usually are no hard assets for collateral other than leasehold improvements.”

Mary Beth Bernhardt, senior vice president and manager of commercial credit at D.C. National Bank, Washington, D.C., acknowledges that many women have trouble getting bank credit. But “she says it isn’t because of bankers’ bias. An applicant is refused a loan, she says, ‘because of the quality of the business.’”

She says that many people go into business with little experience and insufficient capital and see themselves as backed up or the bank, but a banker sees them headed for failure. Bankers know, Mrs. Bernhardt says, that “small businesses fail because they are undercapitalized and the owners don’t have management ability.”

WOMEN’S GRIEVANCES against banks may be due also to “a general unfamiliarity with how financial institutions operate and what they will require,” says Leslie Tawney Baines, a vice president at Chase Manhattan Bank, New York, and president of the National Association of Bank Women.

Gail Chrystal didn’t know much about banking when she walked into the Continental Bank of Buffalo Grove, Ill., four years ago, and told the president: “I’m in business and I need help.” He lent her $10,000 for her new advertising firm, The Chystal Direct Marketing Group, Inc.

Her husband had to cosign and their house was pledged as collateral. At first she was “a little sensitive” about having to pledge her personal financial statements for herself and her husband, an officer of her corporation. But now she says it was just standard bank procedure and not because she was a woman.

“Since then, I have had more encounters with small-business owners, and gotten a more worldly perspective on it. Small-business owners have to file all sorts of proof,” she says. She now has a $100,000 line of credit secured by receivables.

Many women, however, still feel bankers treat them differently than men, says Virginia Littlejohn, the immediate past president of the National Association of Women Business Owners. “I think there are enough cases of women who have had a lot of training who still feel it is a terribly different ballgame if they go in with a husband.”

A lot of bankers, Ms. Littlejohn adds, aren’t comfortable dealing with women. “It’s a noble process that takes time and understanding,” she says to correct.

SOME MEMBERS OF CONGRESS believe banks discriminate against women and minority-business owners and have introduced legislation they say will stop it. The legislation would require banks to provide a written statement to rejected commercial-loan applicants and to retain records of each rejected loan along with the reasons it was turned down.

Banks also would be barred from asking marital status, except when jointly owned assets are used as collateral.

Congressional aide promoting the legislation concede it won’t have much impact. After all, no bank would write in a file that an applicant was rejected because she was a woman. “It is not going to stop discrimination,” says a House Small Business Committee staffer. “But we have been approached by women and minorities.”
MEMORANDUM

Date: November 25, 1985

To: Frank S. Swain
   Chas Cadwell
   Jerry Feigen
   Barbara Hollis
   Bill Whiston
   Alice Cullen
   Susan Walthall

From: Adrianna Carter

Subject: Draft of a proposed release for the JACA Access to Credit Study.

Attached for your review is a draft of a proposed press release for the JACA Access to Credit Study. Comments are welcome.
The Office of Advocacy of the U. S. Small Business Administration has released the results of a research study which indicates that established female small business owners have equal and sometimes greater success than their male counterparts in obtaining bank loans to meet the credit needs of their businesses. The report, entitled Access to Capital by Subcategories of Small Business was contracted by the agency for the purpose of comparing credit accessibility of established male, female and minority business owners. Based on an analysis of 1,017 responses of businesses that were at least three years old, the study makes a major contribution to the body of data pertaining to finance availability for other small business entities.

The SBA study results are projectable to established businesses that have been operating for at least three years. However, the study cannot be used to draw conclusions pertaining to very small or very new businesses which generally were not represented in the sample. The same limitation is applicable to the results as they pertain to minority business owners. A representative group of minorities were sampled for the study and the results are detailed in the final report. However, due to the small sample size of this group, the results should be
regarded as offering only tentative conclusions about finance availability for established minority small business owners.

The study also found that for the loan amount requested successful women business owners were no more likely than men to be required to supply consigners or collateral to secure the loan.

A major finding of the research was that female owners of established businesses experience no more difficulty than their male counterparts in obtaining loans from commercial banks. Moreover, the study indicated that men were significantly less likely than women to be granted intermediate term loans by commercial banks.

The study also revealed that for both men and women, the largest single source of capital was commercial bank loans. However, men were more likely than women to apply for bank loans and, on average, men requested larger loan amounts than did the female portion of the sample. Notably, the overwhelming source of bank loans for both groups were small and medium size banks.

An additional finding of the research is that personal savings and contributions from friends and relatives are a major source
of equity capital for the survey respondents. The year the business was started the amounts averaged about $7,700 for females and $9,100 for males. After the businesses had matured, these figures had increased to an average of about $15,500 and $32,000 respectively. Throughout the study males on an average were found to contribute to their businesses larger amounts of capital derived from personal savings, donations from friends and relatives, and loans from banks and savings & loan associations. The one exception was loans from government agencies which, while a significant source of capital for female owners, provided only nominal funds for the male business owners represented in the sample.

Demographic comparisons of men and women revealed that for this specialized group of small business owners, the women were more likely than men to be divorced or widowed, to have excellent personal or business credit ratings, to have smaller firms, to have higher personal net worths (the year the business has started) and to have had a family business owner serve as a role model. Men, on the other hand, were more likely to be married, to have had some college education, and to have had some managerial experience in the same line of business in which they were involved as small business owners.
Dear Tom:

It was good talking with you today.

Enclosed is a copy of the Wall Street Journal article of August 19, that I mentioned to you, as well as our Task Report No. 5. The major thrust of the Wall Street Journal article is that there is discrimination in commercial bank lending to women business owners. As I mentioned to you on the phone today, our analysis of the responses to the SBA/JACA questionnaire suggests there has been no discrimination in the last 3 years. This is based on our findings that women business owners are no more likely than men business owners to need a fee, compensating balance, personal collateral, business collateral, or a cosigner.

You had asked me whether these results repeated in Task 5.0 are "Draft Final" or not. Most of them are, an exception being Section 5.5: Sources of Capital. These results are preliminary, pending the outcome of an analysis of the responses to a supplementary questionnaire.

Sincerely yours,

FAITH H. ANDO, Ph.D.
Senior Economist

FHA:aIt
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December 27, 1985

Dear Tom:

Thank you very much for your support throughout my project on "Access to Capital by Subcategories of Small Business."

Enclosed is a copy of Task Report No. 4 and Appendix B, which I have prepared for MBDA. The minority sample is about 400 minority business owners, not the 83 minorities in my study for you. Charles Ou on your staff may be interested in Appendix B where I evaluate sources of capital after controlling for one-digit industry or firm size. These tabulations show that the minority-owned firm is not debt encumbered relative to the nonminority-owned firm either at firm start-up or once that is established (1983). The tabulations cast little light on why this is so. For example, do minorities consciously try to keep their debt and equity in line?, or do credit institutions impose a strong debt/equity position on them by limiting the debt minorities can accumulate?

Incidentally, I will probably be revising my conclusions with respect to access to commercial bank credit of minorities. After controlling for other factors, my study for you concluded that minorities had had approximately the same degree of difficulty in getting loans as nonminorities. My results with the augmented data base are that blacks have had more difficulty than nonminorities, Asians and Hispanics have had the same degree of difficulty as nonminorities.

Best wishes for the New Year.

Sincerely yours,

FAITH ANDO  
Research Associate

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