

Equity in Banking and Lending

Project Findings and Next Steps

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Our Learning Journey

I. Overview

This document serves as the final report for our Humphrey School of Public Affairs capstone project entitled "Solutions to Inequities in Access to Banking and Lending." The project was requested by the University of Minnesota Urban Research and Outreach-Engagement Center ("UROC") and the Minnesota Department of Commerce ("Commerce"), with a goal of developing solutions for changing behaviors related to banking and lending, particularly for the African American community in North Minneapolis. The hope was for this capstone group to develop solutions and policy recommendations that might benefit the African American community and other historically excluded communities in Minnesota.

Over the course of several months, we worked alongside UROC, the Dept. of Commerce, and the community to identify a set of research questions and methodological design and to validate our research findings. We used an iterative and inductive approach, in which we learned, with and from the community, our clients, and the literature to avoid extractive approaches as we shaped our questions and ultimate project goals and recommendations. A collaborative process was critical for our project to ensure the ongoing input and shared vision from the community.

Through our analysis, we developed a set of findings and short- and long-term opportunities for UROC, the Dept. of Commerce, and the community to work toward addressing inequities in banking and lending. These include an array of institutional and personal barriers that limit access in banking on many levels for the African American community. The need to understand historical asset-based perspectives of the African American community, the barriers that embedding steps for trust-building, creating environments and systems that incorporate culturally-responsive communication, culture and language, the need for strategic focus planning and finally the need for investment to ensure success.

In the following pages, we describe the motivation for the project and our positionality as researchers, the opportunity and research questions determined in collaboration with the Dept. of Commerce, UROC, and the community, our research approach, and our findings and recommended short- and long-term next steps.

II. Opportunity Statement and Research Questions

The goal of the Equity in Banking and Lending project was to study inequities in banking access for African Americans. The intent and motivation for this work emanated from the Department of Commerce, which expressed "interest in partnering with the community organizations leaders, researchers, and financial institutions to facilitate a long-term outreach and research project that will focus on the causes and solutions to inequities in access to banking and lending that impact African Americans (Black) Minnesotans."¹

A key challenge in specifying the opportunity statement and set of research questions was the fact that the project involved three clients (UROC, the Dept. of Commerce, and the community), each with different perspectives on the problem and potential solutions. Through a process of working alongside the three sets of stakeholders to specify and refine the project, we arrived at the following problem/opportunity statement and research questions:

Problem/Opportunity Statement: African American-owned small businesses experience significant barriers in access to banking and lending services.

Research Questions:

1. What assets do African Americans-owned small businesses bring to the banks and lending institutions?
2. What are the barriers that small businesses face in accessing banking and lending?
3. What are some possible solutions for African Americans-owned and led small businesses to access banking and lending services?

¹ Minnesota Commerce Department, Urban Research and Outreach-Engagement Center. 2020, December 10th. Equity in Banking and Lending meeting. The Department of Commerce engagement letter further stated:

"[W]hile we are invested in the project, the community itself would be the ones to define the challenges, questions, and goals of a research project. Additionally, it will be important that the project is inclusive and collaborative and engages the Black community as partners and designers of a solution that best serves the community."

III. Capstone Group Positionality Statement

We acknowledge that for those community members directly impacted by the issues related to banking & lending inequities, the information in this report may not seem new and may describe circumstances or information that you or your loved ones have heard or experienced .

As students who are not rooted in the lived experience of the African American community, we want to acknowledge the emotional, physical, and historical trauma, and subsequent labor that this project might entail. Therefore, we want to ensure that we place the accomplishments, contributions, and ongoing sacrifices that are made to the cultural, economic, and social make up of this country front and center.

We hope to both acknowledge the many assets African American-owned businesses bring to the economy and the community, and also challenge our public leaders to address the gaps created by institutional and structural racism surrounding the topic of banking & lending.

IV. Data Collection Approach

From the start of our data collection journey, we wanted to ensure that the research process was rooted in community and that the review of literature unearthed and brought to the forefront the experiences and perspectives of the African American community. Through this section we describe our iterative and community rooted approach to the review of literature, interviews with our co-researchers (we have intentionally used this term as an empowering title rather than interview subjects, an example from Orbe)² and our limitations and biases to the overall process.

Literature Review

The purpose of a literature review is to investigate what is already known about a particular topic and to bring to the surface novel ideas. . In our literature review, we accessed news articles, academic journals, demographic databases, historical accounts, and other sources to determine the current and historical perspective on the issues that impact African American accessibility and success in banking and lending.

In particular, our literature review focused on looking deeper into the historical context, methodical approaches, and research analyzing the project questions and gaps in knowledge about assets and barriers to lending. This process helped us design a research plan to help bridge those gaps in existing knowledge. A detailed summary of our Literature Review is available in the appendix section of this memo.

Interviews

In addition to our literature review, we conducted ten semi-structured interviews with community leaders, African American business owners, and financial institutions representatives.. The respondents were chosen by UROC and Dept. of Commerce and our questions aimed to understand attitudes, perceptions, and feelings about access and success of African American communities in banking and lending. We also systematically collected data on stakeholder engagements through participant observation.

To arrive at next steps, as a team we utilized our coursework and experience at the Humphrey as a foundation to arrive at the recommendations, and overall opportunities. Our experience in the Humphrey's program design and policy analysis helped to develop the policy memo process and this final report. Taking part in the stakeholder analysis helped us identify the critical players in the project. The coursework on coding aided in the development of major themes from the interviews and analysing the literature. Working on individual projects as part of qualitative analysis during coursework played a big role in this capstone project. We utilized material from books read from the coursework on leadership that helped inform this project. Additionally, coursework on reparations and restorative practices also helped us navigate the complexities of working within a community which has been historically excluded.

² Orbe, M. P. (1994). "Remember, it's always Whites' ball": Descriptions of African American male communication. *Communication Quarterly*, 42(3), 287-300.

Again, from the beginning we wanted to center the voice of the community and honor the history related to economic exclusion as well as the history of ingenuity and resilience. Coursework on cross-sector collaboration also influenced recommendations to build trust across stakeholder groups. Strategic Planning & Management training also helped us articulate the importance of planning in order to realize shared goals for the Banking & Lending group.

We took an inductive, ethnographic approach to answer our research questions, which means that we adapted to the needs, the feedback from the community and stakeholders by honoring the learning process. When we began this project it was clear that a relationship and community centered research approach was critical to any recommendations or overall success. Our analysis is a reflective attempt to understand trends, themes, and bring to the surface lessons learned.

Limitations and Biases

As in any research study, there are limitations that may be addressed by future research or activities. For example, the findings might be further substantiated by quantitative analysis to minimize inherent limitations of qualitative research, such as the study group and researchers' positionality.

The scope of the research, given the complexity of the project, was limited by the available time to conduct the study. The limited amount of time allocated to the study restricted our ability to conduct community and place-making observations, additional interviews to gain better understanding, and to conduct qualitative research to pair with qualitative data collection. It is the research team's recommendation that the community conduct place-making observations, quantitative analysis, and additional qualitative research through Community Based Participatory Research (CBPR) to further engage community members.

V. Findings

Throughout this section we review the challenges and opportunities in the overall findings which respond to the problem statement. The opportunities uncovered are grounded in the inductive process drawn from qualitative research data collection methods.

A. The barriers and assets personified

Co-researchers provided our team with a rich understanding of the barriers and assets experienced by African-American small business owners as well as ways to move forward. One co-researcher's story seemed particularly emblematic of current inequities and potential solutions. This co-researcher shared with us how African American business owners experience challenges building their business and the barriers found at every step. As an example, their story speaks of someone with over 20 years experience, with over fifty employees, and operated across the country. Despite this experience running a successful business, they were denied loans by big banks at the time the co-researcher was starting out to start their business with little capital as well as when their business was operating at an optimum level with revenues in millions of dollars. The denials occurred even though the respondent had high investments in real estate, high credit

score, and low debt ratio. Luckily, a smaller bank was able to offer them a substantial credit line, thereby allowing their business to continue to grow.

B. Barriers from Literature Review Substantiated by Interviews

Our literature review provided key insights about the barriers that many African American small business owners experience when attempting to access banking and lending services. These barriers include: higher than average loan denials despite optimal credit history, lack of financial inclusion at all levels of the financial world, racial bias, credit worthiness,

The following barriers were substantiated by our interviews.

Loan Denials - Access to banking and lending services for African Americans in Minnesota. Dr. Samuel Myers (2016) asserts that minorities' loan applications in the Twin Cities are disproportionately denied, not because of credit risk or income factors that are important for financial institutions but rather because of discriminatory practices towards minorities.

Lack of Financial Inclusion for African American small businesses when attempting to access quality, and sustainable financial services such as loans and banking services. Helms argues that financial inclusion often results in the success and overall development of communities (Helms, 2006).

Credit worthiness and client-bank relationships - Samuel Myers (2015) research shows that application denial rates for African Americans are unrelated to credit worthiness or income. According to Horowitz et.al (2021), competing thoughts include the fact that disparities related to bank relationships and access to credit have serious implications for the success of entrepreneurs of color. Research suggests differences in capital access at least partially explain why Black- owned firms stay small over the first eight years of their existence relative to White-owned firms. With no banking relationship, borrowers of color may turn to other high cost non-traditional or online lenders. They may also have a harder time accessing federal programs.

Lending - Morris (2008) analyzes home mortgage application success rates across applicant racial groups and shows that African Americans are rejected at a higher rate or receive higher interest loans despite credit history. Banks argue they are not applying any racial standards for making credit-worthy decisions, but Morris shows the use of credit scores as a primary focus of their decision-making perpetuates institutional racism patterns in personal banking and lending.

C. Culture and relationships as assets

While the existing literature provides insights on barriers experienced by African American small-business owners, there is limited existing work on the assets that such individuals bring. The assets uncovered in our interviews include: cultural wealth capacity, resiliency, cross-ethnic

communication, access to cultural specific consumer markets, among other culturally specific assets.

In addition, the interviews suggest that relationships are critical assets, especially when creating cultural capital. Our analysis suggests that the next step is to explore how *private banking, and governmental institutions can create non-extractive relationships that uphold the cultural capital wealth and other assets of the African American community.*

Existing literature by Solorzano et al. explores cultural wealth through assets held by historically excluded communities within the framework of critical race theory. The assets described in the study are:

1. Aspirational capital: which refers to the ability to maintain hope and dreams for the future in the face of real and perceived barriers. It is the ability to inspire and dream despite the challenges.
2. Familial capital: this refers to the social and personal human resources drawn from the lived environment, extended familial and community networks. One of the questions asked is how do we create environments that honor and invite the African American small business community to participate.
3. Linguistic capital refers to the development of communication skills. For this project, it refers to understanding the communication skills relevant to small businesses as relates to business development, banking and lending,
4. Resistant capital ³
5. This refers to the experiences of communities of color in securing equal rights and collective freedom. The sources of this form of capital come from community members and an historical legacy of engaging in social justice.
6. Navigational capital: which refers to skills and abilities to navigate "social institutions". Questions to consider: How do we help African American small businesses navigate the banking and lending landscape? Interactions with their peers? How willing are we to acknowledge that institutions, both their structures and cultures, have a history of, and may still in many ways be unsupportive and/or hostile to the African American community?

Co-researchers spoke of these types of assets such as intellectual capacity which in the literature is defined as navigational capital, resiliency as resistant capital and cultural wealth. These are some assets that are essential in the African American community that emerged in our interviews and are critical in understanding the added value of investment in community.

The interviews also show that the small businesses tend to rely on unconventional resources to succeed, especially in earlier years where the support systems were non-existent. The relationships among the community were a lifeline, and knowledge sharing was critical.

³ Solórzano, D. G., & Yosso, T. J. (2002). Critical race methodology: Counter-storytelling as an analytical framework for education research. *Qualitative inquiry*, 8(1), 23-44.

D. Moving forward with community at the forefront

Our final question was: What are some possible solutions for African American-owned and led small businesses to access banking and lending services? Our analysis suggests the following key points in thinking about next steps;

- Our data suggests that relationships need to be at the center with a focus on non-extractive ways of interaction.
- There is a need for investment in a long-term project that first focuses on the community by the Dept. of Commerce and UROC. The process should involve the community and have community representation at the center. The project needs longevity, relationship building, asset exploration and representation at all levels to be successful. It is important to note that the scope of this effort is too large to be achieved via a summer capstone project.
- One suggestion is to have the State set up a \$1 million grant program and infrastructure to provide support to the African American small businesses with personnel from the legal, financial and insurance fields. This will be a one stop hub with the State paying for the qualified personnel who will guide and mentor the small businesses through the legal documentation, financial and marketing management; and finally the insurance needs.
- Knowledge-based assets of the African American community can be tapped into by providing mentorship programs that support the small businesses using the cultural context. Aligning and working with organizations such as the MN Black Chamber of Commerce, NEON, West Broadway Coalition, Black Womens Wealth Alliance and others who have direct connections with the community members for mentorship, internships and product development.

E. Conflicting expectations

From the beginning of our research project, there were clear signs of competing visions between the Dept of Commerce, UROC, and the African American community members and leaders. Both the Dept. of Commerce and UROC remained committed to centering the community, but the visions did not necessarily align.

As a team, we reflected on the perceived goals of each entity:

- VI. The Dept. of Commerce seemed to have a clear goal, which was: "through the capstone research project, to provide possible solutions to support the African American business community in North Minneapolis and Minnesota."
- VII. UROC's goal appeared to be to maintain long-standing relationships with community leaders as well as support our group's ability to further develop those relationships to answer our research questions.
- VIII. African American community leaders and community members also had multiple perspectives on what the project should be, who should be involved and the focal point due to their varied backgrounds, priorities, and perspectives. Some of those expectations included:
 - a. Focusing on the historical context of systemic racism that has resulted in current barriers for the African American community
 - b. Focusing on systems change for the banking industry

- c. Power sharing in knowledge for the African American community
- d. Commitment to understanding wealth and assets
- e. Resilience and assets in the African American community

IX. What do we suggest for the next phase?

A. Short-Term Opportunities

In this portion of the report, we share the opportunities that we have learned from the study given the current contextual environment.

Diversity in experience and skills:

From the co-researchers we learned about the resiliency of the community and their diversity not only in perspectives, but also in experience and skill sets. When addressing the next phase, it is critical that there is an asset-based approach that honors the skills already in the community.

Small business growth:

The community asserted that African American businesses do not grow to a level of desired growth and when they do, they get cut off regardless of the success of the business. However, other similar businesses continue to grow. Growth opportunities are very few, and few African-American businesses go beyond the small business status. The more successful they are, the more obstacles there are.

The community shared that North Minneapolis has small businesses that exhibit potential for growth. If existing small businesses can be supported, they can in turn create room for other small businesses to come on board. Though expansion is challenging, the stories of our co-researchers suggest that is not impossible.

Relationship Development:

The community shared that they do not trust the banking system. Traditional financial institutions do not treat African American businesses as legitimate businesses who need the same type of support for growth like similar mainstream businesses. As a result, small businesses may be afraid to share information about their challenges, fearing they would be used against them to not get a loan. It is difficult to develop a partnership and shared investment with the banking industry.

In developing relationships, the issue of trust was expressed repeatedly by respondents. Respondents shared that there was a history of mistrust and bias from the institutions. Indeed, lack of trust for financial institutions due to ongoing historical exclusion was expressed by a majority of respondents. The community shared the need for the Dept. of Commerce to become a conduit for bringing stakeholders together with a focus on the community.

The community believes there is opportunity in creating a forum for open dialogue with community, small businesses and financial institutions. This forum would also include commercial real estate developers and nonprofit organizations. The community also sees opportunities in establishing developers of color to provide technical, financial assistance, networking, and education.

Credit worthiness and community buying power:

Some co-researchers asserted that some small businesses have issues such as credit history, lack of collateral or equity. It was further articulated that businesses did not understand the need for creditworthiness, revenue flow and importance of cash flow. Additionally, we heard from the co-researchers that the community takes pride in its buying power.

Business Education:

From our co-researchers, we found there is a need for the management experience necessary to support African American businesses, such as independent consulting. Various financial products available through banks or the public sector are not currently reaching African American small businesses.

One opportunity is in highlighting trusted intermediaries to support African American small businesses and to provide access to business language, process, and documentation. The intermediaries would support the African American small business with creating financial projections and to define their goals, to map out their vision and the cost of achieving that vision.

There is opportunity for intermediaries to support African American businesses to understand the importance of credit worthiness, revenue flow, and positive cash flow. This would open up opportunities for accountants who can be assigned to small businesses who need help with navigating the business structure and cash flow.

B. Possible Short-Term Next Steps

Building relationships

Based on our findings, the most recurring theme is that of building relationships. There are more than three groups with different cultural approaches to banking and lending inequities; Dept. of Commerce, North Minneapolis leadership community, financial institutions, UROC and African American small businesses. A unified approach to addressing banking and lending inequities would create synergy. Building trustworthy, collaborative relationships can help everyone have the difficult conversations that need to take place between banks and business owners in order to make systemic change. Power dynamics can be shifted through relationship-building. According to Ryan (2014)⁴, "The central actors are often unaware of the full extent of their complicity in any negative outcomes, or of how their roles and actions reinforce those of others" (10).

Apply Anti-Racist Principles

Ibram X Kendi, an African American leading scholar of racism shares unified approaches to dismantling racism through anti-racist approaches.

"A racist policy is any measure that produces or sustains racial inequity between racial groups. An antiracist policy is any measure that produces or sustains racial equity between racial groups. By policy, I mean written and unwritten laws, rules, procedures, processes, regulations, and guidelines that govern people."⁵

⁴ Mary Jean Ryan. (2014). Power Dynamics in Collective Impact. Stanford Social Innovation Review, 12(4), S10.

⁵ Kendi, I. (2019). How to be an antiracist. New York: One World.

There is work ahead of the group of stakeholders that can help solve inequalities by pulling down policies that create racism and replace them with sustainable policies that systematically bring about equity. Literature on anti-racist principles and practices suggests that stakeholders will need to spend time on how institutions can be anti-racist and will need to retrain itself to see racial inequity as a product of racist policy.

Enlist Boundary-Spanning Leadership

The stakeholders are composed of different cultures. The cultures are by race, institutions, gender, etc. How does the team bridge their differences? This learning is important. "Leaders are challenged to bridge social identity boundaries between groups of people with different histories, perspectives, values and cultures."⁶ An awareness of the identities of the team is important in order to have a single focus that cuts through cultural boundaries.

⁶ Ernst, C. & Yip, J. (2009). *Boundary Spanning Leadership: Tactics for bridging social boundaries in organizations*. Boston, MA: Harvard Business School Press.

X. Long-Term Opportunity Areas

Our analysis suggests four long-term opportunity areas including trust-building, communication, culture and language, strategic focus and finally investment. In the following pages we will review our findings through each one of these areas to provide a comprehensive approach to the current barriers and possible next steps for the community, UROC and Dept. of Commerce.



A. Trust-Building

"Human beings are rarely willing to give up power or be vulnerable. Yet to succeed in a game of regeneration, one builds power by relinquishing control and engaging in relationships of trust, integrity, and mutual care." - Walsh (2018)⁷

To develop trust with the community in this project, the stakeholders need to utilize the four elements of trust that include consistency, compassion, communication and competency. Each of the four factors is necessary in a trusting relationship but insufficient in isolation.⁸

Research conducted through the literature review indicated that the African American community lacks trust in institutions, namely banks, as a result of economic violence and historical exclusion. As a result, the African American community, through resilience, has community-based trusted ecosystems that support each other. The ecosystem is important as it is developed through relationship building and social networks that are critical in supporting each other to grow and expand.

Our research suggests that lending committees who decide on loans are made up of white, bank executives. Furthermore, as described in example in the beginning of our report, having a sound regional business of over 20 years, high credit score and low debt, among other requirements did not necessarily help a business owner qualify for a line of credit from the large banks. This is just one of the examples that indicates that there is a need for trust building with the community, commerce, banks and other stakeholders.

Change can make building trust more difficult, requiring community members to give a little more time and effort to building trust. The University of Minnesota Extensions Program [website](#) provides helpful recommendations on establishing trust in the community with the stakeholders that covers different aspects of trust. These types of trust include:

1. Contractual trust - this refers to whether promises are kept, expectations are clear and community members believe that they can depend on one another.
2. Communication trust – clear and frequent communication helps people follow rules, support local causes, and accept change. But keeping a tight lip, when necessary, can build trust too.
3. Competency trust – this is built when people are knowledgeable and skilled in what they do. It can further be strengthened by admitting a mistake or expressing trust in others' competence.
4. Caring is the softer side of trust – caring leads others to believe that no matter what might go wrong, you intend to act in their best interests rather than from a personal motive.
5. Social trust – this can 'predict national economic growth as powerfully as financial and physical capital, and more powerfully than skill levels – over which every government in the world worries about incessantly'.⁹

⁷ Walsh, Elizabeth A. (2018). White fragility as an obstacle to anti-racist resilience planning: Opportunities for equity-conscious partnerships. *Journal of Urban Management*, 7(3), 181-189.

⁸ Vodicka, Devin. "The Four Elements of Trust." *Principal Leadership* 7:3 (2006): 27-30.

⁹ [Social trust is one of the most important measures that most people have never heard of – and it's moving](#)

The development of trust in order to make this project/process a success will require some level of vulnerability from all the stakeholders. Research suggests that one of the positive results of being vulnerable is forming collaborative relationships to help and support businesses, partnerships and shared investments. There has to be a starting point to having deep conversations in order to reduce the trust gap that currently exists for the culture and perceptions to shift.

The different aspects of trust described above (contractual, communication, competency, caring and social trust), are to be used in developing bonds that will encourage trust building. There needs to be engagement with the identified networks in the community, banks and the department of commerce where the links will have connections to organizations and systems that help them to gain the resources and bring about change. There is a need for intentionality, with an iterative process that will develop trust in the short, medium and long term period.

According to Mclachlan¹⁰, trust building works hand in hand with increasing community confidence. The banking & lending group can develop and increase trust across stakeholders by asking the following questions: "Does your community have confidence in your organization? In you? Your decisions? Your ability to lead? These are critical questions that all organizations and their leaders need to ask themselves – especially those in the publicly funded space." According to this blog, you can increase success in this area by following these five, proven, systematic techniques:

1. Engage regularly, not just when you want something.
2. Show your community that you are listening and learning.
3. Allow those affected by decisions to inform them.
4. Avoid asking leading questions that can erode trust.
5. Share both your achievements and your challenges.

Engaging in any type of process to build trust will help the Banking & Lending group move forward onto the next focus areas in order to achieve their desired outcomes.

¹⁰ [5 Techniques to Increase Community Confidence](#)

B. Communication, Culture, Language

"For the most part, it's not acceptable to be yourself." - Orbe¹¹ (1994)

"Often for their very survival, blacks have been forced to become lay anthropologists studying the strange culture, customs, and mindset of the "white tribe" that has such frightening power over them in certain time periods whites can even determine their life or death on a whim." - Mills (2017)¹²

Our qualitative research from both literature and interviews suggests that African American communication, culture and language usage need to be culturally relevant in all aspects of banking to ensure access and sustain change.

The burden of 'cultural labor'¹³

Communication, culture and language are key elements to consider when addressing gaps in banking. During the qualitative interviews, *our co-researchers* reiterated the concept of 'translating' inter-ethnic communication or as Orbe (1994) describes the heavy burden on African Americans to 1) learn how to interact with non-african american 2) play the part 3). deal with intense social responsibility¹⁴ or otherwise known as cultural labor.¹⁵ The barriers however extend beyond translation as banking itself is a professional space where Ferguson et al, (1994) review that professional spaces remain gendered and raced to the extent that blackness is often dehumanized in white spaces.¹⁶

Banks and institutions need to become culturally relevant

From our co-researchers, we learned that the communication of services remains at the periphery of the African American community or mostly used by non African American bank customers. Therefore one of our recommendations is to audit the current banking services, or institutions like Commerce to create culturally responsive spaces, services and outcomes. There is a critical need for culturally-specific banking and financial services to be centered at the community's experience. One area to look to for examples on how culturally responsive spaces can be created, is in the vast literature of culturally responsive pedagogy in the education field. This area looks at innovative resources, areas of growth and multicultural examples of inclusive spaces that are decolonized.

Beyond representation, asset-based services in banking and finance

Another key aspect we heard is representation of African Americans necessary at all levels. Again, critical to the development of communication that is sustainable, culturally responsive and asset-based

¹¹ Mark P. Orbe (1994) "Remember, it's always whites' ball": Descriptions of African American male communication, *Communication Quarterly*, 42:3, 287-300, DOI: 10.1080/01463379409369935

¹²Mills, C., & UPSO. (2017). *Black rights/white wrongs: The critique of racial liberalism* (Transgressing boundaries). New York, NY: Oxford University Press.

¹³ Ferguson, M. W., & Dougherty, D. S. (2021). The Paradox of the Black Professional: Whitewashing Blackness through Professionalism. *Management Communication Quarterly*. <https://doi.org/10.1177/08933189211019751>

¹⁴ Orbe, M. P. (1994). "Remember, it's always Whites' ball": Descriptions of African American male communication. *Communication Quarterly*, 42(3), 287-300.

¹⁵ Ferguson, M. W., & Dougherty, D. S. (2021). The Paradox of the Black Professional: Whitewashing Blackness through Professionalism. *Management Communication Quarterly*. <https://doi.org/10.1177/08933189211019751>

¹⁶ Ferguson, M. W., & Dougherty, D. S. (2021). The Paradox of the Black Professional: Whitewashing Blackness through Professionalism. *Management Communication Quarterly*. <https://doi.org/10.1177/08933189211019751>

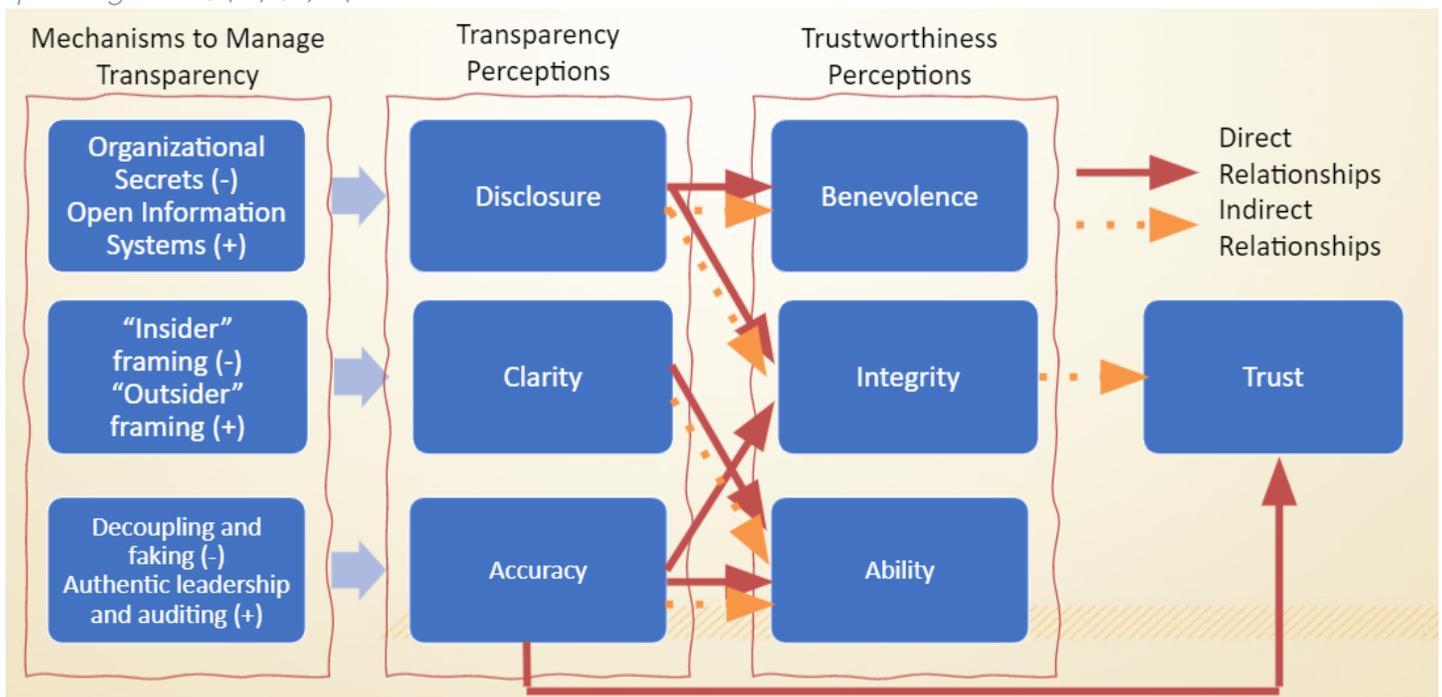
communication leads to community building¹⁷. From communicating the research that the community will be undergoing, to the way that they will be engaged, to the communication process to set up a shared agenda, culturally responsive communication is a key step for this project.¹⁸ Some steps for the project and community to consider is to follow the following steps and incorporate the formula below manages trust, and communication styles to ensure community cohesiveness.

1. Analyze your community to identify groups requiring consideration when preparing and delivering communications.
2. Identify factors that impact communication requirements.
3. Identify strategies for communicating effectively with the whole community.

Identify aspects of communicating with respect.¹⁹

The figure below from Schanckenberg et al, (2016), depicts a creative way to assess trust in communities ecosystem by tracking organizational transparency and trust. This specific tool could be a great way for UROC and the Dept. of Commerce to engage in deep assessments of their current trust and the impact that their disclosure, clarity or accuracy are impacting their relationships with the African American community.

Figure From: Schnackenberg, Andrew K, & Tomlinson, Edward C. (2016). Organizational Transparency. *Journal of Management*, 42(7), 1784-1810.



¹⁷ Cartaret, M. "Health Care for African American Patients/Families," *Dimensions of Culture*, last modified May 2011, <http://www.dimensionsofculture.com/2011/05/health-care-for-African-American-patientsfamilies/>

¹⁸ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6947994/>

¹⁹ https://training.fema.gov/emiweb/is/is242b/student%20manual/sm_02.pdf

C. Strategic Focus & Planning

"Effective relational work encourages diverging conversations, asks difficult questions and helps confront dysfunctional practices and attitudes in our organizations and ourselves. Such capacities also benefit action-oriented change initiatives." - Senge²⁰, et al (2007)

Several findings from our research support the recommendation to establish a strategic planning process.

Stakeholders

Not all stakeholders have been present or engaged in the Banking & Lending group. For example, some of the banks we interviewed have not been a part of the community group. One of the first steps in the strategic planning process would be to ensure all stakeholders who have power, influence, and are impacted by the project, are given the opportunity to participate. According to Bryson²¹, "In general, people should be involved if they have information that cannot be gained otherwise, or if their participation is necessary to assure successful implementation of initiatives built on the analyses" (27). Articulating the goals and desires of all stakeholders will increase the likelihood of success on such a collaborative effort.

Shared Vision

As the Capstone Group inherited this project assignment, it was initially apparent that community members and Dept. of Commerce had a variety of ideas about what could and should be done with this time. This made getting started on the project both exciting and challenging, as the scope of banking & lending equity, and the needs of the community were vast and complex.

It's important for the group tackling these issues to have a shared vision for what they hope to accomplish. Going through the strategic planning process may help the Banking & Lending group realize their plan and potential by going through the process of developing a strategic plan. The ultimate outcome of this is both a process and a product, where just by going through the steps of making a plan can be an intentional, structured way of knowing. Bryson, Crosby, & Bryson (2009)²² describing it as:

... a complex process approach to knowing, in which organizational (or multi-organizational) stakeholders engage with one another in a series of associations and performances over time to explore and ultimately agree on and implement answers to a series of Socratic questions. These include - What might or should we be doing? How might or should we do it? What purposes or goals would be served by doing it? And how can we be sure we are doing what we agreed we ought to do, and that we are achieving the effects we want? (175)

While it is quite an endeavor, it has the potential to raise issues to the surface and help the group find alignment in order to achieve success around shared goals.

²⁰ Senge, Peter M, Lichtenstein, Benyamin B, Kaeufer, Katrin, Bradbury, Hilary, & Carroll, John S. (2007). Collaborating for systemic change. MIT Sloan Management Review, 48(2), 44.

²¹ Bryson, John M. (2004). What to do when Stakeholders matter. Public Management Review, 6(1), 21-53.

²² Bryson, John M, Crosby, Barbara C, & Bryson, John K. (2009). Understanding Strategic Planning and the Formulation and Implementation of Strategic Plans as a Way of Knowing: The Contributions of Actor-Network Theory. International Public Management Journal, 12(2), 172-207.

According to Bryson & ProQuest (2018) some key steps²³ may include:

1. Identify all stakeholders
2. Vision for the future
3. Mission
4. Values (ie, for this project: racial equity, anti-racism, reparations)
5. Strategic focus
6. Develop Key Performance Indicators

As an example of the time it can take to develop a plan, the City of Minneapolis²⁴ went through the following steps to develop their Strategic & Racial Equity Action Plan (SREAP):

1. Gather input from stakeholders (month 1)
2. Synthesize what you're hearing and identify goal areas (month 2)
3. Adopt a subset of operational goals (month 5)
4. Adopt vision, mission, values, and goals (month 8)
5. Adopt policy priorities (month 13)

Some of the city's goals may help this Banking & Lending group envision goals they may want to pursue, such as: "Mpls Goal: BIPOC businesses that directly and indirectly interact with the City meet or exceed national average survival rate benchmarks."

Measuring Impact

Having ways to measure the before and after implementation of solutions is also important. Different stakeholders have different ideas of which indicators help describe the problem and solutions. Having shared measures of success or key performance indicators - agreed upon by the group - after analysis of all of the possible metrics will help track progress. Continuing with the example above, the city recently updated their urgency metrics related to their race equity goals around Economic Development as follows:

Metrics of Urgency Examples:

- Number of BIPOC business owners and entrepreneurs receiving technical assistance and/or training
- Percent of business owners and entrepreneurs receiving technical assistance and/or training that are BIPOC (where race/ethnicity is known)
- Number of BIPOC business owners and entrepreneurs served by City financing Programs
- Percent of business owners and entrepreneurs served by City financing programs that are BIPOC (where race/ethnicity is known)

This data could be used to help the Banking & Lending group hone in on some of the issues related to survival rate benchmarks for African American owned businesses. Developing such metrics helps track progress and measure the impact of any strategies.

²³ Bryson, J., & ProQuest. (2018). Strategic planning for public and nonprofit organizations : A guide to strengthening and sustaining organizational achievement (Fifth ed., Bryson on strategic planning). Hoboken, New Jersey: John Wiley & Sons.

²⁴ Presentation for Strategic Planning and Management course by city officials, November 12, 2020.

Structure and Leadership Are Keys to Successful Implementation

Again, upon receiving this assignment, the Capstone group was unclear about who was their client and who would be giving them work direction. This may be a result of the desire to flatten power structures and experience a shared ownership over this project amongst entities. However, having a clear infrastructure in order to accomplish the work will help ensure success as well. Part of this includes identifying roles and responsibilities and placing organizing power and decision-making power in specific entities. For example, perhaps a steering committee could be made responsible for reviewing analysis and selecting priorities. If no one accepts ownership of the work it will likely not get done. However, acknowledging the history of white supremacy and hierarchy, this must be done in an inclusive and collective manner.

Seizing the Opportunity

Approaching this problem is an opportunity to seize on the vast potential African American-owned businesses have to revitalize the economy in North Minneapolis and the entire state of Minnesota. According to a recent Star Tribune article²⁵, for the first time ever, the white population in the state is decreasing, and the non-white population is driving growth. 2020 Census data indicates the youth population in Minnesota is much more diverse as well. This is a critical time for thoughtful planning around equity in banking & lending. All Minnesotans can benefit from eliminating economic racial disparities and looking forward to building new types of businesses and economies with Black and African American citizens at the forefront of business models and service-delivery. The planning process can help this group develop a shared theory and vision for the future of Minnesota in order to help realize the growth potential of the current moment.

D. Investment

The ability to impact the banking & lending inequities through a collaborative effort that will require financial resources and policy redirection. The respondents shared that strong relationship development between Commerce, financial institutions, and the community is crucial to address the removal of certain existing regulations and policies that perpetuate the disparities. In order to seize on the momentum built up around this topic in the Banking & Lending group, adequate resources need to be provided, whether that is from Commerce, the State of Minnesota, non-profit organizations, banks, or a combination of sources. Additionally, respondents shared that business education for business owners in the area of finance and business management were lacking. Resources will need to be allocated to meet that need as well.

There is funding available at local, state, and federal levels, according to the interview responses, but there are gaps in the ability to make these programs known, available, and navigable for the African-American business community as a result of systematic discussion from the business and banking community. This group could help connect business owners with those resources, while also encouraging banks and the private sector to continue to contribute additional resources towards eliminating the disparities noted in this project.

One of the barriers that came up in interviews is that banks may wish to offer non-traditional loans to applicants who may not have high credit or assets, but they are not able to lend to them. Regulations can keep banks from being able to lend in these instances, even when banks would like to. Creating ways to share the liability of what might traditionally be deemed a risky loan across multiple institutions including

²⁵ [Census shows Minn. diversity growing, white population sees first-ever drop - StarTribune.com](https://www.startribune.com/census-shows-minn-diversity-growing-white-population-sees-first-ever-drop/594817000200001)

the bank, the state, the city, non-profit organizations, etc, may provide for a means to offer more non-traditional lending products without any one institution bearing the brunt of the risk. Another option would be to provide insurance to banks so they can make these loans with racial equity in mind, while still being able to secure the assets of their bank or credit union members. Such insurance could be subsidized or provided by the state or Commerce.

The research team recommends next steps to include investments in full time staff to support collaborative efforts in relationship building, trust building, and education in finance and business management. This investment may also make it possible to bring in local subject matter experts such as Dr. Samuel Myers of the University of Minnesota, racial equity experts to analyze disparate historical and existing inequities, experts with approaches on how to capitalize on current public, non-profit, private sector, and financial institutions talents to help assess commercial credit practices and standards for creating criteria for banking and lending public value. This public value will ensure that lenders are reimagining eligibility for loans using new criteria.

The return on this investment will be measured through an on-going concern approach that improves relationship building, business education, and trusting relationships between the actors impacted by the banking and lending inequities.

Acknowledgement

We hope this project process, presentation, and paper will help to at least start putting some of the pieces of this complex puzzle together. We also genuinely hope this will be the beginning of a community partnership that will do some excellent work!

The Capstone Group wishes to thank you for providing this valuable learning experience for us!

In particular, we wish to thank the 10 co-researchers who gave us such rich, poignant experiences illustrating the barriers, assets, and potential solutions in addressing this problem. In particular, the business owners and community leaders exhibited an incredible spirit of ingenuity and resilience in the midst of a system presenting recurring challenges. The entrepreneurial spirit is strong in North Minneapolis, particularly in the African-American community. We look forward to seeing great things continue to happen there as a result of this work and everything already being done to advance the economy and community!

Thanks to [James DeSota](#) for his continued support and encouragement through this project. And thanks to Max Zappia and his team at Commerce, including Annette Minor and Leah Wilkes, for providing us with information, leads, suggestions, and encouragement along the way as well!

Appendix

Appendix 1: Literature Review Summary

In the literature review, we focused on the historical trends, lending and banking services for African American small businesses and the literature that substantiates barriers and possibly policy, financial and other recommendations to alleviate the burden.

Historical perspective

"When Anthony Brutus Cassius walked into Minneapolis's Midland National Bank in the fall of 1949 to borrow \$10,000, he was greeted with skepticism and laughter. Like most banks, Midland considered black borrowers to be a poor risk and normally refused them loans." - Labor, Politics, and African American Identity in Minneapolis 1930-50. The Minnesota Historical Society.

A review and summary of historical events beginning with the colonial landscape and the denial of African Americans into the economic structure, The Great Migration, and Minnesota specific policy events that aim at closing the gaps illustrates complexity and also provides some solutions towards supporting banking and lending for African American small businesses. Creativity and resiliency, linked with the African American social/cultural tradition of "making a way out of no way," have supported African American entrepreneurs to maintain a place in the landscape of American business.

- I. African Americans were denied entry into the most profitable areas of commercial activity, they were forced into establishing enterprises in smaller "niche" industries. These areas included: working as craftsmen and artisans; providing food and hair care services; and owning small retail enterprises (Weems, 2021).
- II. Notwithstanding African American-owned business progress during the first decades of the twentieth century, with the onset of the Great Depression, many of these gains quickly evaporated. For instance, black-owned banks, which proliferated during the 1920s, all but disappeared for a generation.
- III. In 1929, black America's 24,969 retail stores generated aggregate sales of \$98.6 million dollars. Six years later, in 1935, the aggregate sales for black America's 22,756 retail stores had plummeted to \$47.9 million dollars. Because black-owned businesses, in the context of Jim Crow racial segregation (in both the North and South), depended exclusively on black consumer support, high black unemployment rates associated with the Great Depression necessarily resulted in some African American enterprises closing their doors and lower sales and profits for those that remained (Weems, 2021).
- IV. Fairlie and Meyer state that none of the subsequent social phenomena of the great migration or racial integration had an impact on the rise in self-employment, rather they specify that the data available for this era does not allow the examination of contributing factors such as discriminatory lending practices, asset differences and risk aversion. Additionally, they point out that previous studies such as DuBois (1899) and others speak to the lack of tradition in Black business ownership as a direct result of slavery, which was also referenced in the webinar (Weems, 2021).
- V. Fairlie and Robb continue to assert that the lack of success, sustainability and overall survival of African American-owned businesses may be due to the lack of intergenerational transmission of

ownership, business experience and human capital. Through a nonlinear distribution technique Fairlie and Robb ultimately find that “the relative lack of opportunities for acquiring general and specific business human capital apparently has a negative effect on the outcomes of black-owned firms.”

Barriers

Existing research identifies several barriers the African American-owned businesses face in accessing banking and lending services. These barriers include

- I. **Loan Denials** - Access to banking and lending services for African Americans in Minnesota. Dr. Samuel Myers (2016) asserts that minorities' loan applications in the Twin Cities are disproportionately denied, not because of credit risk or income factors that are important for financial institutions but rather because of discriminatory practices towards minorities.
- II. **Lending** - Morris (2008) analyzed home mortgage application success rates across applicant racial groups. Banks argue they are not applying any racial standards for making credit-worthy decisions, but Morris shows the use of credit scores as a primary focus of their decision-making perpetuates institutional racism patterns in personal banking and lending.
- III. **Lack of Financial Inclusion** for African American small businesses when attempting to access quality, and sustainable financial services such as loans and banking services- Helms argues that financial inclusion often results in the success and overall development of communities (Helms, 2006), more specifically the world bank outlines the key components of financial inclusion as access, affordability and quality of services.
- IV. **Credit Worthiness and Client-bank Relationships** - Samuel Myers (2015) who established application denial rates for African Americans had nothing to do with credit worthiness or income. According to Horowitz et.al (2021), competing thoughts include the fact that disparities related to bank relationships and access to credit have serious implications for the success of Native American entrepreneurs and entrepreneurs of color. Research suggests differences in capital access at least partially explain why Black- owned firms stay small over the first eight years of their existence relative to White-owned firms. With no banking relationship, borrowers of color and Native American borrowers may turn to other high cost non-traditional or online lenders. They may also have a harder time accessing federal programs.

Assets

There are assets that the African American community has as indicated by the following:

- I. **Population growth** - Growth in population can be considered as an important asset to a community if properly harnessed. Between 2010 and 2015, the largest growing population group in Minnesota was that of the African American population; it grew by 45,000. The Metropolitan Council states that in the future, Minnesota's workforce will be largely composed of people of color and that all the people will need to participate in the prosperity of the state as reported in the African American Leadership Forum (2016).
- II. **African American-owned businesses** - It was also reported in the Emerging Domestic Markets In Minnesota (2000) report that prior to this period, between 1987 and 1992, the number of African American-owned businesses increased by 92.3 percent.

- III. **Knowledge-based assets** - there are many innovative solutions, nontraditional, that have been identified to minimize the barriers African American-owned businesses face in the banking and lending institutions. The Strategies for Financing the Inclusive Economy, Kelly, Duncan, and Dubb (2016) identified non-traditional small business financing solutions such as cooperatives, employee stock ownership plans (ESOPs), social enterprises, hybrid enterprises, and municipal enterprises.

Gaps and Opportunities in the Literature Review

The Working Group on Minority Business Development in Minnesota. produced and sent the Governor a report (Emerging Domestic Markets in Minnesota, A vision for Minority Business Development, 2000) which focused on studying the issues and challenges facing the minority entrepreneurs in Minnesota. One of the issues highlighted was the equitable access to lending and equity capital available to minority firms.

- I. Access to federal programs - African Americans have a harder time accessing federal programs. Nopper (2011) explores an area of these federally funded programs through a review of the Small Business Administration, and their contribution to expanding existing gaps in services to Black-owned businesses in the post-civil rights era. Nopper contends that the SBA's color-blind approach and reliance on banks may contribute rather than minimize racial inequalities. The color-blind approach is said to allow the incorporation of 'safe minorities' as their considerable approach to whiteness, SBA may in fact benefit non-black people of color in lending approaches and other benefits while leaving behind Black-owned business owners.
- II. Investment in the inner cities - U.S. Senate Committee on Banking and Currency in 1968 hearings (Financial Institutions and the Urban Crisis) to "determine what financial institutions are doing now to help meet the investment and credit needs of the ghetto, and to explore what additional steps can be taken to channel more private investment into the inner city" (1). Mondale proposed a joint Government-Industry Financial Planning Council to establish investment targets and priorities to improve urban economic development. A cross-sector approach with commercial banks, life insurance, savings and loan, mutual savings banks, and pensions, would allow for shared liability in this investment (7). The goal would be to increase loanable funds to be used for development.
- III. Importance of developing entrepreneurs - Senator Jacob Javits (NY), said, "We must now seek to train and assist men to become owners and entrepreneurs in our society with as much vigor as we are now training them to become other people's employees" (12).
- IV. Centering the voice and history of the community seems to offer the highest potential for uncovering the type of changes necessary to solve this problem. Critical to understanding the historic treatment of African Americans, "place-making," Perry (2020) discusses the need for Black-majority neighborhoods to be intentionally planned and imagined as unique places meeting the needs of their residents, not just "places that are suitable for White, middle-class residents" (33). Understanding the experiences of business owners in this regard can help us locate behaviors perpetuating the impact of the problems in our systems and institutions.

Furthermore, if public policies are not implemented with racial equity considerations strongly embedded in the process, they will fail to produce the desired outcomes as has been seen in the racially disparate distribution of PPP loans to Black and Latino-owned businesses (Flitter, 2020). Digging into the specifics of the impact of the Covid-19 pandemic and how it has affected the African

American-owned business community will help shed light on the particular issues found in this area which can inform implementation and design of further policy interventions.

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