

Do Closing Minority Depository Institutions Affect Credit in Their Communities

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November 16, 2024

Abstract

I construct a panel dataset and apply an event study framework to estimate the effects of Minority Depository Institution (MDI) and non-MDI branch closures on credit accessibility in racially diverse local markets, defined by census tracts. My findings reveal minimal negative effects, with four notable exceptions: 1) Asian MDI branch closures lower large mortgage originations within the Asian community, 2) Hispanic MDI branch closures lower small business loan (SBL) originations for small firms, 3) non-MDI branch closures lower mortgage originations in Black communities served by Black MDIs and 4) non-MDI branch closures lower small-sized mortgage originations. Surprisingly, non-MDI bank branch closures increase total SBL originations. Using a lender level Herfindahl–Hirschman index (HHI), I show branch closures do not lead to more concentrated lending markets, rather encourage entry of non-local and non-bank lenders. The results highlight the evolving role of physical bank branches in an increasingly digital banking landscape.

JEL Classification Codes: G20, G21 , L10

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