

Persistence of Community Banks and Redlining: The Case of Minority Depository Institutions

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Abstract

I study the present-day proximity of urban community banks, Minority Depository Institutions (MDIs) to historically segregated urban neighborhoods. Using a Poisson Generalized Estimating Equation (GEE) framework, I investigate whether MDIs are more likely to exist in “redlined” census tracts based on the Home Owners’ Loan Corporation’s (HOLC) “residential security maps” in 1930s. I find the expected number of Black MDIs increase 10 percent, whereas those of non-MDI banks decrease 1 percent for each 10 percent increase in the tract’s redlined area. I also find Asian MDIs and Hispanic MDIs locations are negatively correlated with the tract’s redlined areas. Rather, their expected numbers increase 34 percent and 13 percent for each 10 percent increase in Asian language and Spanish speakers at the tract level respectively. The results show how historical federal policies continue to influence the modern banking landscape and how Black-owned banks co-exist with larger banks in their local markets.

JEL Classification Codes: G20, G21 , L10

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