

How Closing Minority Depository Institutions Affects Credit in Their Communities

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Abstract

I use a unique dataset to analyze how closure of bank branches affects credit accessibility in racially diverse communities. My analysis reveals four main findings that illustrate differential impacts from the closure of Minority Depository Institution (MDI) branches and non-MDI branches within their local markets, defined by census tracts. First, closure of Asian MDI branches reduces large mortgage originations only within the Asian community. Second, closure of Hispanic MDI branches reduces small business loan originations to firms with less than \$1 million in assets. Third, closure of non-MDI branches decreases mortgage loan originations to the Black community within tracts served by Black MDIs. Fourth, closure of non-MDI bank branches increases total small business loan originations. Using lender level Herfindahl–Hirschman index, I show the decision to close branches is driven by increased competition from branchless banking rather than by expected future loans. These findings highlight the evolving role of physical bank branches in an increasingly digital banking landscape.

JEL Classification Codes: G20, G21 , L10

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