

How Closing Minority Depository Institutions Affects Credit in Their Communities

Noara Razzak *

September 12, 2024

[Link to latest draft](#)

Abstract

I construct a panel dataset and apply an event study framework to estimate the causal effects of Minority Depository Institution (MDI) and non-MDI branch closures on credit accessibility in racially diverse census tracts. My findings reveal minimal negative effects of branch closures on credit accessibility, with a few notable exceptions: 1) Asian MDI branch closures reduces large mortgage originations within the Asian community, 2) Hispanic MDI branch closures decreases small business loan originations for small firms, and 3) non-MDI branch closures lowers mortgage originations in Black communities served by Black MDIs. However, non-MDI bank branch closures unexpectedly increases total small business loan originations. Using lender level Herfindahl–Hirschman index (HHI), I show branch closure decisions are primarily driven by increased competition from branchless banking rather than expected future loan demand. These findings highlight the evolving role of physical bank branches in an increasingly digital banking landscape.

JEL Classification Codes: G20, G21 , L10

*John E. Walker Department of Economics, School of Business, Clemson University, Clemson, South Carolina, 29634-1309, USA; email nrzzak@clemson.edu. I want to thank my advisor, Howard Bodenhorn, and members of the Dissertation Committee, the Public Workshop and the IO Workshop for their valuable feedback.