

How Closing of Minority Depository Institutions Affects Credit in Their Communities

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Abstract

I use a unique dataset to empirically analyze how closure of bank branches affects credit accessibility in racially diverse communities. Four main findings illustrate different impacts from the closure of Minority Depository Institution (MDI) branches and non-MDI branches within local markets defined by census tracts. First, closure of Asian MDI branches reduce large mortgage originations only within the Asian community. Second, closure of Hispanic MDI branches reduce small business loan originations to small firms, firms with less than \$1 million in assets. Third, closure of non-MDI branches significantly decrease mortgage loan originations to the Black community within the tracts with Black MDIs. Fourth, closure of non-MDI bank branches increase total small business loan originations increase for all communities. Using lender level Herfindahl–Hirschman index, I show that the decision to close these branches is not dependent on expected future loans within the local markets but increasing competition from branchless banking. The results sheds light on the role of bank branches with the advent of online banking.

JEL Classification Codes: G20, G21 , L10

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