Do the Closings of Minority Depository Institutions Affect the Financial Inclusion of Households Located in Their Communities?

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Abstract

The number of Minority Depository Institutions (MDIs) peaked in the year 2008, reaching 215 according to a recent report by the Federal Deposit Insurance Corporation (FDIC). However over the following years their numbers decreased considerably and 146 such institutions exist as of 2018. From 2013 to 2018 about 122 MDI branches were sold while 349 branches were closed. I use a Difference in Difference approach to study whether the closure of a MDI branch within a census tract results in decreased credit supply within the community when compared to another census tract with a similar demographic and income composition that still with at least one functioning MDI branch. I use Community Reinvestment Act (CRA) data and Home Mortgage Disclosure Act (HMDA) data to build estimates of small business loans and mortgage lending by census tracts. I then compare census tracts where an MDI branch closed to a similar census tract which did not have any branches closures. Information on census tracts are collected from the five year American Community Survey.

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