

How the Closing of Minority Depository Institutions Affect Credit in Their Communities

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May 12, 2024

Preliminary Draft

Abstract

The paper studies how credit outcome is affected in racially diverse communities when a bank branch closes in their local markets (census tracts). The research contrasts credit outcomes due to two different kinds of bank branch closures, the closure of Minority Depository Institution (MDI) branches versus the closure of non MDI branches. The number of MDIs peaked in the year 2008, reaching 215. However in 2011, there were 180 MDIs across the US and as of 2021, 138 such institutions exist. Consequently, there was a 15 percent reduction in the number of MDI branches from 2011 to 2021, either due to mergers or failures of MDIs. Using a novel dataset, I examine whether the closure of a MDI branch in the local market results in less access to credit within the racial community that the MDI was designated to serve. I contrast this result by also studying how credit outcomes vary within the same racial community when a non MDI branch closes in the same local market.

JEL Classification Codes: G20, G21 , L10

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