



Mission-Oriented Bank Closings and Small Business Credit Availability in Low-Income and Minority Neighborhoods

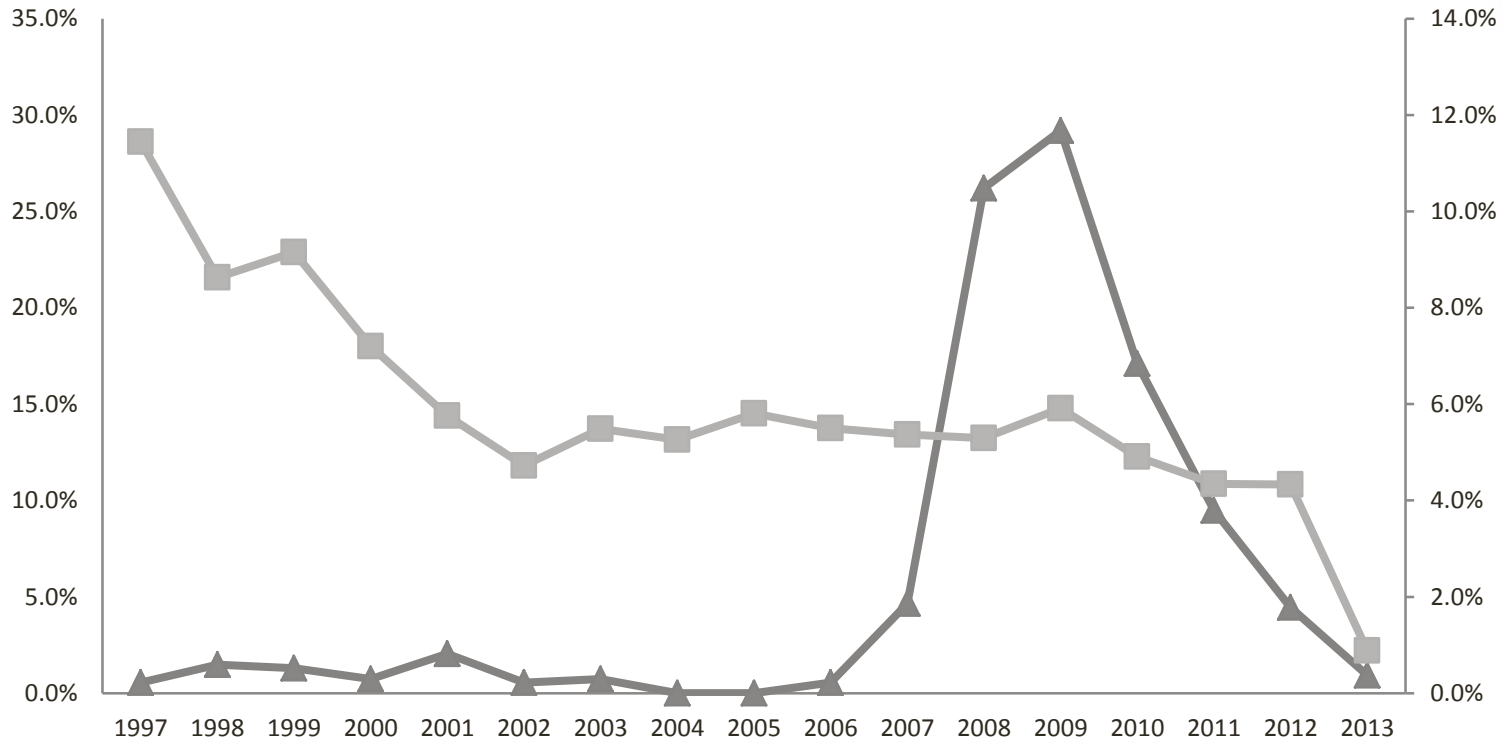
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Bank failures

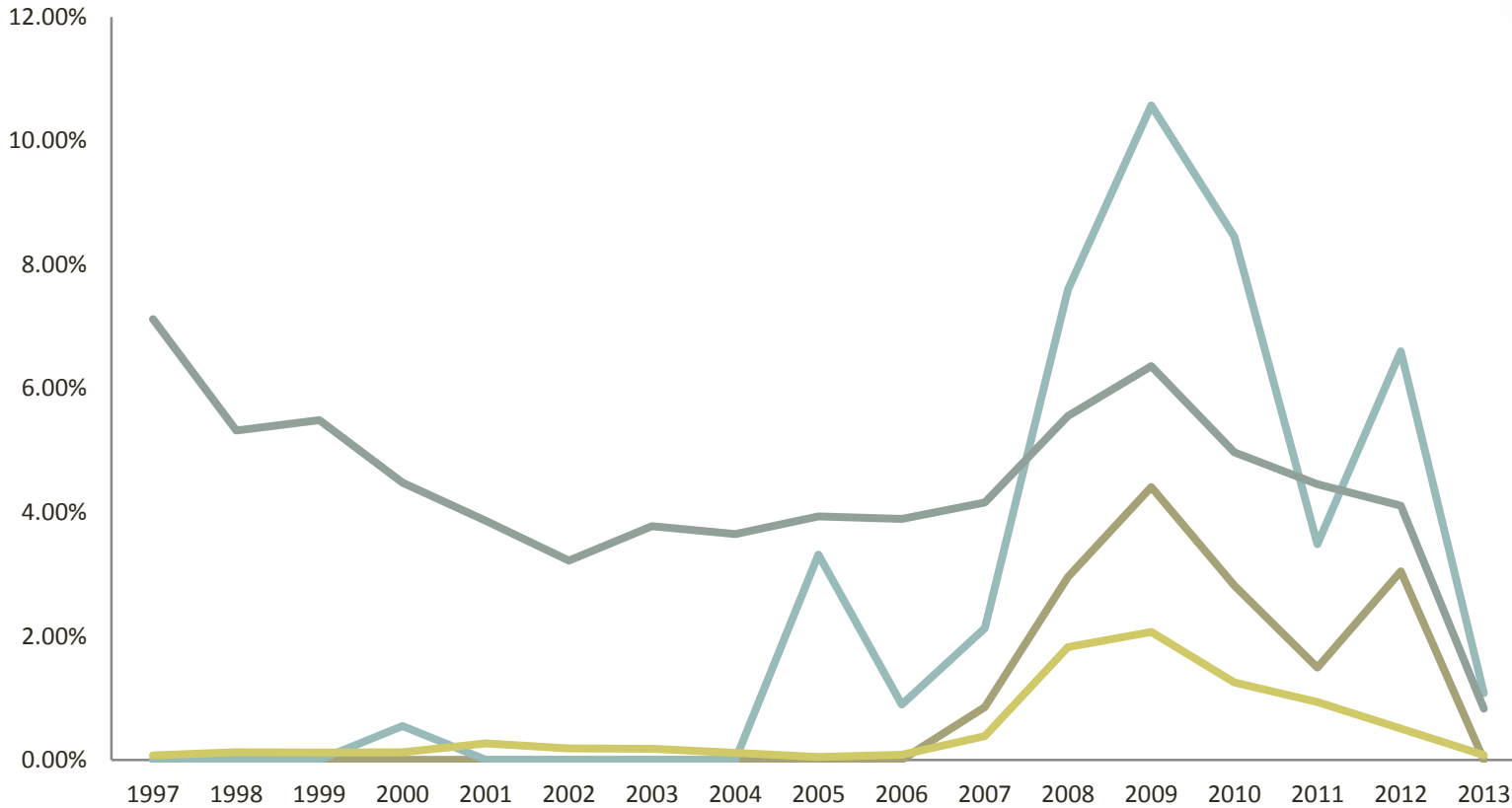


▲ close (due to failure, was acquired)

■ close (due to merger and acquisition), right axis



Bank failures rates among MDIs



— failure rate minority banks — closing rate minority banks
— failure rate nonmdi — closing rate nonmdi



General overview

- How important are banks to local economies?
 - Do bank closings affect local areas?

- Strategy

Identify census tracts that experience a bank failure



Measure subsequent outcomes
(Credit availability and business growth)

- Clear endogeneity concerns

Census tracts with bank failures have characteristics that could lead to bank failures



Bank failures distribution

2008 Failures



- 0
- 1
- >1

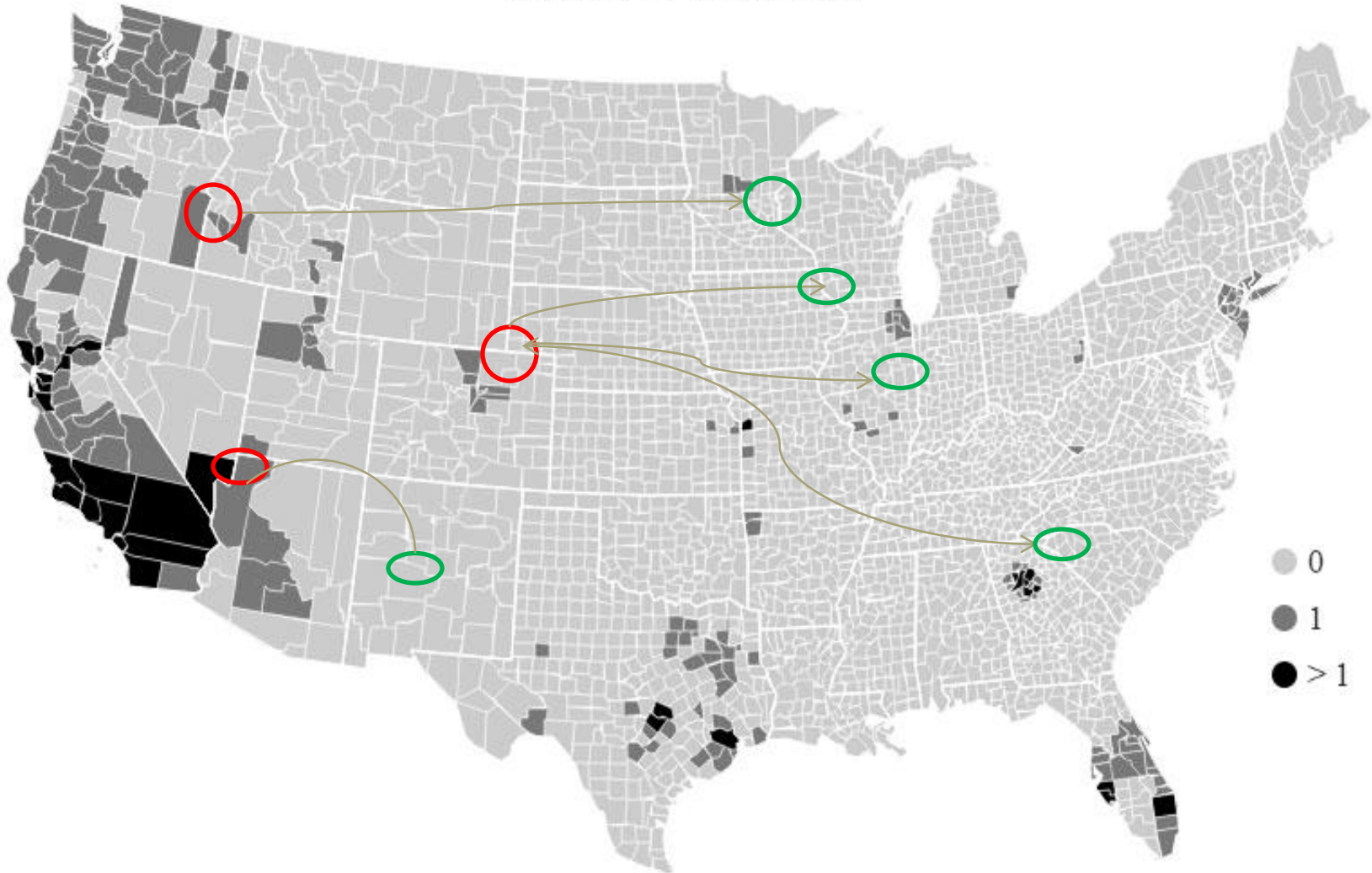
2010 Failures



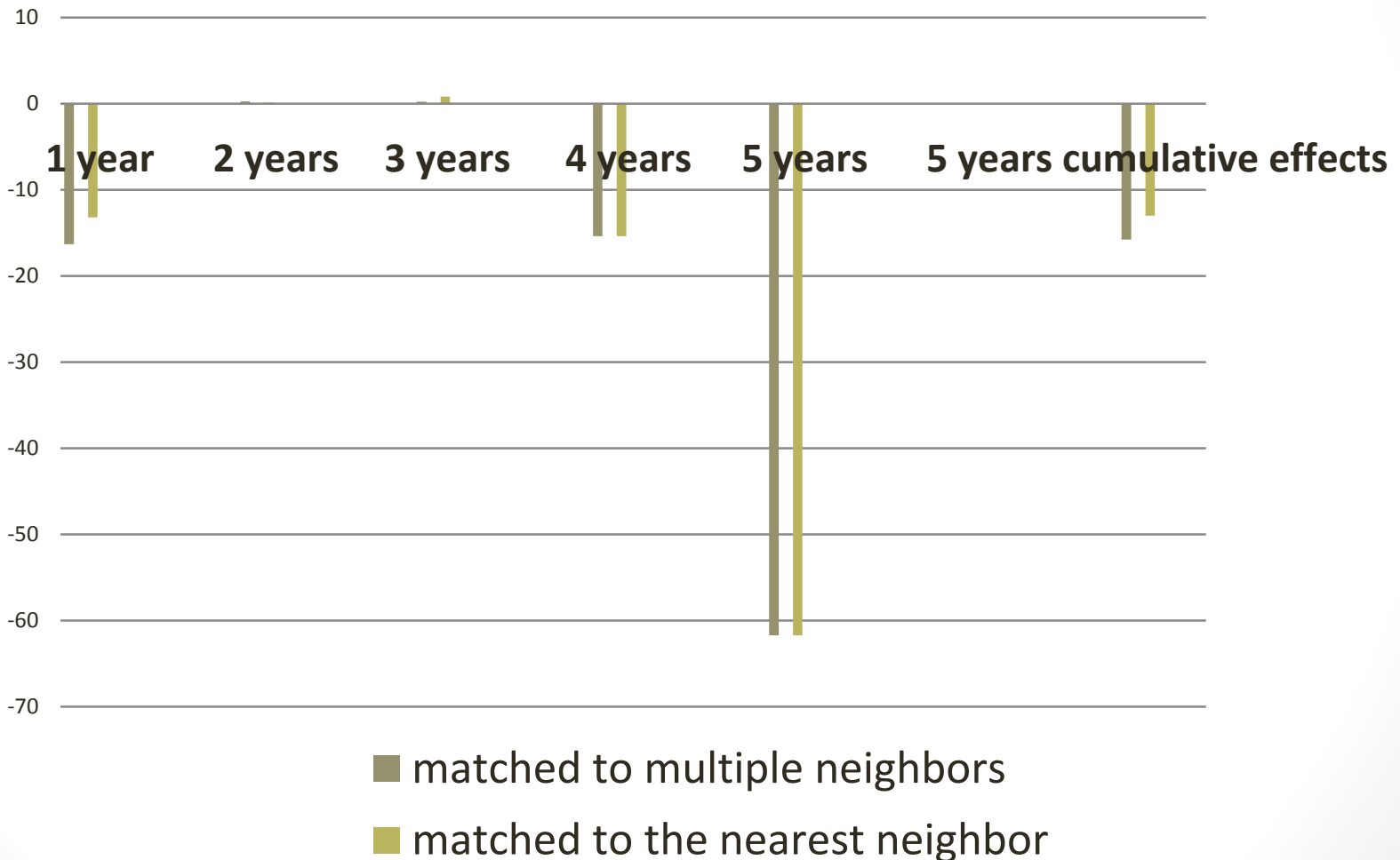
- 0
- 1
- >1

Propensity score matching

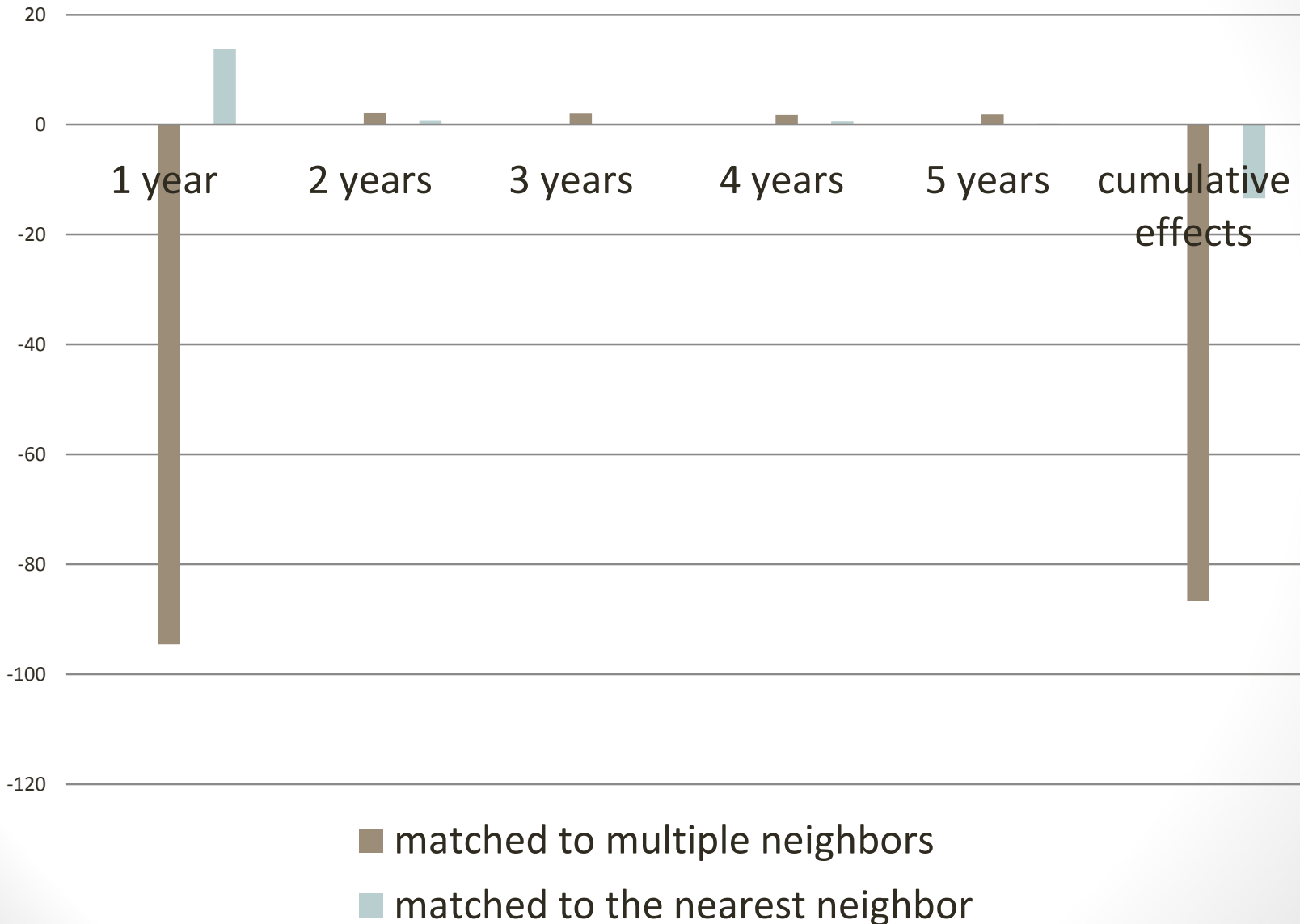
2008 Failures



Difference in difference in business credit in local areas (average treatment effects of bank failure)



Difference in difference in credit in LMI and minority neighborhoods (average treatment effects of bank failure)

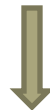


General overview

(Change in credit is a function of **bank credit supply** and credit demand)

Isolate the effect of **bank credit supply** effect

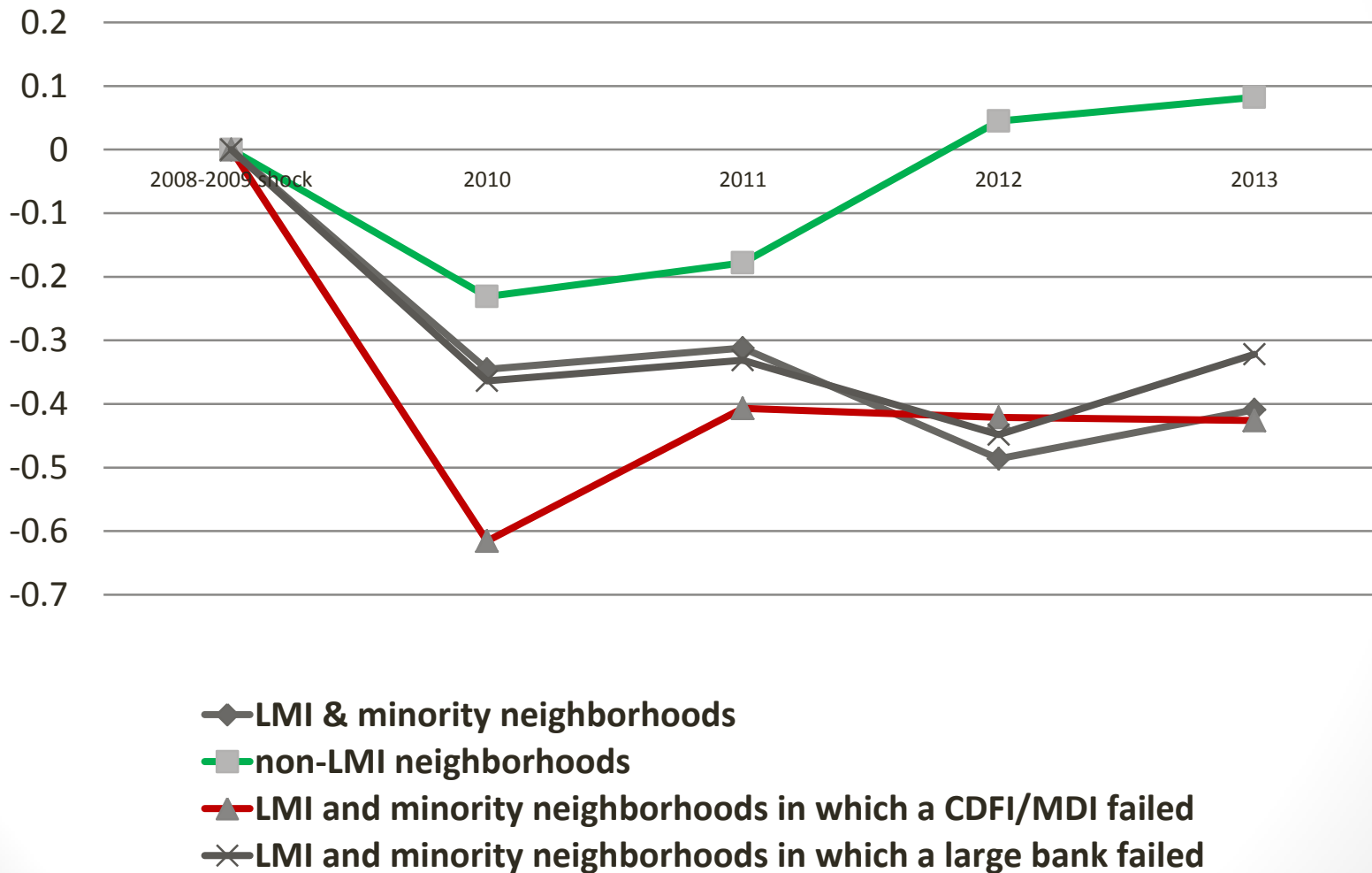
Measure the effect of bank “credit supply shocks”



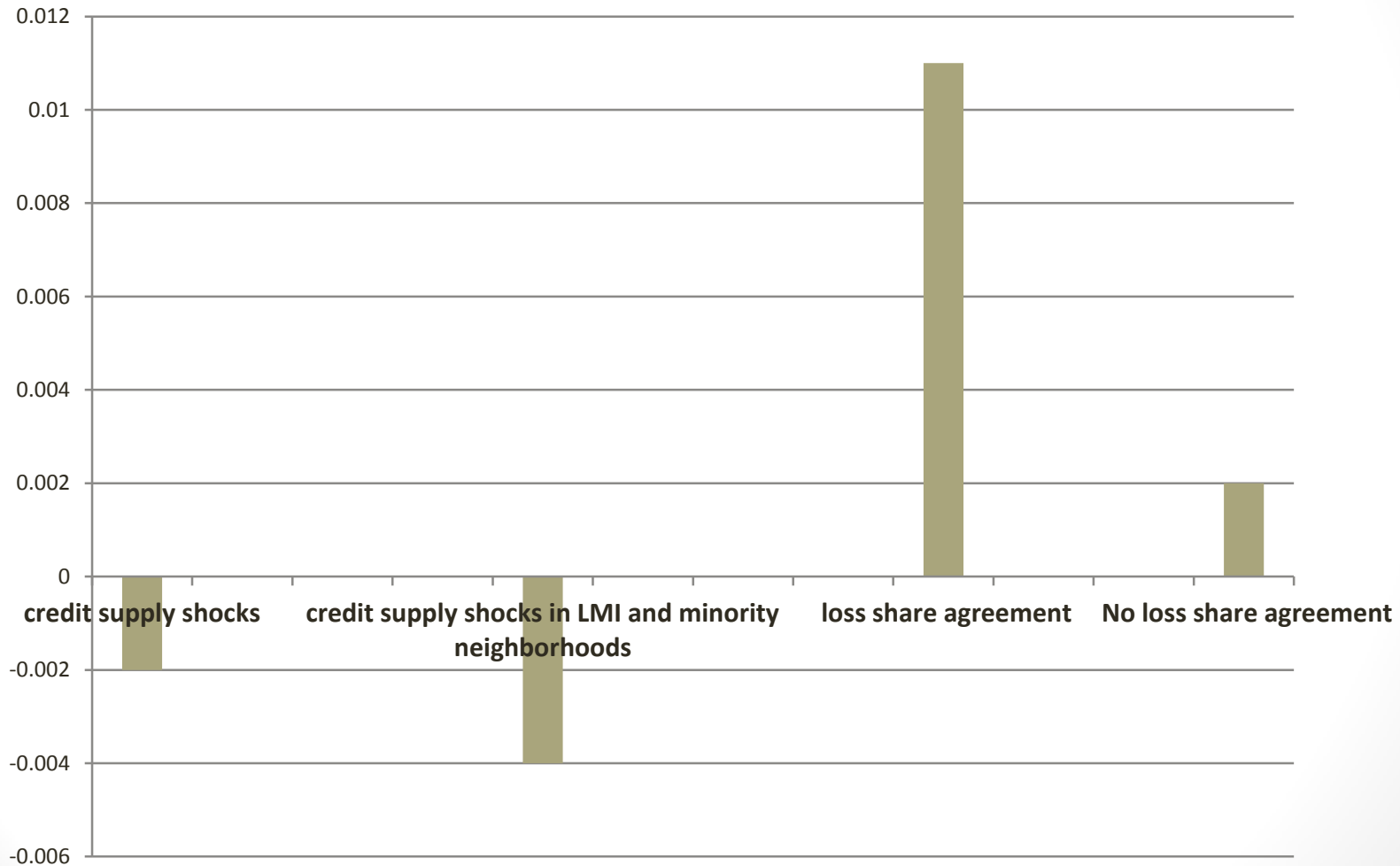
on outcomes of interest on the *matched/treated* areas



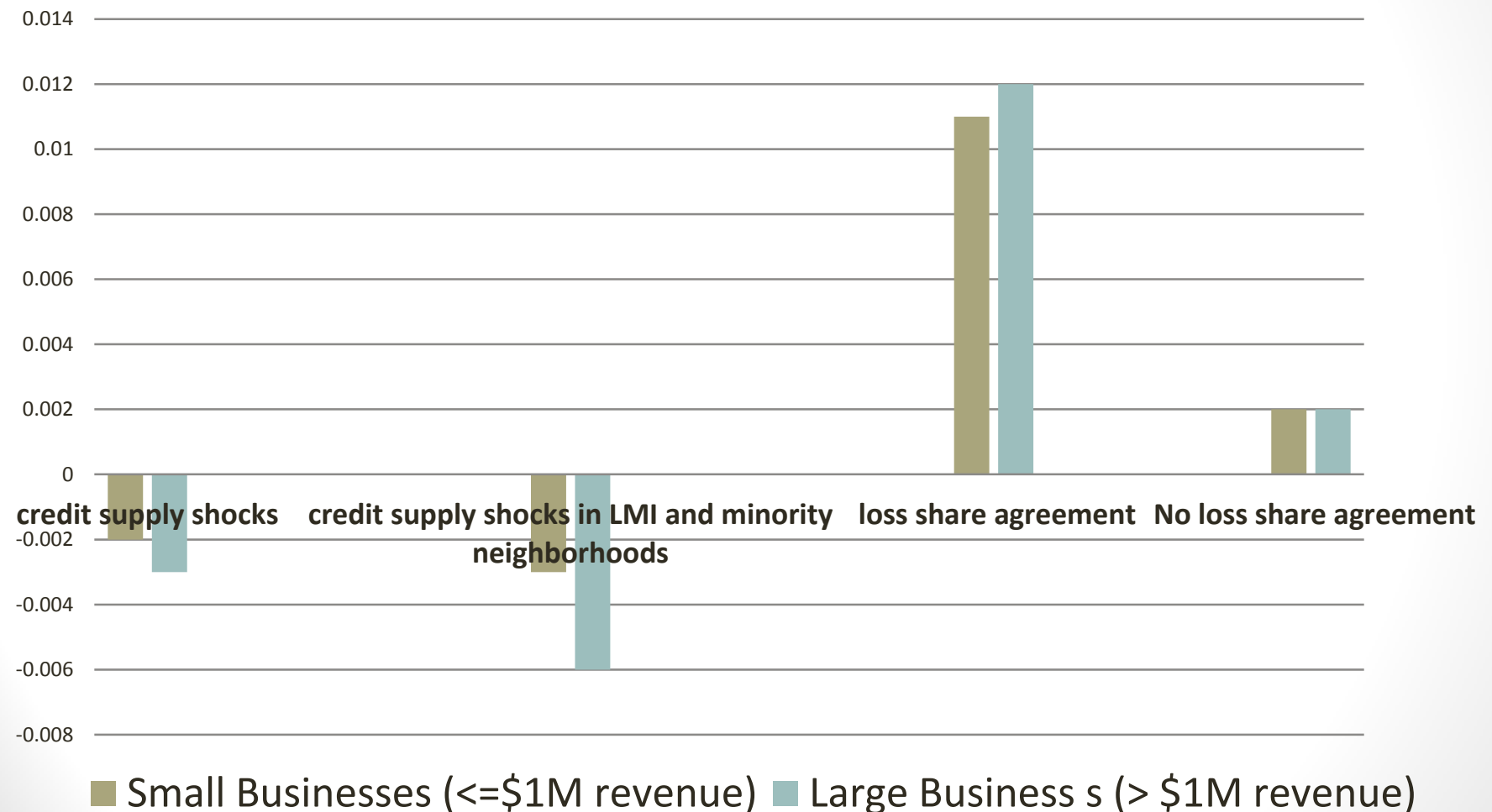
Effects of bank credit supply shock on CRA small business loans availability



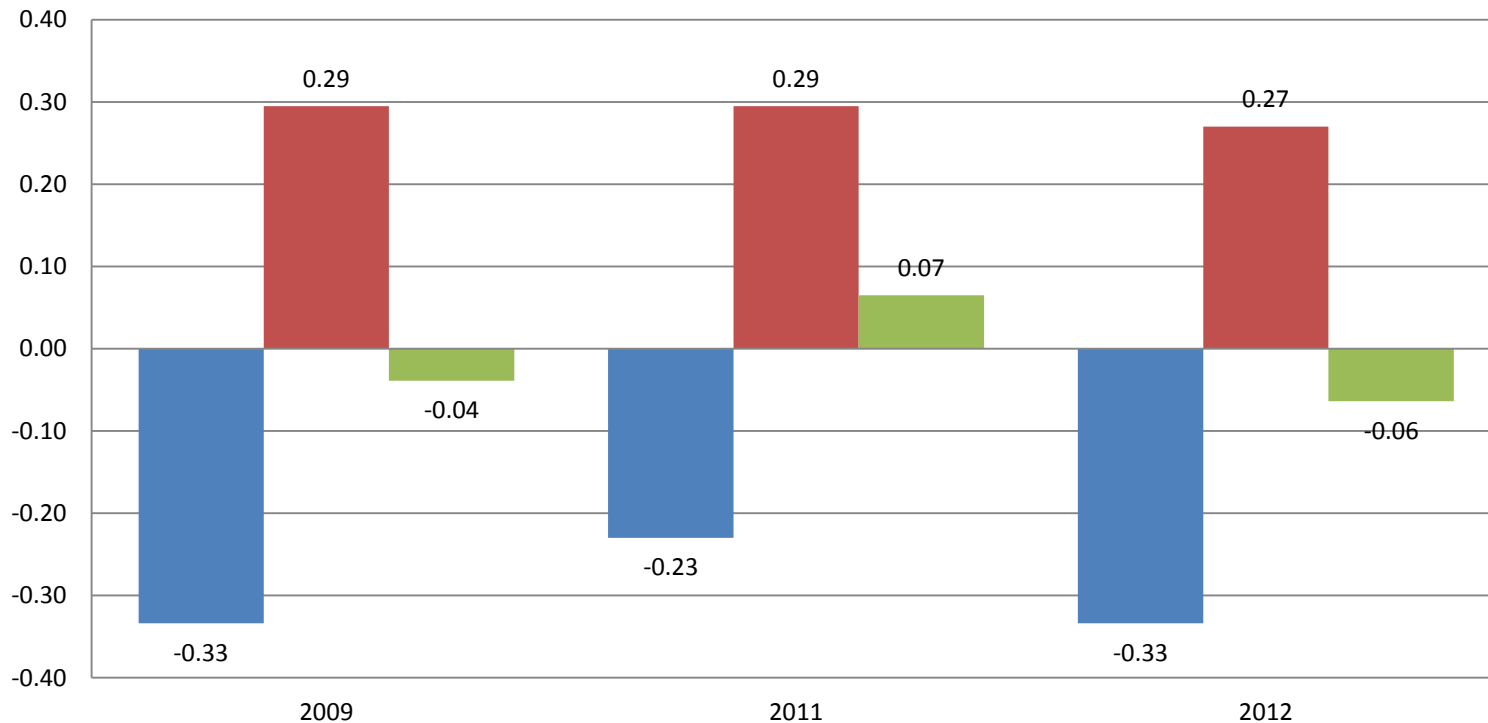
Marginal benefit of loss share agreement on credit availability



Marginal benefit of loss share agreement for business growth



Marginal benefit of loss share agreement in LMI/minority neighborhoods for small business growth, after a large bank with branches there fails



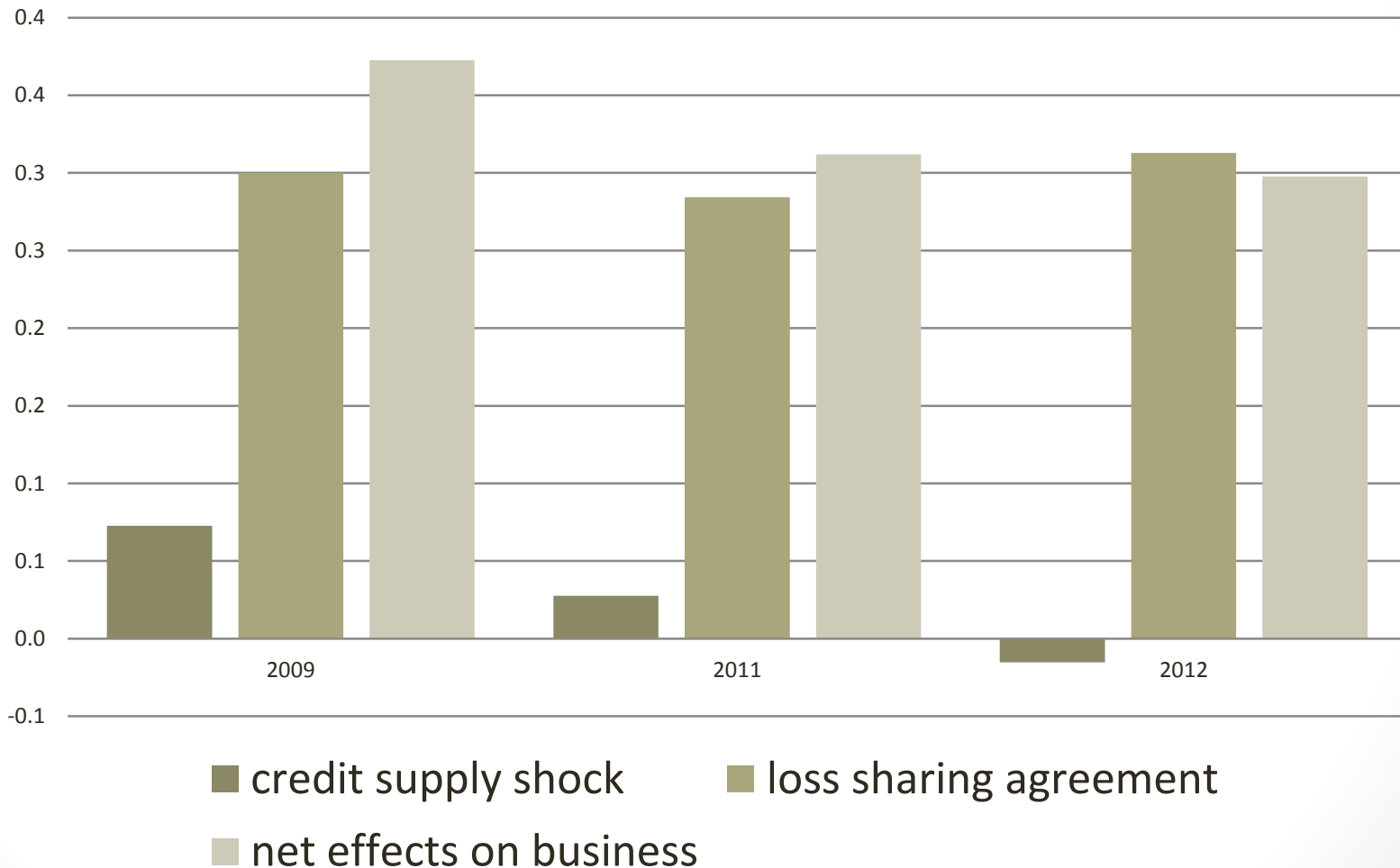
■ Credit supply shock effect***

■ loss sharing agreement mitigating effect***

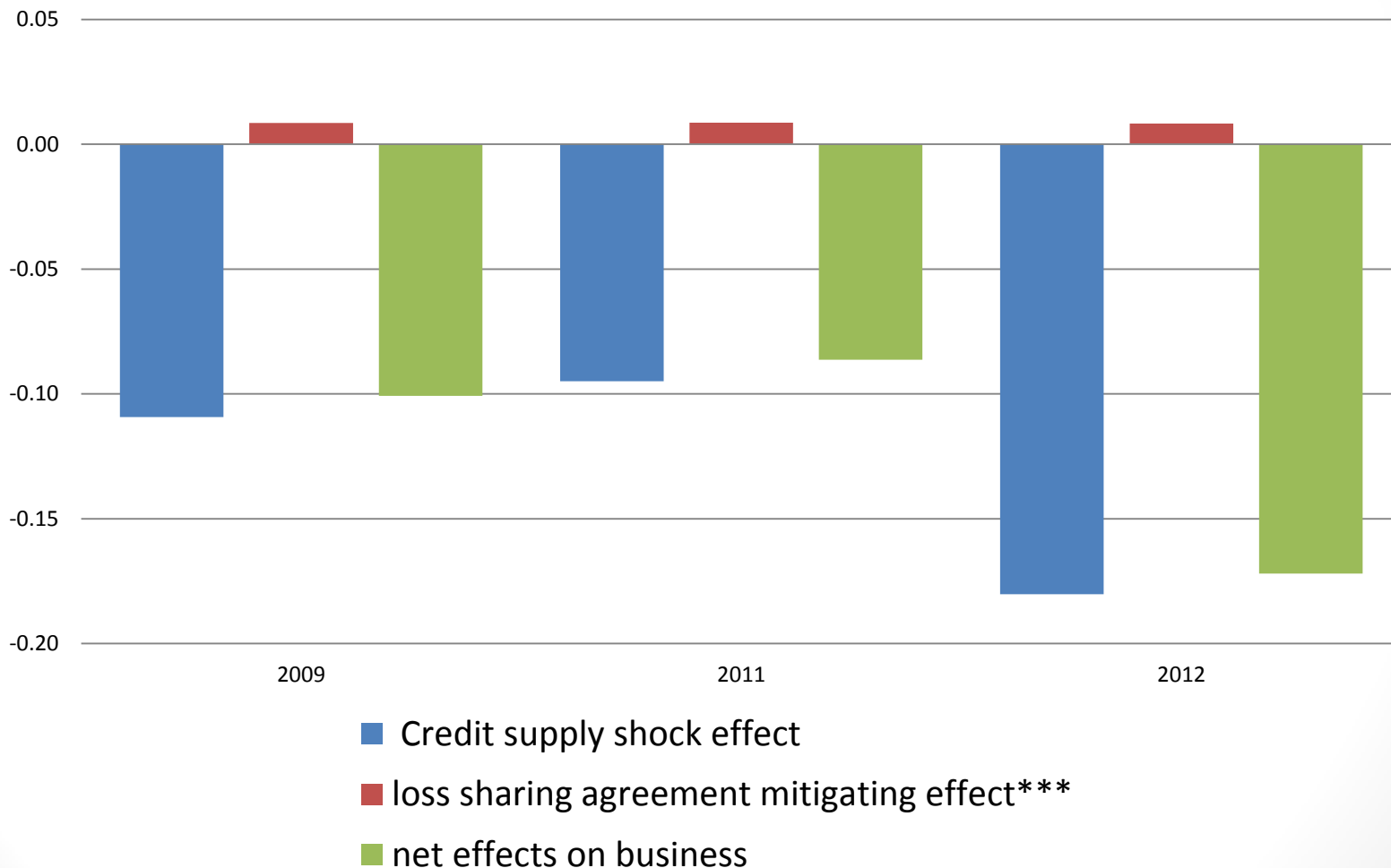
■ net effects on business



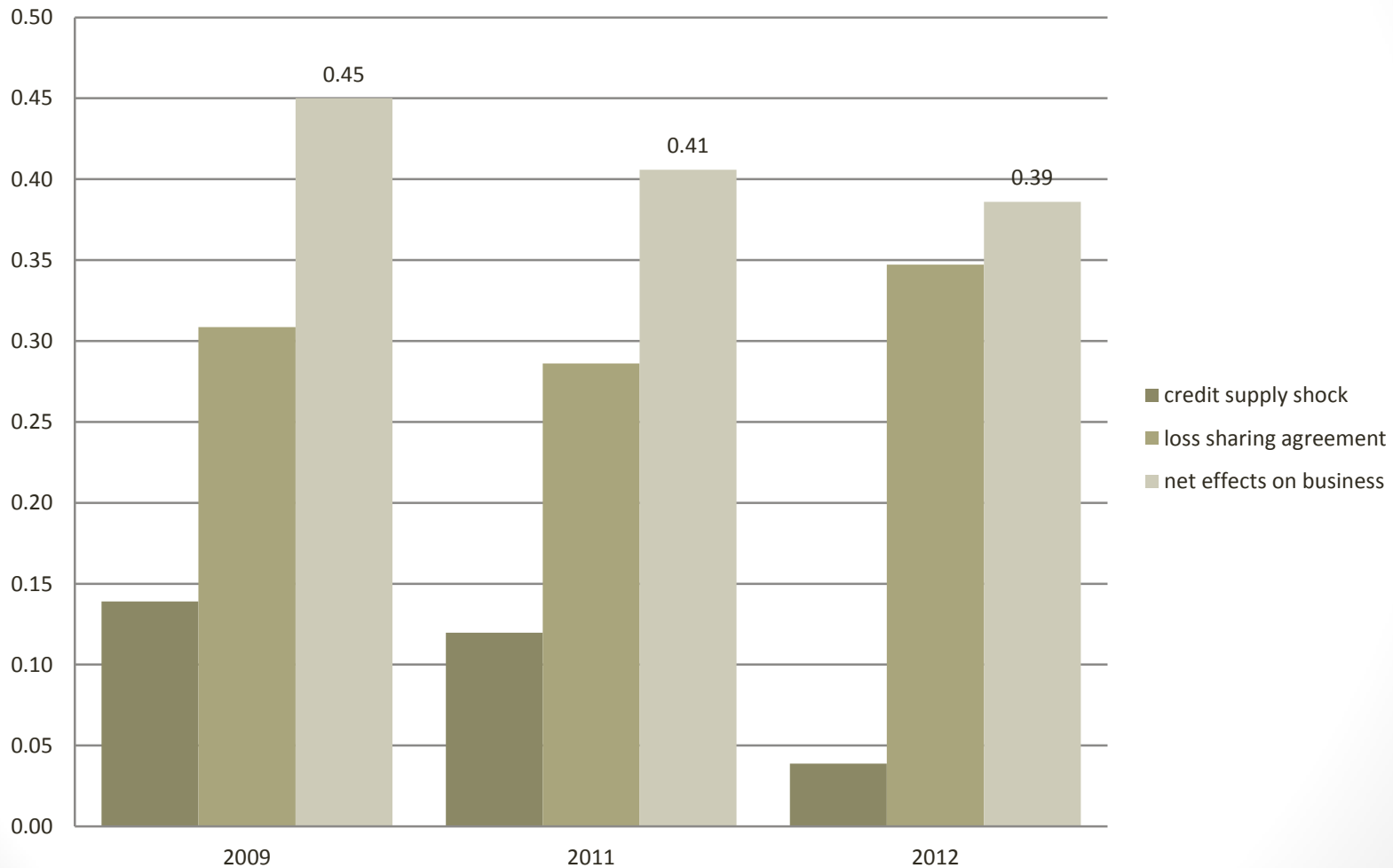
Marginal benefit of loss share agreement in LMI/minority neighborhoods for large business growth, after a large bank with branches there fails



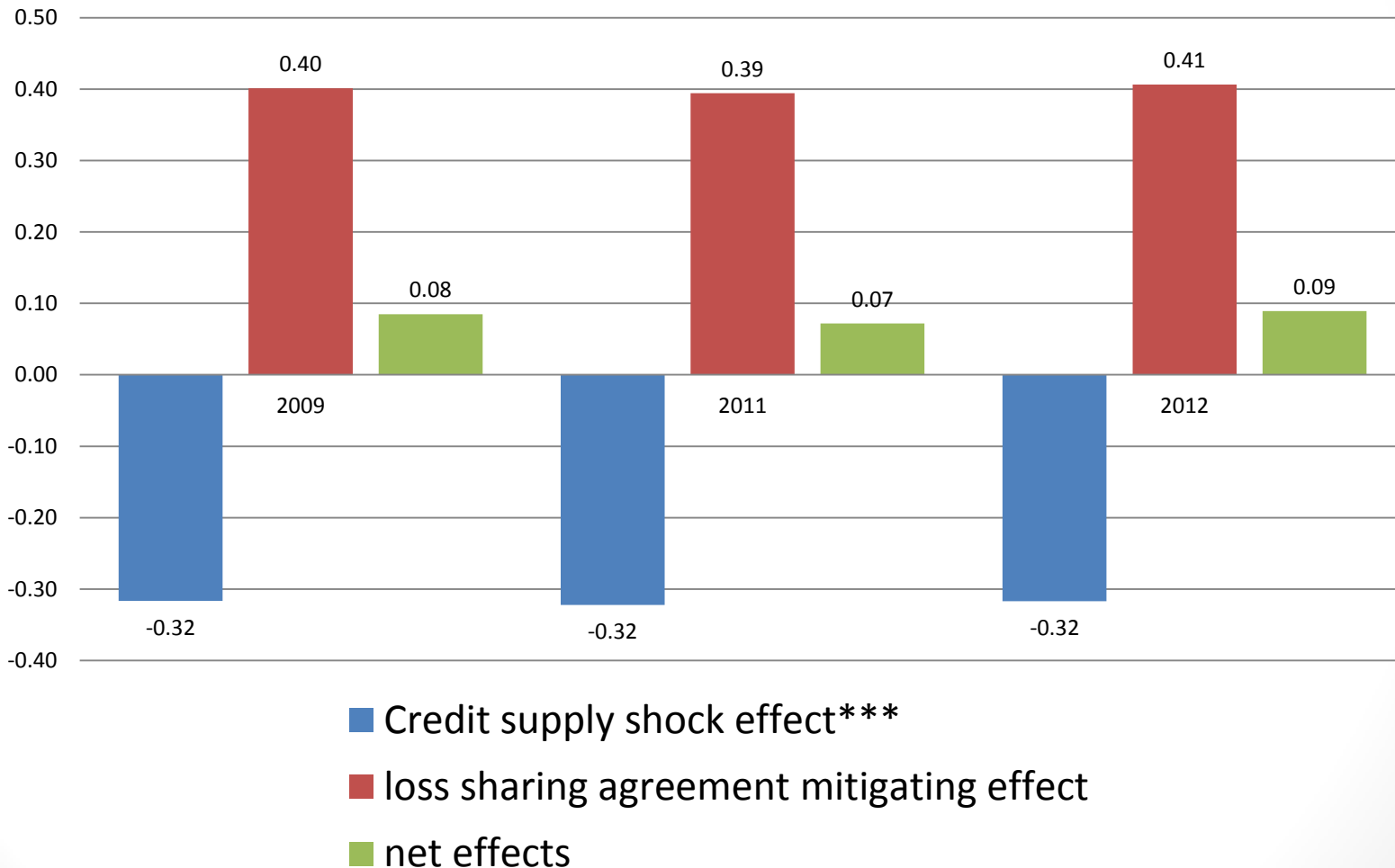
Marginal benefit of loss share agreement in LMI/minority neighborhoods for small business growth, after a community bank fails



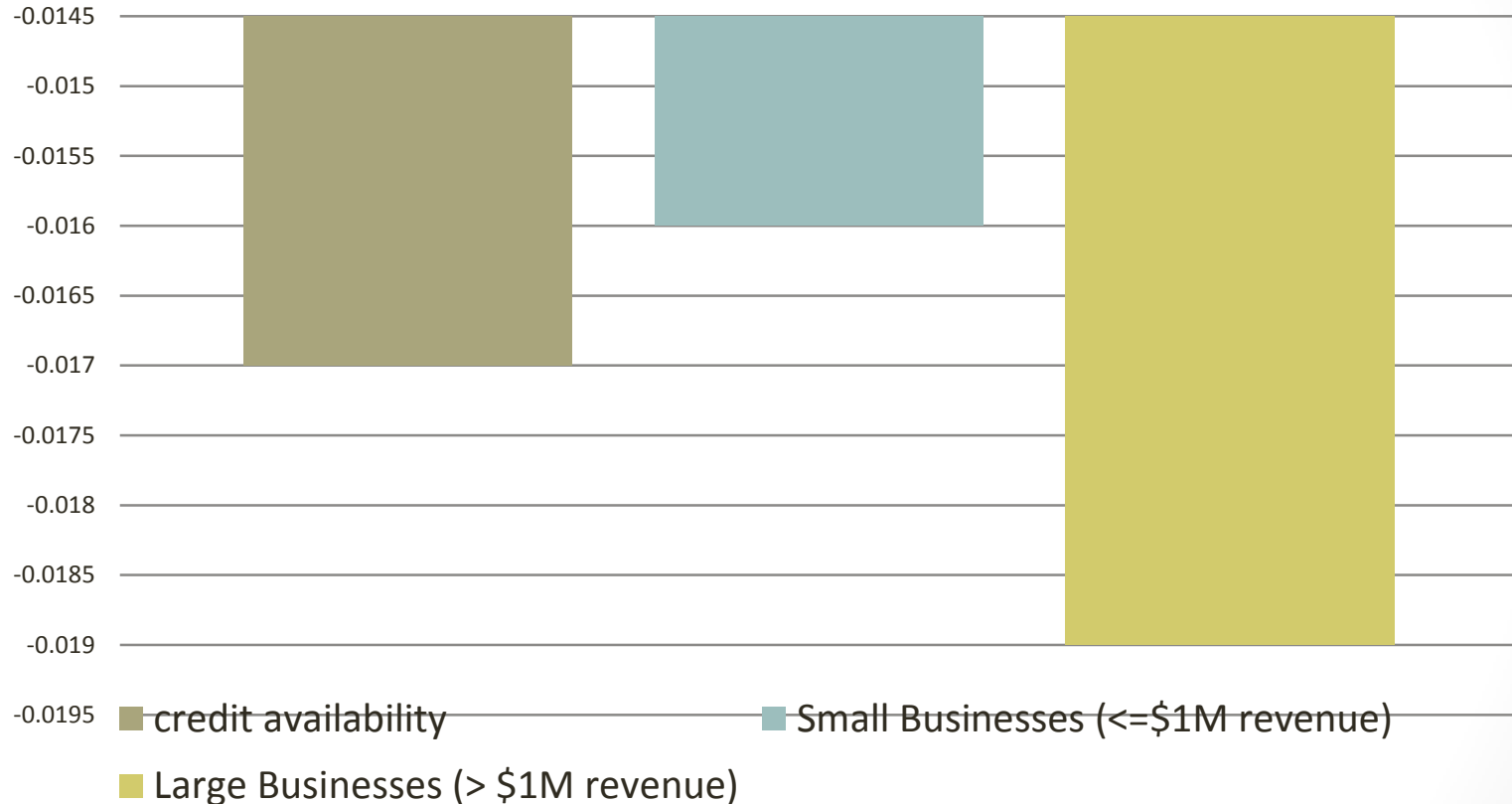
Marginal benefit of loss share agreement in LMI/minority neighborhoods for large business growth, after a community bank fails



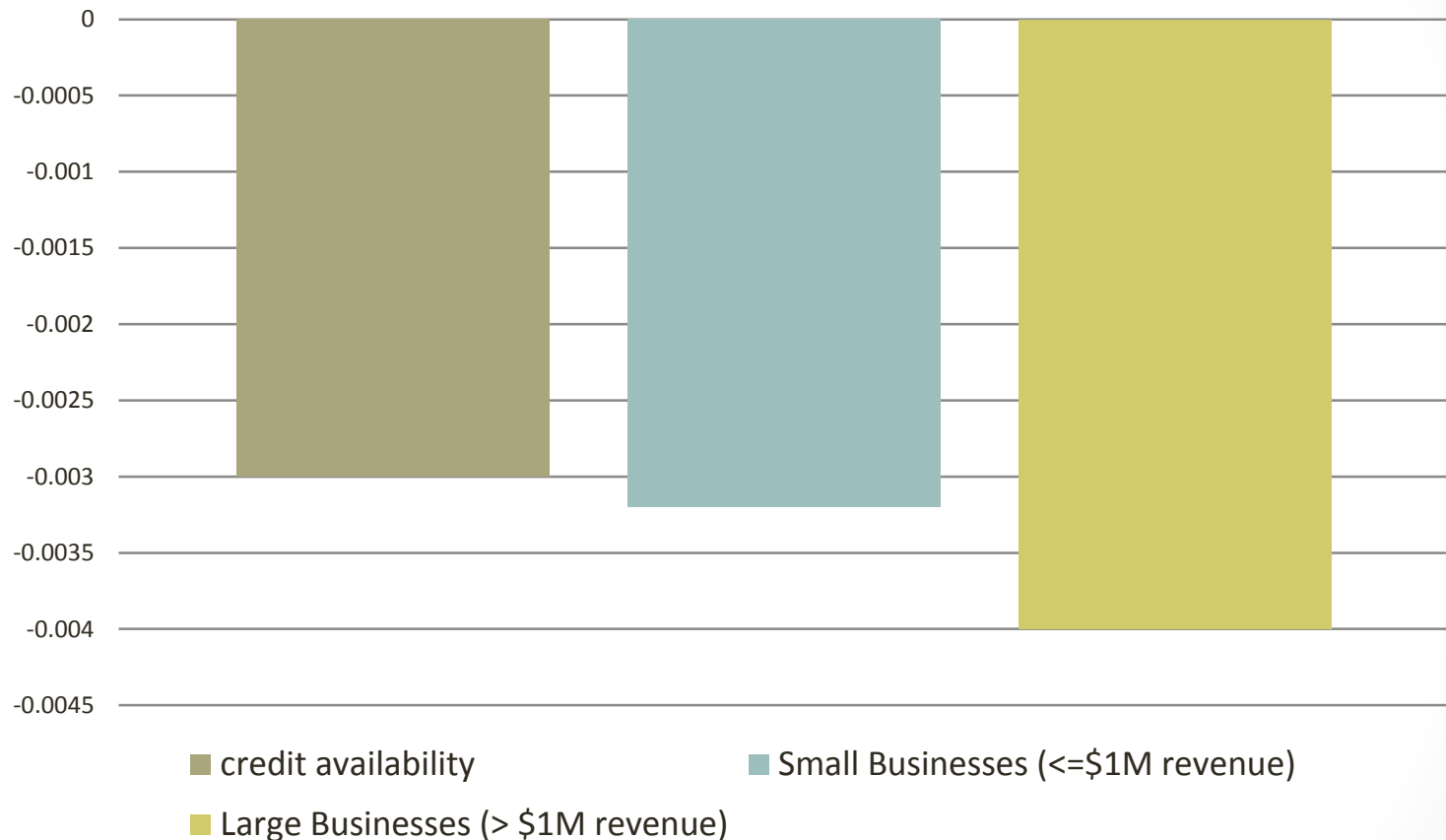
Marginal benefit of loss share agreement in LMI/minority neighborhoods for small business growth, after a MDI/CDFI fails



Marginal effects of increased banking concentration on credit availability and business growth



Marginal effects of bank branch decline subsequent to bank failure on credit availability and business growth



Conclusion

- This paper adds to the evidence that bank failures lead to measureable underperformance of various measures in local areas
 - Some evidence of a direct effect
 - The likely channel is disruptions in (relationship) lending
- Bank failures affect disproportionately LMI high minority markets
- Provision to safeguard relationship lending, and the type of banking institutions that specialized in such lending, namely MDIs/CDFIs, appears to be most relevant for these markets

