

“Changing Financial Landscape: Are LMIs Disproportionately Affected? The Case of Detroit”

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Maude Toussaint-Comeau is a senior business economist at the community development and policy studies division of the research department of the Federal Reserve Bank of Chicago. She is also an adjunct faculty teaching economics at DePaul University. She has conducted extensive research in applied microeconomics, on consumer finance and access to credit by vulnerable populations, and has been published in academic journals, including the *Review of Economics and Statistics*, *International Migration Review*, *Contemporary Economic Policy*, and *Eastern Economic Journal*. She is the coeditor of a volume, *Strategies for Improving Economic Mobility of Workers-Bridging Research and Practice* (2009). She serves as a member of the Council of Economic Advisers to the New Economy Initiative for Southeast Michigan. She is a member of the board of trustees of the Illinois Economic Association, and a member of the American Economic Association and the Western Economic Association International. She holds a BA in economics from the University of Illinois–Urbana-Champaign, a MS in economics from Temple University, and a PhD in economics from the University of Illinois–Chicago.

Robin Newberger is a senior business economist in the community development and policy studies department at the Federal Reserve Bank of Chicago. Her areas of interest include the use of banking and financial services in low- and moderate-income neighborhoods and the growth and sustainability of community development finance institutions. Before working at the Chicago Fed, she wrote for the Economist Intelligence Unit in Quito, Ecuador. Newberger graduated from Columbia University and the John F. Kennedy School of Government and is a holder of the Chartered Financial Analyst designation.

Summary and Findings: This study analyzes bank branch presence and the spatial concentration and distribution of bank branches in the city of Detroit and its surrounding counties. While the city of Detroit is not unique in terms of its loss of population, the city has been a place with a much lower rate of bank branches per capita over the past 15 to 20 years and one with the highest decline in banks, compared to some other traditionally industrial cities. Both the city of Detroit and the surrounding urban metropolitan area also experienced strong shifts in terms of the locus of control across institutions. Banks and local market deposits shifted almost entirely to institutions not headquartered in the Detroit metropolitan statistical area (MSA). However, after controlling for key characteristics, a gap analysis suggests that the city of Detroit’s low- and moderate-income (LMI) and minority neighborhoods seem to remain places that are relatively underbanked when compared to the urban metropolitan areas in surrounding counties.

In the study, we also analyze trends in bank lending to small businesses in Detroit and the surrounding counties and assess the factors that are associated with access to credit by businesses at the neighborhood level. We also test the proposition, consistent with the research on relationship banking, that the presence of banks might be more important for lending to businesses in LMI neighborhoods than in middle- and upper-income areas. We find that differences exist in small business lending across neighborhoods in the Detroit MSA. Bank presence explains, in part, where bank financing to businesses occurs in LMI neighborhoods. It does not explain small business lending in middle- and upper-income neighborhoods, where other factors besides bank location explain to a greater extent the number of loans made

in the neighborhood. A gap analysis is offered as a tentative guide to pinpoint places where there may be room to expand bank financing to small businesses, given characteristics of the neighborhoods.

Implications for Policy and Practice: The United States has a decades-long policy of encouraging banks to lend and invest in lower-income communities. The 1977 Community Reinvestment Act (CRA) established federal regulatory processes to encourage banks to reinvest in LMI communities in which they get deposits, consistent with safe and sound banking practices. The differences in the presence of banks in the city of Detroit LMI neighborhoods as well as minority neighborhoods suggest that those markets need attention. Another challenge is to identify ways to overcome disincentives that may underlie location decisions that affect financial services in the city. In spite of the challenging climate, there are potentially untapped market opportunities that warrant lenders and investors to take a closer look at the area. The findings that bank presence contributes to increased lending in LMI neighborhoods suggest the usefulness of bank-borrower relationships in LMI neighborhoods in Detroit, consistent with banking relationships literature.