

*(1) Commercial Lending Distance and
Historically Underserved Areas*

by DeYoung, Frame, Glennon, and Nigro

&

*(2) Tracing Access to Financial Capital among
African-Americans From the Entrepreneurial
Venture to the Established Business*

by Robb and Fairlie

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* The views expressed do not necessarily reflect those of the World Bank Group, its staff or executive directors.

Commercial Lending Distance...

- The growth in SME credit scoring has led to an increase in “distance” between borrowers and lenders, particularly in low-income and minority neighborhoods
 - “Personal Credit Scores” measure default probability of the owner/manager, such as payment histories on retail purchases, personal credit cards, mortgages, etc.
 - “Business Survival Scores” measure the probability of business failure, i.e. management quality, business viability, and industry risk (e.g., Genesis Score)
 - Variations found in many emerging markets:
 - India (“Citibusiness”)
 - South Africa (“e-banks”)

Commercial Lending Distance...

- OR...do borrowers in LI neighborhoods have less access to financial institutions?
 - Evidence that the number of branches has increased over time
 - But where are new branches opening?
 - Is disaggregated branch penetration data available?
 - Positive relationship between distance and loan size and negative relationship with SBA
 - Are fewer loans being made to smaller, riskier borrowers?

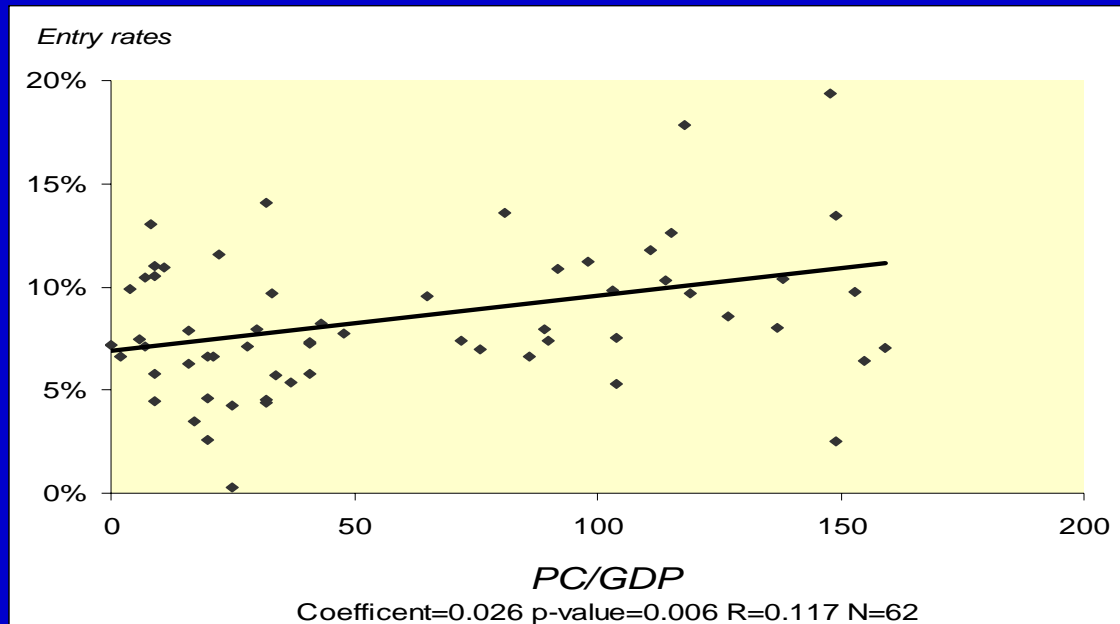
Commercial Lending Distance...

- Do minority small business owners have access to the internet (or are they traveling 40-plus miles to visit a distant bank branch?)
 - Was any technological assistance offered to entrepreneurs in the late 1990s?
- What is the impact on entrepreneurs with limited credit histories, i.e., borrowers who loans might be based on “soft” information/relationships with loan officers?

Tracing Access to Finance...

- Lower levels of financial access among African-Americans is related to relatively lower rates of entrepreneurship

Figure 6: Entry rates and private credit



Tracing Access to Finance...

- A growing international literature linking access to finance and entrepreneurship
 - Paulson and Townsend (2005=4, 2006), Djankov et al., 2005; 2006a; 2006b, 2007, Demirguc-Kunt, Klapper, and Panos (2007), Quadrini (2000), etc.
- Entrepreneurship is related to access to financial services, as well as personal wealth, savings, home ownership, etc.
 - Winners of “Windfall gains” are more likely to enter self-employment and remain successfully self-employed, e.g. Sweden, U.K. and the U.S.
 - Lindh and Ohlsson, 1996; Taylor, 1999; Blanchflower and Oswald, 1998; Holtz-Eakin et al., 1994a; 1994b).

“The differences in credit use and borrowing history might be explained by the poor credit histories of these black-owned businesses”

- Do we have data/evidence??
- South African experience:
 - Are credit scores discriminatory... NO!
- Improved consumer education:
 - Helping low-income and minority communities get access to and understand their credit scores
 - Assistance on how to improve credit scores
 - General assistance with financial literacy
 - Access to electronic loan applications