(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

Discussion by LEORA KLAPPER, World Bank

* The views expressed do not necessarily reflect those of the World Bank Group, its staff or executive directors.
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?
Lower levels of financial access among African-Americans is related to relatively lower rates of entrepreneurship.

Figure 6: Entry rates and private credit

Entry rates

PC/GDP

Coefficient=0.026  p-value=0.006  R=0.117  N=62
A growing international literature linking access to finance and entrepreneurship


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