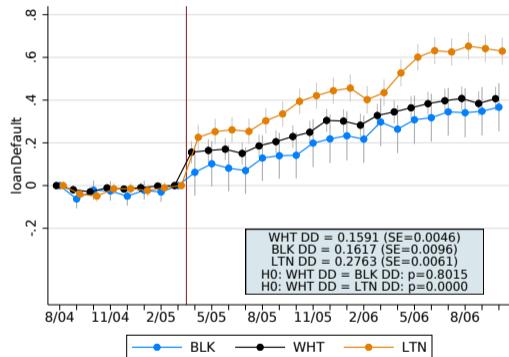t

# What Drives Racial Minorities to Use FinTech Lending
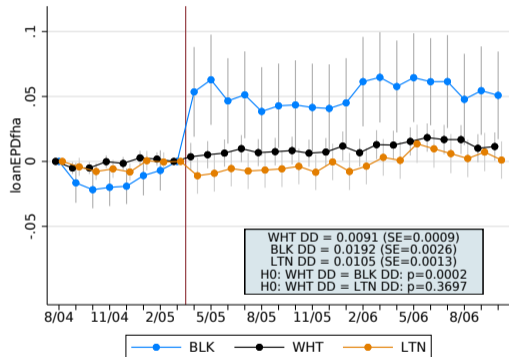
Brittany Lewis [1]

[1] Washington University St. Louis

# Important to Understand Relative Trends in Minority Borrowing and Loan Performance



WHT DD = 0.1591 (SE=0.0046)
BLK DD = 0.1617 (SE=0.0096)
LTN DD = 0.2763 (SE=0.0061)
H0: WHT DD = BLK DD: p=0.8015
H0: WHT DD = LTN DD: p=0.0000

**(a)** Ever Default

WHT DD = 0.0091 (SE=0.0009)
BLK DD = 0.0192 (SE=0.0026)
LTN DD = 0.0105 (SE=0.0013)
H0: WHT DD = BLK DD: p=0.0002
H0: WHT DD = LTN DD: p=0.3697

**(b)** Early Payment Default

From Lewis (2023)

## Motivation

- ▶ Interesting paper!
- ▶ Uses US Restaurant Yelp ratings & links those to PPP loan take up from SBA
- ▶ Paper creates methodology to identify taste-based bias in lending
- ▶ PPP framework: key assumption that statistical discrimination is not at play
  - Since the government pays the bank upfront, the bank makes no outlay of money
  - Uses both first (2020) and second (2021) rounds of PPP

## Main Finding

- Positive rating gap (*MinorityRating* – *NonMinorityRating*) > 0 for banks
- Negative rating gap (*MinorityRating* – *NonMinorityRating*) < 0 for non-banks
- Interprets this as evidence for taste-based discrimination
  - Minority borrowers are held to a higher standard when they borrow from banks.
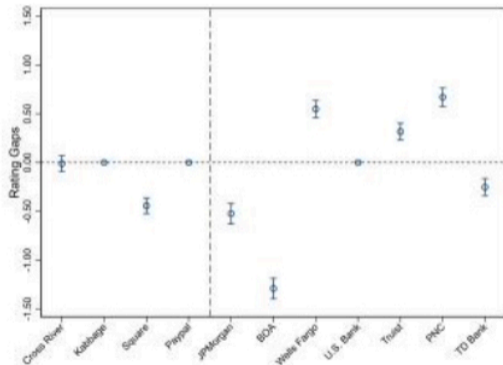  - FinTech lenders do not hold borrowers to this standard.

## Minority vs. Non-Minority Rating Gap Fintech vs. Non-Fintech

**Figure 1:** FinTech — Non-FinTech
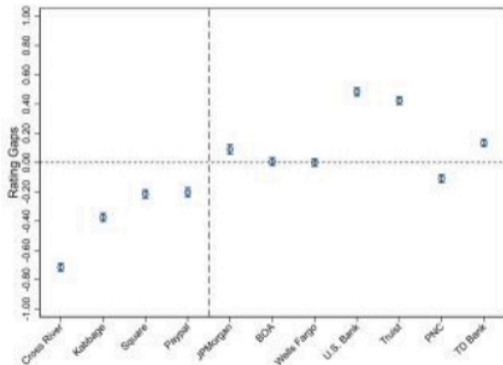
**Figure 2:** FinTech — Non-FinTech



(c) 2020 PPP (African-Americans)

(d) 2021 PPP (African-Americans)

## Main Comment 1: Borrower & Lender Race Not Identified

- Restaurant owner race is based off the cuisine of the restaurant - not completely identified
  - Very important to pin down the race of the borrower in order to claim taste-based discrimination
  - To improve identification of minority owned business, do a name matching on sample that owner names are available for - maybe from Yelp,LinkedIn, or the SBA
  - Use restaurant zip code - to refine calculation of owner race (i.e. restaurants in an all white neighborhood are more likely to be white-owned)
  - Call restaurants
- Lender race not completely identified
  - Giacoletti et. al. claim taste-based discrimination but they see the loan officer race
  - Without loan officer race, it is hard to argue that a large bank has taste-based discrimination if the loan officer is actually the same minority as the restaurant owner
  - May be a story about other correlated factors

### Main Comment 2: Endogenous Selection - Bank vs. Non-Bank Borrowers

- First waive of PPP, very hard to access. Many banks depleted entire allocation in 24 hours. Borrowers had to wait in line to be called.
- People could also go to a county with smaller banks with less demand for capital.
  - Borrowers relied on informal network - a relationship banker telling them which banks' funds had not been exhausted, sometimes calling multiple banks (for example: KeyBank and M&T)
  - Firms (restaurants) that had more than one banking relationship would have more luck maneuvering these informal networks
  - Minority restaurants receiving PPP in round 1 may have had many lending relationships or were different in other ways, making them endogenously have higher ratings
  - We know from Mario Small's work that minorities are non-banked at much higher rates, so minority restaurants receiving PPP in the first round may have been systematically different
    - Uses matched sample - but endogeneity can still persist

## Main Comment 2: Endogenous Selection - Bank vs. Non-Bank Borrowers (Cont'd)

- There could be pre-existing disparities in number of banks that these restaurants work with
  - Accurate or inaccurate statistical discrimination could play a role indirectly via previous bank relationships (or lack of)
- There was uncertainty (especially in first wave) whether borrowers would have to pay PPP back (if not used for payroll or utilities)
  - This could lead to both selection in terms of the loans that banks gave out and in terms of borrower applications
- Suggestion: run the methodological test Argyle, Indarte, Iverson, Palmer (2023) recommend to bound taste-based discrimination.
- Reframe the paper to create another methodological contribution to diagnose taste-based discrimination

## Model

- Model assumes that the match observed is the optimal one
  - The highest value is automatically given to matches observed
  - If there is correlation driving banks to lend less to minorities, it would be picked up as taste-based discrimination
    - For example caused by:
    - Minorities having a smaller informal network to learn about PPP
    - Minorities trusting banks less and preferring to borrow from FinTech's
    - Indirect accurate or inaccurate statistical discrimination

Thank you!

# Appendix

- Refine text, keep only the minimum explanation necessary
- Change "$\beta$ before interaction term..." to "$\beta$ on interaction term..."
- Try not to reference appendix figures before introducing main figures and tables