

Session Discussion: The Geography of Banking

João Granja

The University of Chicago - Booth School of Business

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Big Picture: Lending Distance in Banking

- **Petersen and Rajan (2002):** lending distances are **rising**
 - Not because personal interaction matters less. . .
 - . . . but because productivity gains (credit scoring) *expanded the frontier of safe lending*
- **Granja, Leuz, and Rajan (2022):** distances are also **cyclical**
 - Expand in credit booms, contract in downturns
 - Distant loans made in booms *default more*

Prior literature

- Mostly small business lending
- **Coarse distance:** county centroid → nearest branch

These papers

- **Mortgage market**
- **Finer measures:** borrower → loan officer; branch → its actual visitors

1. Counterfactual: a screening technology

- Shock that improves **screening** at a distance, not just **processing speed** (e.g., machine learning; AI)
- Substitute or complement for proximity? Who gains?

2. Future Research: A new time series of lending distance

- Extend the sample: borrower → **loan officer** distance over time
- Decompose: how much is driven by **organizational design**?
- **Why it matters**: three explanations, very different implications
 - Technology → frontier expands
 - Booms → looser standards
 - **Organization** → **decisions move away to cut costs; soft information lost**

1. What does *Proximity* capture?

- Visitor distance reflects **population density** and **branch network density** → local market presence?
- Average effect **disappears** within bank-MSA

2. Human decision-making *at a distance*

- Automation and algorithms **reduce** disparities (Howell et al., 2024; Bartlett et al., 2022)
- So more soft information/personal interaction should *amplify* bias? **Paper finds the opposite**
- Minority benefit largest in **high hate crime, low social capital** counties

Takeaway: The problem may be human decisions made at a distance, not human decisions per se

Different question: does branch geography *amplify* and *propagate* local shocks? *Timely given recent oil price volatility*

1. No propagation to non-O&G areas?

- Contrast: Peek and Rosengren (2000); Gilje, Loutskina, and Strahan (2016); Cortes and Strahan (2017)
- **Why?** Balance Sheet and Capital constraints normally affect entire network

2. Missing link: aggregate small business lending

- Does *total* lending fall more in high-presence O&G counties?
- If borrowers substitute across banks, hard to ascribe real effects to a credit channel

3. Comparison group: only **55** low-presence O&G counties (~3% of employment)

- Smaller, lower wages (\$41.8K vs. \$49.7K), **grew** after the shock: really oil-exposed?
- Compare on pre-shock O&G employment, production, industry mix; match or reweight

Three excellent papers that push the frontier on how bank geography shapes credit access

Congratulations to the authors and best of luck with the papers!