Analysis of 2022 MDI Lending

National Bankers Association Foundation

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The mission of the National Bankers Association is to ensure that underserved communities have fair access to financial services, products, tools, and resources that enable them to achieve their financial objectives and enhance their prosperity.

The National Bankers Association Foundation, the 501c3 arm of the National Bankers Association, advances the mission of Minority Depository Institutions (MDIs) by addressing the underlying causes of the racial wealth gap, leveraging capital, and sharing resources. Through our four strategic pillars, we provide programs and services to support MDIs and the communities they serve: (1) financial wellness, (2) entrepreneurship and small business, (3) research and impact, and (4) collaboration and capacity building.

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The nation's 147 Minority Depository Institutions (MDIs) are mission-driven lenders that provide credit and capital to marginalized communities across the United States. Earlier this year, the National Bankers Association Foundation published our first annual State of MDI report which details how the overall sector has changed from 2010 to now. This report also included an analysis of 2021 lending activity from a sample of 10 MDIs. Since 2021 MDI lending was dominated by the temporary Paycheck Protection Program (PPP) created to sustain small businesses and jobs amid the pandemic, we also published a separate report examining all MDI PPP loans using the Small Business Administration's (SBA's) publicly available dataset.

Some of our main findings from these two reports include:

Most MDI branches (62%) are located in zip codes with poverty rates higher than the national average, compared to just **38%** of non-MDI branches.

25% of MDI branches are located in zip codes in which the **MDI is the only bank with physical presence in that zip code.**

119 MDIs collectively issued nearly 270,000 PPP loans and more than $16 billion in loan dollars.

79% of MDI PPP loans went to minority or low-to-moderate income communities versus only 47% of non-MDI loans.

Analysis of 2022 MDI Lending

In this latest report, we supplement the previous two research publications by examining 2022 lending for a new small sample of 10 MDIs, all of whom are National Bankers Association member banks. This sample includes substantial overlap with the 2021 bank participants but is not identical. As with prior analysis, we match the zip codes tied to each individual loan from the 2022 sample with U.S. Census Bureau's Five-Year American Community Survey (ACS) data to provide a detailed community profile of the places that received lending.

Main findings from our 2022 lending analysis include:

The **10 banks** in the sample deployed **$1.1 billion** to **1,853 zip codes** and more than **600 cities.**

The top three states by dollars received include **California, New York,** and **Georgia.**

53.7% of loans went to majority-minority zip codes, and **70%** of loans went to a zip code with a greater minority share than the national average.

57.6% of loans went to zip codes with a poverty rate higher than the national average.

Our main findings fit with similar research on the social impact of MDIs from the Federal Deposit Insurance Corporation (FDIC, 2019), the Federal Reserve Banks of Chicago and Dallas (2017, 2022), and the Milken Institute (2019), among others. Together, this growing body of research underscores the vital role of MDIs in reaching households and communities that are underserved by the traditional banking sector.

The remainder of this report further describes our lending sample, shares summary statistics around the lending activity for 2021 along with broader context, and explores the demographics of the places that received lending. The report ends with a brief conclusion that highlights some implications of the research and outlines future planned research that builds on these initial findings.

Description of Lending Sample

Our 2022 lending sample is made up of 10 banks, or roughly 7% of the total number of MDIs in the sector. The 10 banks collectively hold $6 billion in assets, representing 1.7% of the total assets in the MDI sector. The median asset size of banks within our sample is $541 million which is notably higher than the sector median asset size of $405 million, but the range in our sample covers the full spectrum, including one bank that is less than $100 million in assets, seven banks that are greater than $100 million but less than $1 billion, and two banks that are $1 billion or above.

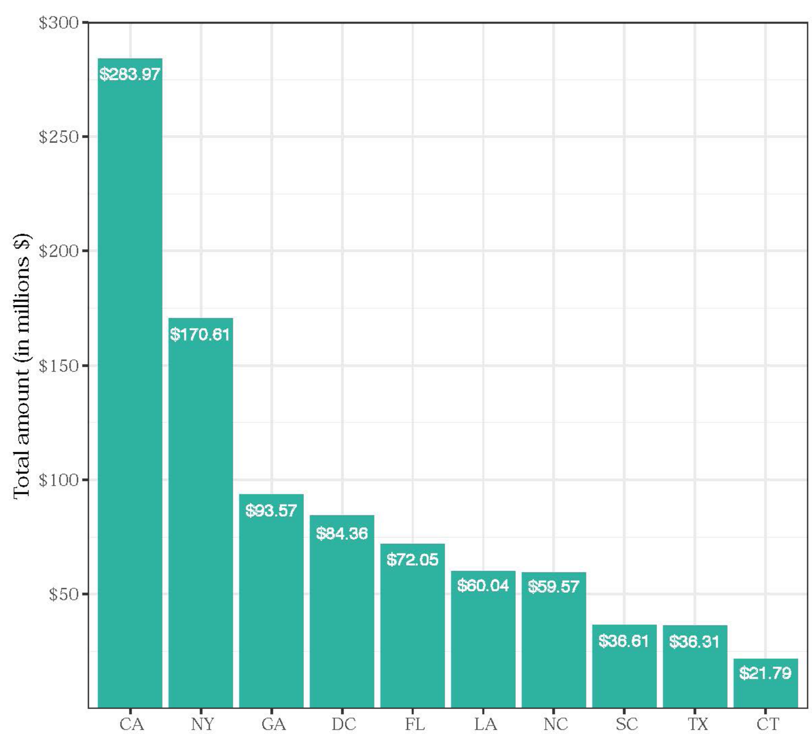
Our sample includes nine Black banks and one Hispanic bank. Our sample banks collectively operate 64 branches, are headquartered across nine states, and represent two of the four regions of the United States with eight banks based in the South and two banks in the Northeast, though their 2022 lending activity within the states (as measured by total dollars deployed) was divided across all four regions.

2022 Lending Analysis

In 2022, our sample banks issued a total of 4,354 loans for a total of $1.1 billion in loan originations, with an average loan size of $241,615. This is a substantially lower amount of total aggregate lending relative to our 2021 lending sample, largely reflecting the absence of a particularly large lender in this year's sample as well as the fact that the temporary Paycheck Protection Program accounted for such a large number of loans in 2021. Importantly, the volume of lending differed across institutions, generally with larger banks issuing a greater number of loans than smaller banks. Similarly, dependent on various factors including the specific loan mix of various institutions as well as changes within their local markets, some banks saw a reduction in their lending footprint in 2022 relative to 2021, while others saw an increase in overall lending.

California accounted for a sizeable portion of overall lending as measured by total loan dollars, followed by New York and Georgia, as shown in Figure 1 below. These three states were also among the top lending recipients in our 2021 lending sample.

Figure 1: Top 10 states by loan amount



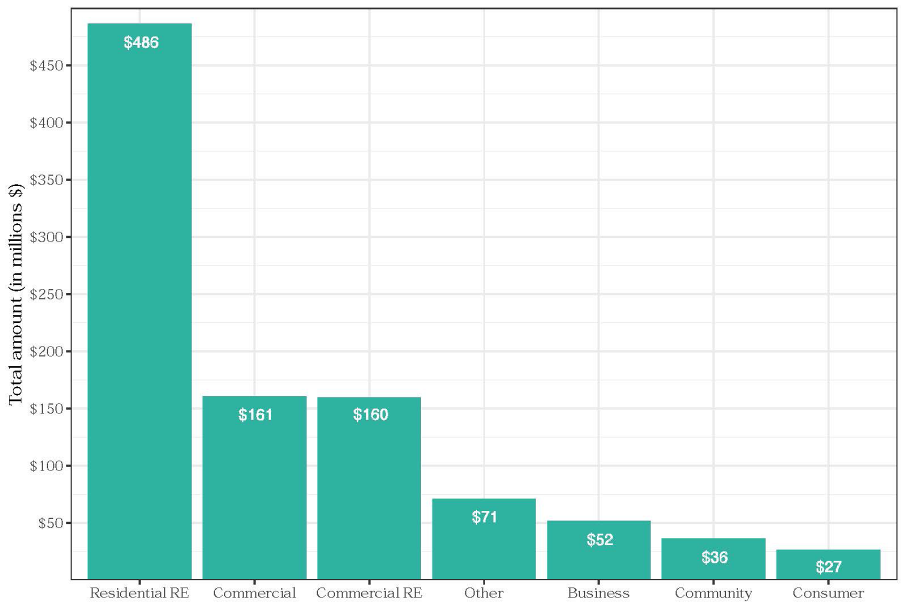
Source: National Bankers Association Foundation analysis of a sample of 2022 MDI loan

The large amount of MDI lending from our sample flowing to California may reflect the sheer size of the state, which is the nation's most populous, but it may also underscore the significant ongoing need of the state's large minority populations for mission-driven lenders. The loan volume also fits with our previous research which finds that nearly 25% of MDI bank branches are in the state of California alone.

Beyond the state view, lending dollars in our sample flowed to 1,853 zip codes and 683 distinct cities. There are 22.98 million households in the zip codes that received lending, reflecting 18.4% of U.S. households.

Prior research from the FDIC (2019) indicates that MDIs issue a greater amount of residential and commercial real estate (RE) loans (both in absolute terms and as a percentage of their lending portfolio) than do non-MDI community banks or large banks. Our lending sample is consistent with this pattern, issuing a substantially high amount of real estate loans relative to other loan products. Figure 2 below shows the fuller breakdown of lending across several main categories.[1]

Figure 2: Top lending categories by total dollar amount



Source: National Bankers Association Foundation analysis of a sample of 2022 MDI loan originations

As illustrated above, the main lending category in our lending sample was residential real estate (RE) which accounted for roughly 37% of total loan dollars. This concentration of lending is notable given that 2022 saw the overall banking sector sharply decrease its mortgage lending to the lowest levels since 2014 due to soaring home prices, higher mortgage rates, and increased home construction costs, among other factors. Parallel to this trend, 2022 saw a slight reduction in the number of mortgages to low-and-moderate income borrowers. Thus, the uptick in residential lending may reflect MDIs stepping in to provide mortgages to borrowers who might otherwise not have been able to secure one. Finally, while ”community” loans accounted for a smaller share of loan dollars, this category reflects vital lending to churches, day cares, community centers, and other important local institutions.

Demographics

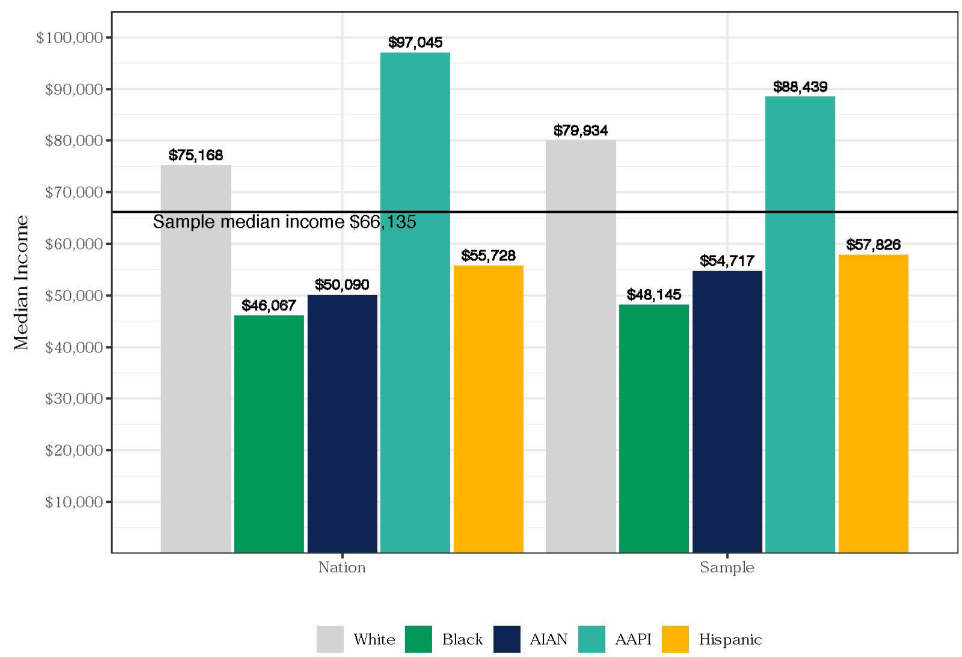
In keeping with their mission, MDIs typically locate in communities with a large minority population, and they issue a sizeable portion of their loans to minority borrowers. Similarly, MDIs typically issue a higher share of their loans to low-and-moderate income borrowers relative to non-MDI community banks and large banks. Nevertheless, we did not have access to borrower level details for the loans in our sample, and so we instead examined the demographic characteristics of the places that received lending, as a proxy for the borrowers themselves.

[1] 482 of the 4,354 loans were missing loan type information and were excluded from the loan type analysis.

Overall, 58.4% of the population in the loan geography of the lending sample is minority, more than 10 percentage points above the minority share of the total U.S. population which is 41%. More than half (53.7%) of all loans from the sample went to minority-majority zip codes, and more than 71.2% of loans went to zip codes with a greater share of minority population than the national average.

The overall median household income for all zip codes in our sample was $66,135, which is roughly comparable to the national median household income in 2022 of $68,045.[2] This likely indicates that the communities in our lending sample have a middle class that looks roughly similar in size and income levels to the nation's middle class. Median household income by race varied widely, both nationally and in our sample zip codes. As shown in Figure 3 below, median income by race of places within the lending sample were almost uniformly higher, but only marginally, than the corresponding median income levels at the national level, except for Asian and Pacific Islander (AAPI) median income which is higher at the national level than in the lending areas from the sample. Notably, Black, Hispanic, and Native (AIAN – American Indian or Alaska Native)) median income by race were all lower than the overall median income in the sample itself. This again suggests that the lending sample is well representative of the overall nation.

Figure 3: Media incomes by race lending areas vs national average



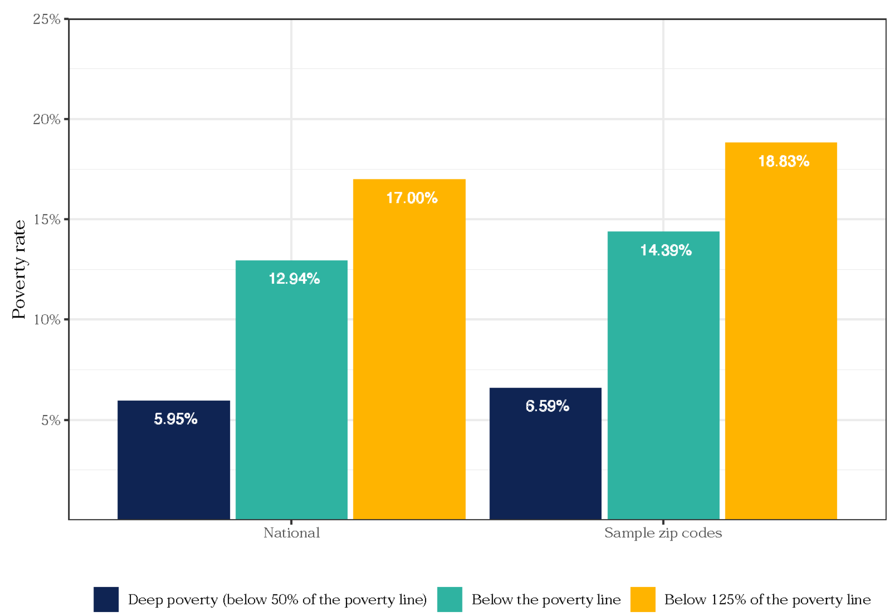
Source: National Bankers Association Foundation analysis of a sample of 2022 MDI loan originations and 2021 ACS data

While measurement at the median is useful, it is important to note that higher median income can reflect several dynamics such as the presence of a greater number of higher earners in cities which pull the median upward even if the lending itself is flowing to poorer census tracts within those zip codes or to individual borrowers who are well below the median in their annual earnings. Thus, another way of measuring how the economic health of areas in the lending sample compare to the overall nation is to examine rates of poverty.

[2] This national median income number is lower than the Current Population Survey's reported $70,784 because we need to use Pareto Interpolation for our sample's median, and, for symmetry, also use it for the national median.

Zip codes that received lending from our sample have populations with higher percentages of poverty relative to the nation. As shown in Figure 4 below, this is true across three different measures of poverty: (1) the federal poverty line, (2) 50% under the poverty line which is considered deep poverty and demonstrates extreme financial hardship, and (3) 125% of the poverty line which indicates households that are only slightly above the federal line but who still experience financial hardship and economic vulnerability.

Figure 4: Poverty rates in MDI lending areas vs national average



Source: National Bankers Association Foundation analysis of a sample of 2022 MDI loan originations and 2021 ACS data

Zip codes with a poverty rate higher than the national average (measured using the more inclusive 125% statistic) account for 2,508 loans and $488 million. Put differently, zip codes with above average poverty received more than half (57.6%) of all loans and nearly half (46.4%) of all loan dollars from the sample. Thus, combining the insights from analysis of median income and poverty, communities in our lending sample have average levels of household income for the middle class, but have a higher share of their population that is beneath middle-class income than the overall nation. Median and poverty stats together tentatively show that MDIs reach both middle class and low-income communities in different ways.

When further disaggregating rates of poverty and household income by race, we find that places that are 51% or greater Black or Hispanic have much higher poverty rates (measured at 125% of the poverty line), 26.8% and 25.2%, respectively, and lower median household income, $48,779 and $55,536, respectively, relative to places that are 51% or greater white which had 13.8% poverty and $77,047 median income. Of note, none of the zip codes in our lending sample were 50%+ American Indian and Alask Native (AIAN) or Asian Americans and Pacific Islanders (AAPI).

Tables 1: Poverty and household income by majority race zip code

Race	Percent below 125% of the poverty line	Median household income
White majority zip code	13.8%	$77,047
Black majority zip code	26.8%	$48,779
Hispanic majority zip code	25.3%	$55,536

Demographic data around minority share, poverty rate, and median household income also varied widely based on loan product. For example, zip codes that received consumer loans were 53.7% minority, with 19.3% living 125% below the poverty line, and with a median household income of $63,170. Whereas zip codes that received commercial real estate loans were more heavily minority (60.2%) and had slightly higher poverty (19.9%) and slightly higher median household income ($65,848).

Tables 2: Loan types and demographics

Loan type	Number of loans	Total $ amount (in millions)	Minority	Poverty rate	Median income
Residential RE	568	$486	64.6%	19.4%	$68,444
Commercial	188	$161	57.4%	18.6%	$66,160
Commercial RE	214	$160	59.9%	20.0%	$65,427
Other	97	$71	70.9%	18.3%	$66,535
Business	63	$52	62.9%	18.4%	$71,792
Community	21	$36	69.1%	23.8%	$57,553
Consumer	2,721	$27	58.7%	19.0%	$64,656

Notably, when disaggregated in this manner, it is clear that each loan type went to places with poverty rates and minority shares above the national average, indicating that the findings from earlier about the aggregate performance do not reflect skew by any specific loan product. This table also underscores that consumer loans account for the greatest volume of loans but the least amount of loan dollars – reflective of the fact that consumer lending typically reflects small dollar loans to help cash-strapped households deal with unexpected expenses.



Finally, demographic data at the zip code-level also varied widely by state. For example, the minority share in lending areas is highest in California (80.2%) and lowest in Connecticut (39.7%), and the poverty rate is highest in Louisiana (27%) and again lowest in Connecticut (12%.) The following table shows the full demographic data for the top 10 states based on received loan dollar amounts.

Tables 3: Demographics of top 10 states by loan amount

State	Number of loans	Total $ amount (in millions)	Minority	Below 125% of the poverty line	Median income
CA	515	$283.97	80.2%	21.4%	$68,394.05
NY	194	$170.61	66.1%	21.2%	$71,249.80
GA	437	$93.57	70.3%	18.8%	$64,013.97
DC	50	$84.36	75.7%	24.1%	$75,663.50
FL	309	$72.05	71.6%	22.4%	$55,341.12
LA	444	$60.04	68.4%	27.0%	$47,663.84
NC	287	$59.57	56.3%	17.6%	$64,183.62
SC	495	$36.61	37.8%	16.8%	$63,383.88
TX	302	$36.31	65.8%	15.5%	$75,278.04
CT	42	$21.79	39.7%	12.8%	$80,838.66

MDIs in our lending sample issued a majority of their loans to zip codes with a greater minority share and higher poverty rate than the national average

The variation by state in terms of the lending sample likely corresponds to broader state-level demographic composition. Thus, it is imperative that individual banks be contextualized within the states that they serve when further evaluating social impact or in making peer-based comparisons. Nevertheless, the table again confirms that the aggregate statistics around percentage share of loans being dispersed to marginalized communities is geographically balanced rather than reflecting the impact of one or more states receiving an outsized amount of lending.

In summary, our analysis finds that in alignment with their mission to serve marginalized communities, the MDIs in our lending sample issued a majority of their 2022 loans to zip codes with a greater minority share and higher poverty rate than the national average, and this is true across all loan types and across nearly all states that received lending. Thus, while our sample size is admittedly small, our findings fit with the broader expectations of how the MDI sector excels at deploying capital and credit to underserved communities.

Conclusion

In this analysis, we have sought to demonstrate how MDIs serve marginalized communities. We believe that our findings highlight the significance of MDIs as key institutions engaged in the work of closing the racial wealth gap. In 2022, our MDI samples issued a substantial amount of residential real estate loans at a time when the broader mortgage market was contracting, and home construction costs were surging – thus helping borrowers build wealth through homeownership. Similarly, it is likely that the small dollar consumer loans helped stabilize households facing unexpected expenses or struggling to keep up with inflation, the business loans helped entrepreneurs grow their businesses, and the community-based financing loans helped ensure that community organizations continue to thrive in the neighborhoods that rely on them.

MDIs and other community lenders will remain important sources of stability and opportunity for vulnerable households and communities.

Looking ahead, we note several important macro trends including increased credit tightening around loans and credit cards, deflated pandemic-era savings, and continued concern that the U.S. could face an imminent mild recession. Amid these trends, we believe that MDIs and other community lenders will remain important sources of stability and opportunity for vulnerable households and communities. And as the sector continues to develop its balance sheet health including by growing its Tier 1 capital and attracting new deposits, we fully expect to see increased lending opportunities and look forward to witnessing the ongoing social impact of that lending activity.

In future research planned for 2024 and beyond, we plan to build upon this growing body of knowledge by analyzing 2023 loan transactions, reporting on the financial health of low-income and minority households, outlining capital needs and opportunities for minority entrepreneurs, and exploring pathways into climate finance for mission-driven financial institutions. Ultimately, we hope to aid policymaker, corporate partners, and other key stakeholders in their efforts to understand and support mission-driven financial institutions and the communities they serve.

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