Home Biased Credit Allocations

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This version: 19 September 2018

Abstract

Banks make more lending and open more branches near their CEO's birthplace. This reflects hometown favoritism rather than information advantages: the effect is stronger among altruistic CEOs, in struggling counties, and among marginal mortgage applicants. Furthermore, while hometown favoritism does not affect the bank's profitability, it leads to positive economic outcomes in counties exposed to greater favoritism. Together, our results suggest home favoritism as one channel that deepens credit inequality.

JEL Classification: D91, G3, G21, G41
Keywords: CEOs, geography, home bias, banks, lending

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1. Introduction

One of the most fundamental questions in economics concerns how bank allocates its credit and whether such allocation is efficient. This question is extremely important as bank credit triggers economic growth, encourages social progress and, at the same time, deepens inequality. Assertions of bias in credit allocation have stretched back to the 1970s, with a rich literature demonstrating that various characteristics of borrowers (e.g., Ravina, 2018) and credit officers (e.g., Chen, Moskowitz, and Shue, 2016; Cortes, Duchin and Sosyura, 2016) could distort the allocation of bank credit. In this paper, we uncover a novel home bias effect in credit allocation policies *within* banks and find that it has real effects on the local economy and contributes to deepen credit inequality.

Specifically, we focus on the childhood origin of bank CEOs, hypothesizing that a CEO's emotional connections to their hometown communities make them more likely to implement lending policies that favor their hometown areas over others. Our hypothesis is grounded in the psychological concept of *place attachment*, which argues that an individual's birthplace could form a key portion their personal identity (Proshansky, 1978) and motivate them to invest time and money in the welfare of residents in their place of attachment (Manzo and Perkins, 2006; Vaske and Kobrin, 2001; Yonker, 2017b).

CEOs could influence mortgage lending in at least three ways. First, CEOs could implement policies to open more branches near their hometown areas, which would naturally lead to an increase in local lending (Nguyen, 2018). Second, as CEOs regularly review the performance and occasionally intervene the operations of individual branches, CEOs' preferences with respect to hometown lending can be conveyed to local branch managers and shape local lending behavior. Finally, CEOs could influence local lending by nominating, for instance, pro-community acquaintances as local branch managers.

To examine our hypothesis, we hand-collect data on the CEO's birth county and birth state from multiple sources, including NNDB, Marquis Who's Who, *ancestry.com*, and CEO appointment announcements. This allows us to identify the precise birth county for 485 out of 906 CEOs (54%), who work for 369 publicly-listed banks between 1999 and 2014.[1]

Our empirical strategy exploits within-bank variation in the proximity between the bank CEO's birth county and the county where lending and branching decisions take place. To do so, we exploit loan-level data from the Home Mortgage Disclosure Act (HMDA) and branch-level data from the FDIC's Summary of Deposits database. The granularity of the data enables us to include bank and county-year fixed effects in all regression specifications, meaning we compare lending decisions of the same bank in the same year between two otherwise identical counties but are different by the distance to the CEO's birth county. This within-bank approach differences out any time-invariant bank characteristics that could explain a CEO's preference to join a particular bank (see Fee, Hadlock and Pierce (2013)) and therefore, greatly reduces concerns about CEO-bank matching. In addition to these fixed effects, we also control for other bank, loan, CEO characteristics as well as ln distance to the bank headquarters to isolate the CEO's hometown favoritism effect from the bank HQ effect.

We find that, within the same bank, counties located nearer to the CEO's hometown enjoy higher mortgage origination volume, mortgage origination growth, mortgage approval rate, and a greater access to bank branches compared to counties located further away. The effects are both statistically significant and economically meaningful. A one standard deviation reduction in the ln distance to a CEO's hometown is associated with 5% higher loan origination and 14% more bank branches. Moreover, this effect is stronger for CEOs who complete an

[1] This is a significant improvement over Bernile, Bhagwat, and Rau (2017) who are able to identify birth locations for about 30% of CEOs in the S&P1500 sample. In Appendix IA 2, we show that our results are robust to us performing our regressions based on a Heckman's (1979) two-step procedure to address the self-selection concern that CEOs whose birth county cannot be identified are dropped from the sample.

undergraduate degree in their birth state, consistent with the idea that individuals who spend more time in their birthplace tend to develop deeper connections to their hometown.

While it is intuitive to expect that CEOs influence local lending, a direct test to demonstrate such effect is nearly impossible. As a result, we indirectly show this by examining changes in bank lending in response to severe natural disaster events. The idea is that, as natural disasters cause a surge in credit demands in affected areas and put an immediate pressure on banks to increase lending (Cortes and Strahan, 2017), CEOs need to decide whether to reallocate credits to support areas affected by the disaster. Given the urgency of the situation and that credit reallocation is costly, the CEO is likely to make the decision herself. Consistent with CEOs being more willing to assist their hometown communities, we observe a greater increase in lending in response to natural disasters that occur closer to the bank CEO's hometown compared to those that occur further away.

Next, we employ multiple strategies to bolster our confidence in a causal interpretation of the results. The major endogeneity challenge is the endogenous matching of CEOs to banks. For example, banks with a plan to expand to California could be more likely to appoint a California-born CEO and, at the same time, implement strategies to open more branches and increase lending in California. Since bank fixed effects are included in all models, we already account for endogenous matching based on time-invariant bank characteristics.

To further assess whether our results are driven by CEO-bank matching, we focus on a subsample of banks with CEO turnover events that are caused by either the death, illness, natural retirements of the outgoing CEO or by a pre-announced CEO succession plan. While the selection of the incoming CEO is unlikely to be random, this set-up introduces useful variation by creating the need for the board to replace a CEO for reasons unrelated to local mortgage lending (see Bushman et al. (2018); Dittmar and Duchin (2016)). We also create a second, smaller subsample of CEO turnovers with restrictions on both the outgoing and

incoming CEO. Specifically, in addition to the exogenous criteria imposed on the outgoing CEO, we require the incoming CEO to be a bank's insider prior to his/her CEO appointment. Internal candidates are often groomed for the CEO position over a long period and therefore, their appointment typically signals a continuity in the bank's policies. We find that our core results continue to hold across all outcome variables in both subsamples, which reduces concerns of endogenous matching.

Furthermore, as our main explanatory variable is at the CEO-level, there is a concern that it could reflect some omitted CEO characteristics. We show that our results remain the same after we control for a battery of CEO-level variables (e.g., CEO education, personal and professional experience, compensation) as well as firm-level governance variables (fraction of outside directors on the board and G-index), which mitigates concerns about omitted variables.

While the evidence so far is consistent with the hometown attachment explanation that CEOs are systematically place attached and therefore, want to help their hometown communities, there are alternative explanations based on information and agency motivations. Under the information explanation, the higher lending and branch opening effects are driven by a CEO's superior information about their hometown. For example, CEOs may obtain information about local business conditions from friends and family who still live and work in the area (Pool, Stoffman, and Yonker, 2012). This improved access to information would naturally lead to a greater and more efficient allocation of credit to areas closer to the CEO's hometown (Agarwal and Hauswald, 2010). Therefore, if hometown lending takes place due to information advantages, this should lead to positive bank outcomes.

In contrast, under the agency explanation, CEOs implement policies to open more branches and lend more in their hometown areas to extract private benefits (such as gaining recognition within their community, personal awards, or local directorships) at the expense of

bank shareholders (Jensen and Meckling, 1976). Thus, if hometown lending is driven by agency motivations, it should be associated with negative bank outcomes.

Lastly, CEOs could implement policies that favor their hometown communities as a result of hometown attachment. The idea that people gravitate toward familiar places, such as their hometown, is well-grounded in the psychology concept of place attachment (Hernandez et al., 2007; Low and Altman, 1992). Place attachment could form a key portion of an individual's personal identity (Proshansky, 1978) and motivate them to invest time and money in the welfare of residents in their place of attachment (Manzo and Perkins, 2006; Vaske and Kobrin, 2001). Importantly, while the hometown attachment explanation also implies private utility for the CEO (feeling good about helping their hometown communities), what separates this from the agency argument is that shareholders are not harmed by the CEO's actions. Under this explanation, the performance effect linked to hometown lending should be insignificant.

Overall, we find strong empirical support for the *hometown attachment* explanation. First, the fraction of mortgage lending in the CEO's hometown state cannot explain a bank's total lending (total loans/total assets), loan performance (bad loans/total loans), profitability (ROA), and shareholder wealth (annual stock returns), implying that the performance effect of hometown lending is negligible. The non-results on total loans/total assets imply that CEOs do not expand total lending to accommodate greater hometown lending. Instead, lending is reallocated from counties located further away to counties proximate to the CEO's birthplace, and, on net, this reallocation does not affect shareholder wealth.

Second, we find that the hometown favoritism effects concentrate among CEOs whose cultural heritage places a greater emphasis on patriotism, selflessness, humane-orientation, and

collectivism.[2] These CEOs are more altruistic and believe that investing in their hometown is a way to contribute back to their community.[3]

Third, the hometown favoritism effects are stronger among poorer, female, and non-white mortgage applicants,[4] who typically face a higher barrier to obtain a loan. Thus, an extra favor from the CEO would help them secure mortgage credit and purchase houses. This implies that CEOs implement policies to favor their hometown because they care about the welfare of residents in their hometown communities.

Finally, we also detect the home favoritism effects in small business lending where counties located closer to the CEO's hometown enjoy a higher small business loan origination growth compared to counties located further away. Intriguingly, this effect is only detected among smaller loans (amount below $250,000) but not the larger ones (above $250,000). Thus, while CEOs implement policies that favor their hometown, they are mindful about not going overboard with their favoritism. This result is at odds with the information and agency explanations and further supports the hometown attachment interpretation.

We conclude by showing that a CEO's hometown favoritism is beneficial to residents near the CEO birthplace. Specifically, counties with a greater exposure to hometown lending enjoy a significantly higher personal income per capita and a lower unemployment rate. However, a different way to interpret our results is that, if a county is (unlucky enough) to have a lower exposure to favoritism, it would have to unfairly experience lower economic developments. Thus, home favoritism may contribute to deepen economic inequality.

[2] As we are unable to directly observe a CEO's degree of altruism, we infer a CEO's values based on their cultural heritage. This is based on Nguyen, Hagendorff and Eshraghi (2018), who find that bank CEOs exhibit distinct behavior based on the country from which their ancestors immigrate from. Hence, we infer a CEO's level of altruism based on their inherited cultural values.

[3] These findings are particularly at odds with the agency explanation. Under the agency explanation, we should observe the hometown favoritism effects to be stronger for individualistic CEOs.

[4] As CEOs in our sample are predominantly white male, the fact that the favoritism effect is stronger for female and non-white applicants point to a general placement attachment interpretation rather than a discrimination-based interpretation (Becker, 1957).

Overall, the central contribution of our paper is to provide micro evidence on the effects of home bias on a firm's production *outputs* (i.e., bank credit). This forms the basis to quantify the economic effects of home bias on the real economy, uncovering a novel channel of credit inequality. Finally, to our knowledge, we are one of the first studies to uniquely disentangle between the competing hypotheses of home bias and information advantages.

2. Related literature and contributions

Our paper connects three emerging literatures: economic effects of home bias, behavioral factors that influence economic decisions, and the idiosyncratic style of CEO. The home bias literature mostly focuses on investor behavior. While this literature is largely in agreement that investors prefer proximate stocks over others, it offers conflicting explanations on the economic mechanisms behind the effect. For instance, while Coval and Moskowitz (1999) and Ivkovic and Weisbenner (2005) argue that home bias reflects the information advantages of investors, Pool, Stoffman, and Yonker (2012) find no such advantage to local investing. More recently, the home bias literature also expands to corporate-level decision making, including employment policies (Yonker, 2017b) and mergers and acquisitions (Chung, Green, and Schmidt, 2017; Jiang, Qian, and Yonker, 2017) and, again, find conflicting evidence supporting both rational and behavioral components of the bias. Most related to us is a study of Yonker (2017b) who finds that, following periods of industry distress, CEOs are less likely to fire employees working in establishments near their hometown and concludes that such favoritism is suboptimal.

The key difference in our study is that we identify an effect of home bias on a firm's production *outputs* (i.e., bank credit) as opposed to its production inputs (e.g., employees). Indeed, we show that the home favoritism effects extend beyond internal favoritisim to benefit the wider community where the CEO grows up in. Furthermore, focusing on outputs allows us

to gauge the economic effects of home bias on the real economy. Finally, the richness of our tests enables us to uniquely disentangle between the different explanations behind the effect and strongly support the altruistic hometown attachment channel over the information and agency channels.

Our study also contributes to the literature that studies behavioral factors that influence credit allocation. The prior literature shows that credit officers may reject a loan application because the applicant is physically unattractive (Duarte, Siegel, and Young, 2012), or simply because the credit officers are in a bad mood (Cortes, Duchin, Sosyura, 2016) or have an urge to reject some applications following a sequential streak of approvals (Chen, Moskowitz, and Shue, 2016). Our paper extends this literature by uncovering a new factor –CEO geographical origin– that leads to bias in credit allocation. Unlike other characteristics which may cancel out on average, home favoritism is a *systematic* bias and therefore, produces a significant real effect on the local economy.

Finally, our study is related to the literature that studies the impact of CEO attributes on corporate outcomes. Various studies have found that CEO's life experience (Bernile, Bhagwat, and, Rau, 2017; Cronqvist and Yu, 2017), career experience (Custodio and Metzger, 2014; Dittmar and Duchin, 2016; Schoar and Zuo, 2017) matters for corporate decisions. While these studies focus on firm-level outcomes, we show how a CEO's geographic origin explains heterogeneity in the production outputs *within* the firm.

3. Sample and variable construction

3.1 Sample construction

To construct our sample, we combine several data sources: (1) Calls Report (FR-9YC forms), (2) BoardEx, (3) hand-collected CEO's birth county and birth state; (4) Home Mortgage

Disclosure Act (HMDA); and (5) Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits (SOD).

First, we obtain a list of all publicly-listed US banks with available accounting data from Call Reports (FR Y-9C forms) provided by the Federal Reserve Bank of Chicago. Second, we identify CEOs of these banks from the BoardEx database. BoardEx provides detailed biographical and employment information on board members and top executives of almost all publicly-listed US firms. Since BoardEx begins its full coverage in 1999, our sample period is 1999-2014.

Third, the data on CEO's birth county (and state) are hand-collected from various sources. We start with NNDB.com and Marquis Who's Who, which have available birth data for CEOs of the largest firms. If we cannot obtain birth data this way, we perform extensive Google searches using keywords of "CEO full name + native of" and/or "CEO full name + born". This process allows us to manually identify birth information for a large number of CEOs from multiple sources, mostly from CEO appointment announcements, as well as SEC filings, school donations, charity events, biographies, interviews and obituaries. As a last resort, we use *ancestry.com* to search for a CEO's birth and marriage certificates, where birth information is occasionally included. In total, we are able to identify the birth county and birth state for 485 out of 906 CEOs (54%), who work for 369 banks out of 738 banks (50%) in our sample.[5] This is a significant improvement over Bernile, Bhagwat and Rau (2017), who are able to identify birth information for about 31% of CEOs in the S&P1500 sample.

[5] To account for potential self-selection arising from the fact that we lose 46% CEOs whose birth county cannot be identified precisely, we use a standard Heckman two-step procedure (1979) and display the robust results in Appendix IA 2. This procedure ensures that our conclusions regarding the effects of CEO's hometown favoritism are not driven by unobservable factors that make sample inclusion more likely. The first step of the Heckman procedure estimates the probability that banks are included in our sample using data on banks included and banks we are unable to include in our sample due to missing CEO's birth county data. The second stage of the Heckman procedure (as shown in Appendix IA 2) include *Lambda* which contains information from the first step to control for unobservable factors which make sample inclusion more likely. Our results remain qualitatively similar when we control for the self-selection bias.

An advantage of our approach is that it contains information on the location where the CEO was actually born. Other studies (e.g., Yonker, 2017a) rely on the CEO's Social Security Number (SSN) to infer their location of birth. Since most SSNs are obtained at the ages between 14 and 17, inference of one's birthplace based on their SSN can be noisy due to the possibility of family relocations. In Appendix A2, we display the number and percentage of bank CEOs according to their birth states. The distribution of bank CEOs according to their birth state is strongly correlated with the state's population, implying that our sample of bank CEOs is evenly drawn from the state's population.

Fourth, we match this bank-level dataset to the Home Mortgage Disclosure Act (HMDA) database collected by the Federal Financial Institutions Examination Council (FFIEC). HMDA is a loan-level dataset that covers all mortgage applications that have been reviewed by qualified financial institutions. Specifically, an institution is required to disclose any mortgage lending under HMDA if it has at least one branch office in any metropolitan statistical area and meets the minimum size threshold. In 2006 (the median year in our sample), this reporting threshold is $36 million in book assets.[6] Because of this low reporting threshold, all banks in our sample are included in the dataset.

Each loan application in the dataset provides borrower demographic characteristics (e.g., income, gender, and race), loan characteristics (e.g., loan amount applied for and its purpose), property characteristics (e.g., type and geographical location), decision on the loan application (e.g., approved, denied, or withdrawn) and the year the application of the loan was made. The HMDA data also contain a lender's identifier, which allows us to match to call reports data.

Following Gilje, Loutskina, and Strahan (2016), we collapse the loan-level data to a bank-county-year level dataset. This reduces computational complexity while retaining

[6] HMDA reporting criteria's can be found at https://www.ffiec.gov/hmda/reporterhistory.htm

important variations across banks and geographies. We also follow the prior literature and drop applications that were closed for incompleteness or withdrawn by the applicant before a decision was made and winsorize loan amount and applicant income at the 2.5% right tail to minimize the effects of outliers. Finally, we match our bank-county-year dataset to a list of branches of US banks obtained from the FDIC's Summary of Deposits database.

3.2 Outcome variables

To test for our CEO's hometown favoritism hypothesis, we use four outcome variables to measure a bank's willingness to open branches and supply mortgage credit and in a given county.

The first dependent variable, *ln(originated loan),* is the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year. The second dependent variable, *Δln(originated loan),* is the percentage change in mortgage originations[7] by a bank in a given county relative to the prior year. Estimating the model in growth rates allows us to difference out lending for a bank-county relative to the prior year which controls for bank-specific fluctuations in demand for mortgages over the sample period.

Our third dependent variable, *Approval rate,* is the number of mortgage applications approved divided by the total number of applications received by a bank in a given county in a given year. The key advantage of this dependent variable is that it normalizes the number of approved applications by loan demand a bank receives in a county-year, and thus account for significant demand-related variations arising from the fact that there are very high demands for mortgage originations across the US in the period of 1999-2006, followed by a crash later during the 2007-2010 financial crisis (Gilje, Loutskina, and Strahan, 2016). Holding other loan

[7] Mortgage origination is the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year.

and applicant characteristics constant, *Approval rate* measures a bank's willingness to supply mortgage credit in a county-year. Our final dependent variable, *ln(branch)*, is the natural logarithm of the number of branches a bank has in a county in a year.[8]

[Table 1 around here]

Table 1 provides summary statistics on these outcome variables as well as other variables used in our study. Overall, the summary statistics are in line with those reported in the previous literature (e.g., Agarwal et al., 2012; Cortes, Duchin, and Sosyura, 2016). The average approval rate is 69.3%, meaning 7 out of 10 mortgage applications are approved in an average bank-county-year. The average borrower earns about $89,940 per year and applies for a mortgage loan of $124,700. The average growth rate in mortgage originations is approximately –6%, which is perhaps driven the large lending reduction during the 2007-2009 financial crisis.

3.3 Explanatory variable

Our main explanatory variable is *Ln(dist. Hometown)*, the natural logarithms of the physical distance (in kilometres) between a CEO's birth county and the county in which the branching and mortgage origination decisions take place.[9] The key advantage of this variable is that it captures the entire spectrum of a CEO's hometown attachment. To illustrate, consider Mr. James E. Rohr, the former CEO of *PNC Financial Services Group Inc*, who was born in Cleveland, a city located in Cuyahoga County, Cleveland-Elyria Metropolitan Statistical Area (MSA), Ohio state. *PNC* is headquartered in Allegheny County (PA) and has operations in multiple counties across the US, including Lake County (OH) and King County (WA). While Lake County (OH) is only 50 km away from the CEO's hometown, King County (WA) is more

[8]As it takes some time for a bank branch to be constructed, there should be a lag between the CEO's order to build a new branch and the branch being put into actual use. Therefore, we forward the dependent variable *ln(branch)* by one year.

[9]Geographic coordinates (longitude and latitude) are obtained from the US Census (2014) Gazetteer.

than 3,000 km away. Furthermore, Lake County (OH) also shares more commonalities with the CEO's hometown relative to King County (WA). Therefore, we expect that the CEO would identify Lake County (OH), rather than King County (WA), as his 'hometown'.[10]

The median distance between a CEO's birth county and the county in which the mortgage originations and branching decisions take place is around 950 km (Table 1). There is also substantial heterogeneity in the distance to a CEO's birth county, with the standard deviation being 1,200 km.

4. Empirical Results

4.1 Methodology

We examine a bank's branching and mortgage origination decisions in counties near the CEO's birthplace. The dataset is constructed at the bank-county-year level. We estimate the following equation:

$$Y_{ikt} = \alpha_{ikt} + \beta_1 Ln(dist.\ hometown)_{ikt} + Loan\ Controls_{ikt} + Bank\ Controls_{it} + Bank\ FE + County\text{-}Year\ FE + \varepsilon_{ikt} \quad (1)$$

where i indexes bank, k indexes county, and t indexes year. Y_{ikt} is one of the following three bank-county-year outcomes: *ln(originated loan), Δln(originated loan), Approval rate, ΔMortgage Originations,* and *ln(branch)*. The key explanatory variable, $Ln(dist.\ hometown)_{ikt}$, is the natural logarithms of the physical distance (in kilometres) between a CEO's birth county and the county in which the mortgage origination and branching decisions occur. If CEOs indeed favor areas near their hometown communities, the estimated coefficient β_1 should be

[10] While we cannot completely rule out the possibility of neighbor rivalries, i.e., two adjacent regions develop a dislike for each other, we believe this would be averaged out on a large sample. For robustness, we also create *Hometown state*, a dummy that equals one if the CEO's birth state and the state in which the mortgage originations and branch decisions take place is the same. We obtain consistent inferences using this alternative definition.

significantly negative, indicating that counties located further away from the CEO's hometown exhibit lower levels of mortgage origination, mortgage growth rates, mortgage approval rates, and fewer branches compared to the nearer counties.

All regression specifications in the paper include bank and county-year fixed effects. The inclusion of bank fixed effects absorbs all time-invariant bank-specific omitted factors, allowing us to compare the mortgage and branching decisions of the *same* bank across different counties depending on the distance between the county and the CEO's hometown. Furthermore, having bank fixed effects also controls for potential CEO-bank matching based on time-invariant bank characteristics (see Custodio and Metzger (2014)).

The inclusion of county-year fixed effects removes all time-varying county-level factors, including demographic, social, economic as well as demand-side factors related to local business cycles, industry consumption, and housing demand (Gilje, Loutskina, and Strahan, 2016). In addition, county-year fixed effects also control for the possibility that our results are driven by staggered changes in state laws or regulations, such as foreclosures or anti-predatory lending laws, which could affect mortgage origination behavior across different geographical locations (Agarwal et al., 2014; Di Maggio and Kermani, 2017).

With these fixed effects in place, our regressions are identified by two sources of variation: (1) varying distance between a CEO's hometown to different counties; and (2) changes in the distance between the CEO's hometown and a given county as a result of CEO turnover within the same bank.[11] Thus, the coefficient of interest β_1 compares the mortgage and branching decisions of the same bank in the same year in two identical counties but vary only by distance to the CEO's hometown.

[11] To illustrate, Mr William Demchak (born in Pittsburgh, Pennsylvania) replaces James E Rohr (born in Cleveland, Ohio) in 2013 as CEO of PNC Financial Services Group Inc. This produces a change to the distance between the CEO's hometown and a given county. For instance, while Lake County is 50 km away from the outgoing CEO James E Rohr's birthplace but is 213 km away from the new CEO William Demchak's birthplace.

Our model includes several control variables. Most importantly, all regression specifications include *Ln(dist. HQ*), the natural logarithm of the physical distance between a bank's headquarter (HQ) and the counties where the mortgage and branching decisions take place. This is to account for the possibility that branches located further away from the bank's HQ may receive less attention from HQ (Giroud, 2013) and thus, exhibit a different behavior. We also include other controls for bank and borrower characteristics. The vector *Bank controls*$_{it}$ contains *Ln (Assets), Leverage, ROA, Deposits/Assets*, and *Loans/Assets*. The vector *Borrower controls*$_{ikt}$ contains *%female applicants*, *%minor applicants* and *Loan/Income*. The inclusion of the borrower's loan-to-income ratio controls for the riskiness of the loan (a higher ratio implies that the loan is riskier as borrowers are less able to use their income to repay the loan). See Appendix A1 for variable definitions.

4.2 Baseline results

In this section, we examine how a bank's mortgage origination (Columns (1)-(3)) and branching decisions (Column (4)) vary with the distance to its CEO's hometown. Panel A of Table 2 displays our baseline results.

[Table 2 around here]

Across all outcome variables, the coefficient estimates on *Ln(dist. hometown)* are negative and statistically significant well below the 1% level. This indicates that, within the same bank, counties located nearer to the CEO's hometown enjoy higher mortgage origination volume (Column 1), higher mortgage origination growth (Column (2)), higher mortgage approval rate (Column (3)), and greater access to bank branches (Column (4)) compared to counties located further away. The effects are economically non-negligible. For instance, the magnitude of the coefficients in Columns (1)-(2) indicates that a one standard deviation reduction in ln distance to the CEO's hometown is associated with a 5% (21%) higher nominal

(growth) mortgage loans.[12] In addition, counties located closer to the CEO's hometown also enjoy a greater access to bank branches, with a one standard deviation reduction in *Ln(dist. hometown)* being associated with 14% more bank branches. As we argue later, opening branches is an important channel through which CEOs influence lending decisions near their hometown.

In Panel B of Table 2, we show that the CEO's hometown favoritism effect dissipates with distance. Across all outcome variables, the magnitude of the estimates erodes significantly as we move further away from the CEO's birthplace county. The sharpest drop is observed when we move from a 200 km to a 400 km radius, suggesting the hometown attachment effect is highly local. In Appendix IA 1, we use an alternative definition of a CEO's hometown attachment, *Hometown state*, a dummy that equals one if the CEO's birth state and the state in which the mortgage and branching decisions take place are the same. Consistent with the main results, we find that the CEO's birth state enjoys greater mortgage volume, higher mortgage growth rates, higher approval rates and have more branches compared to other states.

4.3 Sources of CEO influence on mortgage lending

So far, we find that counties located nearer to a CEO's hometown enjoy more lending and branch openings compared to those located further away. In this section, we explore how CEOs influence mortgage lending decisions, which tend to be made locally by credit officers.

CEOs could influence mortgage lending in at least three ways. First, as we show earlier in Table 2, CEOs could implement policies to open more branches near their hometown areas, which would naturally lead to an increase in local lending (Nguyen, 2018). Second, as CEOs regularly review the performance and occasionally intervene the operations of individual

[12] 5% is obtained by (-0.244*1.089)/5.47 while 21% is obtained by (-0.012*1.089)/0.0616.

branches,[13] CEOs' preferences with respect to hometown lending can be conveyed to local branch managers and shape local lending behavior. Finally, CEOs could influence local lending by nominating, for instance, pro-community acquaintances as branch managers.

As a test to demonstrate CEOs' influence on local lending decisions, we examine changes in bank lending in response to severe natural disasters events. The idea is that, as natural disasters cause a surge in credit demands in affected areas and put an immediate pressure on banks to increase lending, CEOs need to decide whether or not to reallocate credits to support areas affected by the disaster. Such decision can be costly, as banks need to cut lending from the unaffected markets as well as to sell their liquid loans to have enough liquidity to increase lending (Cortes and Strahan 2017). Given its stake, the CEO is likely to have a significant input or has to make the decision herself. We hypothesize that, if CEOs are systematically place attached, they would be more likely to increase lending when the disaster affects their own hometown communities.

To test for this, we use data from the Spatial Hazard Events and Losses Database for the US (SHELDUS) constructed by the University of Carolina for the period between 1960 to 2016. This is a county-level dataset that contains the date, type (e.g., wildfire, earthquake, hurricane), and severity of the disaster (e.g., fatalities, property losses) as well as locations of affected counties. Using this dataset, we create a variable *Disaster severity*, the number of fatalities divided by the county population, to measure the severity of the disaster. Our coefficient of interest is the interaction term *Ln(dist. Hometown)* Disaster severity*.

[Table 3 around here]

[13] If the CEO believes that, for instance, a specific branch is growing too fast which could attract the attention from regulators, s/he may intervene by raising the concerns directly to the branch manager. While such communications are infrequent, CEO's preferences (e.g., whether the branch is encouraged to continue pursuing aggressive lending) can be learnt by local branch managers and thereby shape local lending behavior. This is consistent with survey evidence from Graham et al (2018) that CEO values are communicated top-down and influence the behavior of local employees. We thank an anonymous bank CEO for insights into the branching and mortgage origination processes.

Consistent with our priors, Table 3 indicates that banks are more likely to increase lending in response to natural disasters that occur closer to the CEO's hometown relative to those that occur further away. Thus, CEOs are more willing to reallocate lending to assist their hometown communities to recover faster from the disaster. Importantly, as CEOs are likely to make the lending reallocation decision themselves, the results allow us to attribute the hometown favoritism effect to the CEO.

5. Identification

In this section, we employ multiple strategies to bolster our confidence in a causal interpretation of the baseline results. The main endogeneity challenge we face is the endogenous CEO-bank matching problem. The second concern is the omitted variable problem, i.e., some variables unobserved or inadequately controlled for can be correlated with both the distance to the CEO's hometown and the bank's mortgage and branching decisions. Lastly, there is also a concern about potential measurement errors related to our distance to CEO hometown variable.

5.1 Addressing CEO-bank matching

Since our regressions include bank fixed effects, the CEO's hometown favoritism effect is identified via changes in CEOs *within* the same bank. One concern with this approach is that CEO turnovers may be driven by changes in bank characteristics that also affect branching and mortgage decisions near the CEO's hometown. For instance, banks with a plan to expand to California could be more likely to appoint a California-born CEO and, at the same time, implement strategies to open more branches and increase lending in California. Therefore, relying on these turnovers for identification could cause us to over-attribute the hometown lending effects to the CEO (Fee, Hadlock, and Pierce, 2013).

To mitigate concerns related to bank-CEO matching, we focus on a subsample of banks that experience changes in their CEOs for plausibly exogenous reasons. For instance, if the incumbent CEO unexpectedly passes away, this would force the board to appoint a new CEO. Since the board cannot anticipate a CEO's sudden death, the timing of this turnover event is plausibly exogenous to the bank's branching and mortgage decisions at the local level. Furthermore, given a replacement CEO would need to be appointed at relatively short notice, it is unlikely that the new CEO is selected for reasons related to mortgage lending. While we cannot completely guarantee that the selection of the new CEO is random, it introduces some external variation by creating the need to appoint a CEO for reasons that are plausibly unrelated to local lending and branching decisions.

To classify whether a CEO turnover is exogenous, we read articles from the bank's press release and the *Wall Street Journal* or *The Financial Times* to determine the reasons behind the CEO change. A turnover is considered to be exogenous if it meets at least one of the following criteria: (1) the outgoing CEO departs as a result of death or illness; (2) the outgoing CEO is at the natural retirement age (i.e., 60 or older) at the time of the turnover; or (3) the turnover occurs as part of the bank's succession plan (with the date of departure announced at least six months prior to departure). In total, 59% of CEO turnovers in our sample are classified as exogenous, which is in line with the numbers reported in the literature.

In addition to using a subsample of exogenous CEO turnovers, we also create a smaller subsample of exogenous and internal CEO turnovers with restrictions on both the outgoing and incoming CEO. Specifically, we require that the incoming CEO must already be an employee in the bank prior to his/her appointment as CEO. Internal candidates are typically groomed for the CEO position over a long period of time and thus, their appointment is likely to reflect a continuity in the bank's strategies (Dittmar and Duchin, 2016). By placing restrictions on the

incoming CEO, we ensure that the turnovers are unlikely to driven by significant changes in the bank's conditions related to mortgage lending.

[Table 4 around here]

In Table 4, we follow Dittmar and Duchin (2016) and estimate bank fixed effects panel regressions based on two subsamples described above. Across both subsets of CEO turnovers and all outcome variables in Table 3, the coefficients on *Ln(dist. hometown)* are negative and highly statistically significant. The economic magnitude of these effects is largely similar to ones reported in Table 2. As our main results continue to hold in these subsamples, this adds further confidence to the causal inferences of the CEO's hometown favoritism effect.

5.2 Controlling for omitted CEO characteristics

As our main explanatory variable is at the CEO-level, there is a concern that it could reflect some omitted CEO characteristics. In Table 5, we control for a host of other CEO traits, including CEO age (Yim, 2013) and dummy variables indicating whether the CEO graduates from an Ivy League institution, has an MBA degree (Bamber, Jiang, and Wang, 2010), born during depression years 1930-1939 (Malmendier and Nagel, 2011), begins their career during a recession (Schoar and Zuo, 2017), is overconfident (Malmendier, Tate, and Yan, 2011) and has military experience (Benmelech and Frydman, 2015).[14]

[Table 5 around here]

In Panel B, we control for elements of a CEO's compensation package (equity (*delta* and *vega*), cash, and total compensation) as prior studies (e.g., Fahlenbrach and Stulz 2011) show that they could affect bank policies. Across all specifications and outcome variables in Table 5, the

[14] We thank Abhishek Srivastav and Tim King for providing data on bank CEO overconfidence and military experience.

estimates on *Ln(dist. hometown)* are negative and statistically significant, suggesting that our main results are unlikely to be driven by omitted CEO characteristics.

5.3 Refining definitions of CEO's hometown attachment

Our main measure of a CEO's hometown attachment is based on her birth county and state. This proxy could be noisy if, for instance, the CEO's family reallocates to a new place soon after she was born. In Panel A of Table 6, we refine this proxy and show that our baseline results become stronger for CEOs who undertake an undergraduate degree in the same state as her birth state. Intuitively, individuals who complete undergraduate degrees in their birth state are likely to spend most of their formative years in the place they were born and, as a result, feel more emotionally attached to their hometown communities (Mesch and Manor, 1998). Importantly, as one-third of CEOs in our sample complete their undergraduate degrees outside their birth state, our baseline estimates are likely to *understate* the true magnitude of the CEO's hometown favoritism effects.

[Table 6 around here]

Second, since 58% of CEOs in our sample work for a bank headquartered in the same state as their birth state, our baseline findings may capture confounded effects linked to a bank's HQ location. To completely isolate the CEO's hometown favoritism effect from the bank's HQ effect, we rerun our regressions but only include out-state CEOs, i.e., CEOs born in a state different from the bank's HQ state, in the sample. Panel B of Table 6 displays the robust results.

In summary, while we cannot completely rule out the possibility of endogeneity driving our results, the body of collaborative evidence produced gives us confidence that we indeed capture a causal effect of a CEO's hometown favoritism on the mortgage origination and branching decisions.

5.4 Robustness tests

Appendix IA 2 displays our various robustness tests. In summary, we find that none of the following variations have a material impact on our baseline results (Panel A, Table 2): (1) performing our regressions on a standard Heckman's (1979) two-step procedure to account for potential self-selection biases arising from the fact that we lose CEOs whose birth county cannot be identified; (2) excluding the 10% smallest banks (in total assets) as small banks have a limited geographical coverage and, as a result, there is no meaningful variation between the CEO's hometown and lending locations; (3) excluding the 10% largest banks as CEOs of very large banks are unlikely to influence local lending; (4) excluding the 2007-09 financial crisis; and (5) controlling for the staggered deregulation of interstate bank branching laws as our results could be confounded with the increase in lending following the relaxation of bank branch restrictions (Rice and Strahan, 2010).

In addition, we also modify the analyses on exogenous CEO turnovers (Panel A, Table 4) by (6) increasing the age requirement for the outgoing CEOs from 60 to 65 and 70 years; and (7) removing CEO turnovers that occur when the bank has a negative ROA. These additional criteria ensure that the CEO turnovers occur due to natural retirements and are not driven by poor performance or significant changes in bank policies. Our results remain unaffected.

6. Are hometown lending superior?

So far, we find that counties located nearer to a CEO's hometown enjoy greater lending and access to bank branches compared to those located further away. Moreover, the additional analyses suggest that that this effect is likely to be driven by a CEO's attachment to their birthplace (Hernandez et al., 2007). In this section, we conduct various performance-based

analyses to formally disentangle between the three possible explanations of the result, namely, information advantages, agency conflicts, and hometown attachment.

First, the *information* explanation suggests that higher hometown lending and branch openings can be explained by the fact that CEOs have superior information about their local communities.[15] CEOs may obtain such information from their local contacts, local politicians, or they simply understand the local cultures better. This reduces information barriers and results in a higher lending volume in near the CEO's birthplace. These loans should also perform better in the long-run.[16]

A second reason could be that CEO pursues could explain hometown favoritism is the pursuit of private benefits due to the presence of agency conflicts (Jensen and Meckling, 1976; Shleifer and Vishny, 1997). Potential private benefits to a manager could be numerous and range from monetary benefits to individual utility. By conducting business in her hometown, a CEO could obtain local awards, local directorship positions and speaking arrangements. Further, these hometown favored business strategies of additional credit could also increase the utility of the CEO by increasing her status or popularity. Importantly, hometown favoritism motivated by agency conflicts could be seen a form of corporate philanthropy to increase the private utility of the CEO at the expense of firm shareholders (Masulis and Reza, 2014).

Lastly, CEOs may implement policies that favor their hometown because they are emotionally attached to their birthplace. The idea that people gravitate toward familiar places, such as their hometown, is well-grounded in the psychology concept of *place attachment* (e.g., Hernandez et al., 2007; Low and Altman, 1992). Place attachment could form a key portion of an individual's personal identity (e.g., Proshansky, 1978) and motivate them to invest time and

[15] An established literature has demonstrated that agents could benefit from information advantages. For example, Malloy (2005) local analyst make more accurate forecasts. Similarly, Coval and Moskowitz (1991, 2001) and Ivkovic and Weisbenner (2005) show that mutual fund managers and individual investors overweight their investments towards local firms and subsequently, outperform in these holdings.

[16] This is consistent with Agarwal and Hauswald (2010), who find that banks are more willing to lend when they have greater information about borrowers. These loans also turn out to have a lower delinquency rate.

money in the welfare of residents in their place of attachment (e.g., Manzo and Perkins, 2006; Vaske and Kobrin, 2001). Importantly, while hometown attachment could indeed manifest as private benefits accrued to the CEO in the presence of agency conflicts, what distinguishes the altruistic motive from the agency argument is that shareholders of the bank are *not* harmed by this altruistic hometown attachment. In this interpretation, the resources of the bank are simply reallocated to serve the areas proximate to hometown of the CEO.

Importantly, the three hypotheses offer different empirical predictions concerning performance. If CEOs make more lending near their hometown as a result of information advantages, these loans should outperform in the long-run. In contrast, if the hometown favoritism effect is driven by agency motivations, it should harm shareholder wealth. Finally, the performance effect associated with place attachment should be nonpositive. Therefore, the most ideal test would be to look at the default rate of loans originated near the CEO's hometown. Unfortunately, to protect their privacy of individual borrowers and banks, researchers are not allowed to match the HMDA dataset to other datasets that trace loan performance such as default rate.

As a result, we resort to conducting our performance-based analysis at the bank-level. Specifically, we regress *%home-state mortgage loan*, the portion of a bank's mortgage lending made in the CEO's birth state, on four bank-level outcomes: total loans/total assets, fraction of bad loans, ROA, and annual stock returns. If the information (agency) hypothesis prevails, banks with a larger proportion of home-state mortgage lending should outperform (underperform) others. In contrast, if the hometown attachment hypothesis prevails, the effects should be statistically insignificant. We perform this analysis on a full sample (which includes all CEOs with available birth county data) as well as a subsample that only includes *Out-state* CEOs. The latter is to ensure that *%home-state mortgage loan* strictly captures lending made

in the CEO's hometown state. Bank and year fixed effects are included in all regression specifications. [17]

[Table 7 around here]

Table 7 displays the results. Across all outcome variables, the estimates are statistically insignificant. Thus, the fraction of mortgage lending in the CEO's hometown state cannot explain a bank's total lending (total loans/total assets), loan performance (bad loans/total loans), profitability (ROA), or shareholder wealth (annual stock returns). Most interestingly, the non-results on total loans/total assets imply that CEOs do not expand total lending to accommodate greater hometown lending. Instead, lending is reallocated from further-away counties to counties located closer to the CEO's hometown. In summary, these findings are at odds with the information advantages and agency hypotheses and support the interpretation that CEOs allocate more resources closer to their birthplace as a result of their hometown attachment.

7. Why and how do CEOs favor their hometown?

In this section, we provide further evidence to support the altruistic hometown attachment interpretation of our results. We first ask *why* and then *how* the hometown favoritism effects take place.

7.1 Why do CEOs favor their hometown?

To further understand why CEOs favor their hometown, we condition the baseline results CEO's inherited values. Intuitively, if one is only interested in their own benefits, they would not be concerned about their hometown. This implies that the hometown favoritism effect occurs because the CEO is altruistic and wants to contribute back to their hometown community.

[17] The dependent and explanatory variables are measured contemporaneously. We obtain similar conclusions if lagging *%mortgage loan in home state* by one or two years.

As we are unable to directly observe a CEO's degree of altruism, we measure a CEO's values indirectly based on their cultural heritage. Nguyen, Hagendorff, and Eshraghi (2018) show that bank CEOs exhibit distinct behavior depending on the cultural values of the country from which their ancestors immigrate from. For instance, CEOs whose ancestors come from a collectivistic country tend to pursue more labor-friendly policies.

We infer a CEO's level of altruism based on their inherited cultural values of *Collectivism,* which reflects an individual's integration in groups; *Patriotism* and *Selflessness,* which capture how much a society values individual sacrifice for their own country and other people; and *Humane-oriented,* which measures the extent to which a society encourages an individual to be altruistic.[18] If our hometown attachment hypothesis is true (that the hometown favoritism effect takes place because CEOs want to help their hometown communities), the effect should be stronger for CEOs whose inherited cultural values place a greater emphasis on collectivism, patriotism, selflessness, and humane-orientation. To test for this, we assign each CEO four cultural indices based on their ancestor's country of origin and interact each of these cultural indices with *Ln(dist. Hometown)*. Table 8 displays the results.

[Table 8 around here]

All of the interaction terms in Table 8 have negative coefficients and, with a few exceptions, are also highly statistically significant. This indicates that the hometown-favored lending effect is stronger for CEOs who inherit cultural values that place a greater emphasis on collectivism, patriotism, selflessness and humane-orientation. These findings offer an explanation on why some CEOs favor their hometown: they are altruistic and believe that investing in their hometown is a way of contributing back to the community.

[18] Please refer to Nguyen, Hagendorff, and Eshraghi (2018) for a detailed description of the data collection process and see Appendix A1 for variable definitions.

Interestingly, these findings also rule out other peripheral explanations of the home favoritism effects. For example, one could argue that our results reflect agency problems in the bank. That is, CEOs lend more nearer to their hometown for personal awards, local directorship, or simply to gain recognition within their community. If this were true, we should observe the *opposite* results in the interaction analyses: e.g., the home favoritism effects become stronger when the CEO is individualistic. All in all, these findings lend strong support to our altruistic home attachment interpretation.

7.2 How does hometown favoritism effect take place?

Next, we investigate *how* CEOs decide to favor their hometown. Earlier, we find that the hometown favoritism effect is stronger following natural disasters, when conditions in the CEO's hometown is dire and an extra favor would make a large difference. We generalize this argument as CEOs would favor their hometown more when their fellow people struggle to obtain mortgage credit and thus, need a favor the most (Vaske and Kobrin, 2001; Manzo and Perkins, 2006).[19]

[Table 9 around here]

In Table 9, we directly condition the results on the characteristics of the mortgage applicants received by the bank in a county-year. We interact *Ln(dist. Hometown)* with (1) *poor applicants*, measured using the applicant's reverse income where a higher number indicates poorer applicants; (2) *minority applicants*, measured using the proportion of non-white applicants in the county; and (3) *female applicants*. The interaction terms have statistically negative coefficients, indicating that the CEO's home favored effects are stronger among applicants facing higher barriers in securing mortgage loans: i.e., those that are poorer,

[19] Of course, the CEO would not make individual mortgage lending decisions themselves. However, they could *influence* these decisions by communicating with local branch managers.

belonging to a minority group and female. Therefore, the favoritism is targeted towards applicants having a lower chance of getting their applications approved.

Given that home ownership has been a hallmark of the 'American dream' (Laeven and Popov, 2017), our findings that the home favored effect becomes more salient amongst marginal mortgage applicants supports the notion that CEOs want to help their hometown residents to achieve their aspirations.

7.3 Does the home favoritism effect extend to other types of lending?

So far, we focus on mortgage lending because it is directly linked to the concept of home attachment where an extra favor from the CEO could help their fellow residents secure a house. Naturally, one could make a similar argument for other types of loans, such as small business lending, where an extra home-favor could encourage entrepreneurship and contribute to the local economy (e.g., Krishnan, Nandy, and Puri 2014).

In this section, we conduct an out-of-sample test to examine whether counties located nearer to the CEO's hometown also enjoy more small business lending. We obtain small business lending data from the Community Reinvestment Act (CRA) database collected by the Federal Financial Institutions Examination Council (FFIEC). As before, the data are aggregated at the bank-county-year level.

We use two dependent variables, *Δln(#loans)* and *Δln($loans)*, which measure the change in small business loan originations (in number and nominal amount) by a bank in a given county relative to the prior year. [22] All regressions include bank and county-year fixed effects. Table 10, Panel A reports the results. As small business loans vary substantially in size,

[22] Another reason why mortgage is preferred is data availability. HMDA allows us to observe the entire pool of loan-level applications (including the rejected ones) while CRA only shows aggregate origination data. Thus, we are unable to construct *approval rate* variable.

we further categorize them into three size brackets: Columns (1) and (2) consider loans whose amount is below $100,000, Columns (3) and (4) consider loans between $100,000 and $250,000 and Columns (5) and (6) consider loans between $250,000 and $1,000,000.

The coefficient estimates on *Ln(dist. hometown*) are statistically negative in Columns (1)-(4) but are insignificant in Columns (5)-(6), confirming that counties located nearer to the CEO's hometown indeed enjoy higher small business lending compared to others. Interestingly, the favoritism effect only extends to small- and medium-size loans but not the largest ones. Again, the results support our altruistic home attachment of the results that CEOs offer a "little help" to their hometown. If the CEO is motivated by other reasons (such as fame seeking), the favoritism effect would concentrate on the largest loans, which are more likely to increase the CEO's visibility in the local communities.

[Table 10 around here]

In Table 10 Panel B, we run performance-based analyses by regressing *%home-state small business loan*, a bank's portion of small business lending made in the CEO's birth state, against various bank-level performance measures. The coefficient estimates are statistically insignificant throughout, implying that a bank's portion of small business lending in the CEO's birth state does not explain its total lending (total loans/total assets), loan performance (bad loans/total loans), or profitability (ROA). Again, this rules out information-based explanation.

Taken together, while we do not have one single test to powerfully rule out alternative interpretations such as the information or agency explanations, the body of collaborative evidence strongly points to the altruistic home attachment as the main explanation of the effect. That is, CEOs make more mortgage and small business lending as well as open more branches nearer to their hometown because they want to help their hometown communities. Intriguingly, this tendency to favor their hometown does not harm the bank's performance or its asset

composition. It only benefits residents nearer to the CEO's hometown at the expenses of those located further away.

8. The effects of CEO's home favoritism on county's economic developments

Our findings that banks make more lending and open more branches in areas closer to a CEO's hometown beg a natural follow-up question: Do areas (lucky enough) to be exposed to home favoritism enjoy greater economic developments?

To answer this question, we aggregate data at the county-year level and exploit variation in a county's exposure to CEO's home favoritism. Identification rests on the fact that banks do not appoint a candidate for the CEO position based on the economic conditions in the candidate's birthplace. This makes a county's aggregate exposure to home favoritism plausibly random. We report OLS estimates of the following equation:

$$Y_{kt} = \alpha_{kt} + \beta_1 \text{Home Favoritism Exposure}_{kt} + \beta_2 \text{HQ Favoritism Exposure}_{kt} + \text{County Controls}_{kt} + \text{County FE} + \text{Year FE} + \varepsilon_{kt}$$

where subscripts *k* and *t* indicate county and year, respectively. The dependent variable is one of the following two county-level measures of economic developments: (1) *Ln(Personal Income)*, the natural logarithm of individual income from wages, investment enterprises and other ventures; and (2) *Unemployment rate*. *Home Favoritism Exposure* is the fraction of branches in the county that is exposed to CEO's home favoritism. A branch is considered to be exposed to home favoritism if it is located within 400 miles (25th percentile) from the bank CEO's birthplace.[23] We also include *HQ Favoritism Exposure* to control for possible confounded effects associated with the bank's HQ location. All models include county and

[23] We obtain consistent results when using other thresholds.

year fixed effects as well as other time-varying county level controls for population and the HHI of county-level deposit concentration (Cetorelli and Strahan, 2006).

[Table 11 around here]

The results in Table 11, Panel A suggest that counties exposed to greater CEO's home favoritism are associated with a significantly higher personal income per capita (Column (1)) and a lower unemployment rate (Column (2)). Moreover, the magnitude of the coefficient estimates of *Home Favoritism Exposure* are much larger than those of *HQ Favoritism Exposure*.[24] These findings indicate that exposure to CEO's home favoritism indeed translates into positive effects on local economic developments. Thus, hometown favoritism is beneficial to residents near the CEO's hometown at no additional costs on the bank.

However, there is a more pessimistic interpretation of these results. Favoritism to one area implies bias against others. Since residents in a given county cannot control over how much they are exposed to favoritism, this implies that some counties have to unfairly experience lower economic developments as a result of their lower exposure to favoritism. This suggests that home favoritism, while arising out of a good cause, may contribute to deepen economic inequality.

10. Conclusions

This paper provides one of the first evidence on the effect of home favoritism on a firm's production outputs, i.e., bank credit allocations, and use it to quantify the effect of home favoritism on the real economy. We find that banks lend more and open more branches nearer to their CEO's birthplace and that this effect mainly reflects the CEO's altruistic hometown

[24] In addition to using the fraction of exposed branches, we alternatively use the fraction of mortgage lending (Panel B) and small business lending (Panel C) that is exposed to home favoritism and obtain consistent results.

attachment rather than information advantages or agency issues. Specifically, the home favoritism effect is stronger during economic downturns, among altruistic CEOs, in struggling counties, and among marginal applicants. We interpret this as CEOs trying to 'help' their struggling fellow residents to secure a mortgage loan and buy houses.

Furthermore, while home favoritism does not affect the bank's profitability, it leads to positive economic outcomes in counties exposed to greater favoritism. Thus, our findings indicate that hometown favoritism is beneficial to residents near the CEO's hometown at no additional costs for the bank. At the other side of the coin, since residents in a given county cannot control over how much they are exposed to favoritism, this implies that some (unlucky) counties with lower exposure to favoritism may have to experience lower economic developments. This suggests that home favoritism, while arising out of a good cause, may contribute to deepen economic inequality.

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Table 1: Summary Statistics

This table reports summary statistics for bank and loan characteristics in the sample. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study.

Variables	N	Mean	Std.	p1	p50	p99
Hometown variables						
ln(dist. hometown)	602,682	6.683	1.089	3.716	6.858	8.301
ln(dist. HQ)	602,682	6.570	1.199	3.549	6.763	8.320
dist. hometown	602,682	1,233.000	1,032.000	40.1000	950.100	4,026.0000
dist. HQ	602,682	1,193.000	1,073.000	33.780	864.500	4,102.000
Key dependent variables						
ln(originated loan)	602,682	5.470	3.158	0.000	5.823	11.090
Δln(originated loan)	436,485	-0.062	0.358	-1.000	-0.007	0.684
Approval rate	572,850	0.693	0.301	0.000	0.750	1.000
ln(branch)	602,682	0.222	0.600	0.000	0.000	2.890
Loan characteristics						
%female applicants	602,682	0.199	0.233	0.000	0.167	1.000
%minor applicants	602,682	0.330	0.336	0.000	0.229	1.000
Loan	602,682	124.700	102.300	10.500	98.400	496.500
Income	602,682	89.940	68.350	26.000	69.740	374.400
Loan/Income	602,682	1.459	0.797	0.183	1.389	3.757
CEO characteristics						
Hometown UG	592,974	0.510	0.500	0.000	1.000	1.000
HQ-state-CEO	602,682	0.440	0.496	0.000	1.000	1.000
MBA	562,121	0.489	0.500	0.000	0.000	1.000
Ivy League	562,121	0.323	0.467	0.000	0.000	1.000
Age	441,207	57.200	5.638	45.000	57.000	73.000
Depression baby	441,207	0.102	0.303	0.000	0.000	1.000
Crisis career starter	441,207	0.335	0.472	0.000	0.000	1.000
Overconfidence	473,811	0.162	0.368	0.000	0.000	1.000
Military experience	221,849	0.035	0.185	0.000	0.000	1.000
Collectivism	377,581	4.094	0.332	3.410	4.210	4.770
Patriotism	320,597	3.421	0.338	2.858	3.581	3.676
Selflessness	320,597	0.313	0.146	0.069	0.391	0.556
Humane-oriented	377,581	4.019	0.437	3.440	4.180	4.960
ln(total compensation)	478,116	9.004	1.179	4.239	9.227	10.990
Cash component	478,116	0.313	0.221	0.000	0.279	0.934
Vega	478,116	0.258	0.390	0.000	0.112	2.145
Delta	478,116	0.790	2.648	0.0144	0.296	4.745
Bank characteristics						
Assets	5,357	14.940	1.789	12.240	14.550	20.950
Leverage	5,357	0.908	0.026	0.826	0.910	0.954
ROA (%)	5,357	0.783	1.077	-4.510	0.958	2.167
Lending	5,357	0.662	0.122	0.303	0.674	0.890
Deposits	5,357	0.751	0.104	0.385	0.769	0.898
%mortgage loan in home state	5,357	0.528	0.421	0.000	0.645	1.000
%small business loan in home	3,913	0.532	0.431	0.000	0.637	1.000

Table 2: CEO Hometown Favoritism and Bank Lending

This table reports OLS regression results which estimate the effect of distance to the bank CEO's hometown on bank lending and branching policies. We report estimates of the following equation:

$$Y_{i,k,t} = \alpha_{i,k,t} + \beta_1 \text{Ln(dist. hometown)}_{i,k,t} + \text{Loan Controls}_{i,k,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{i,k,t}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan)*, the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. In **Panel A**, our main explanatory variable is *Ln(dist. hometown)*, natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. In **Panel B,** we use 10 dummy variables, each equal to 1 if the lending and branching decisions take place within 200/400/600/800/1000 km from the CEO's hometown (bank's HQ) and 0 otherwise. All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Main results

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.244***	-0.012***	-0.017***	-0.028***
	[-44.609]	[-15.228]	[-29.227]	[-20.898]
Ln(dist. HQ)	-0.924***	-0.028***	-0.029***	-0.175***
	[-166.693]	[-41.461]	[-55.481]	[-119.975]
Assets	1.037***	0.062***	0.010***	0.124***
	[54.443]	[18.497]	[4.044]	[32.357]
Leverage	-7.436***	-1.229***	-1.024***	-0.390***
	[-22.367]	[-20.597]	[-23.358]	[-6.116]
ROA	0.084***	0.011***	0.015***	0.002*
	[13.384]	[10.565]	[18.034]	[1.773]
Lending	2.121***	0.266***	0.075***	0.125***
	[26.941]	[18.052]	[7.384]	[8.387]
Deposit	2.576***	0.012	0.495***	0.072***
	[29.431]	[0.784]	[45.281]	[4.490]
%female applicants	-0.165***	-0.057***	-0.128***	-
	[-9.009]	[-13.306]	[-36.527]	-
%minor applicants	-1.620***	-0.148***	-0.164***	-
	[-112.809]	[-44.973]	[-67.857]	-
Loan/Income	0.065***	0.009***	0.002*	-
	[11.197]	[7.561]	[1.694]	-
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.498	0.216	0.356	0.268
Observations	602,682	436,485	472,411	498,930

Panel B: Varying distance

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Hometown<200km	0.331***	0.015***	0.026***	0.043***
	[20.008]	[5.980]	[13.652]	[10.623]
Hometown<400km	0.178***	0.006**	0.015***	0.018***
	[12.087]	[2.551]	[8.585]	[5.427]
Hometown<600km	0.202***	0.009***	0.007***	0.030***
	[12.931]	[3.222]	[3.525]	[9.478]
Hometown<800km	0.070***	0.014***	0.001	0.016***
	[4.296]	[4.706]	[0.708]	[4.938]
Hometown<1000km	0.046***	0.007***	0.004***	-0.012***
	[3.397]	[2.898]	[2.629]	[-4.543]
HQ<200km	1.361***	0.045***	0.061***	0.208***
	[87.062]	[19.172]	[34.345]	[54.524]
HQ<400km	0.645***	0.022***	0.021***	0.082***
	[43.821]	[8.836]	[12.031]	[24.851]
HQ<600km	0.464***	0.014***	0.007***	0.076***
	[28.385]	[4.902]	[3.710]	[23.237]
HQ<800km	0.090***	0.008**	0.018***	-0.021***
	[5.108]	[2.558]	[8.284]	[-5.940]
HQ<1000km	0.366***	0.006**	0.006***	0.092***
	[24.866]	[2.283]	[3.302]	[30.394]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.495	0.217	0.358	0.253
Observations	602,682	436,485	472,411	472,866

Table 3: Natural Disasters

This table reports OLS regression results which estimate the effect of distance to the bank CEO's hometown on bank lending and branching policies. We report estimates of the following equation:

$$Y_{i,k,t} = \alpha_{i,k,t} + \beta_1 \text{Ln(dist. hometown)}_{i,k,t} \times \text{Boom}_t + \beta_2 \text{Ln(dist. hometown)}_{i,k,t} \times \text{Bust}_t + \text{Loan Controls}_{i,k,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{i,k,t}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan)*, the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. *Ln(dist. hometown)* is natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. *Disaster severity* is the number of fatalities divided by the county population. All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Disaster Severity*Ln(dist. hometown)	-0.886**	-0.158**	-0.080**	-0.205**
	[-2.134]	[-2.555]	[-2.020]	[-2.213]
Disaster Severity *Ln(dist. HQ)	-0.265	0.116***	0.018	0.041
	[-0.697]	[2.796]	[0.600]	[0.657]
Ln(dist. hometown)	-0.242***	-0.011***	-0.017***	-0.028***
	[-43.773]	[-14.646]	[-28.720]	[-20.388]
Ln(dist. HQ)	-0.924***	-0.028***	-0.029***	-0.175***
	[-164.953]	[-41.556]	[-55.336]	[-119.479]
Assets	1.037***	0.062***	0.010***	0.124***
	[54.438]	[18.491]	[4.040]	[32.349]
Leverage	-7.437***	-1.229***	-1.025***	-0.390***
	[-22.370]	[-20.604]	[-23.364]	[-6.122]
ROA	0.084***	0.011***	0.015***	0.002*
	[13.380]	[10.561]	[18.031]	[1.768]
Lending	2.122***	0.266***	0.075***	0.125***
	[26.952]	[18.056]	[7.392]	[8.402]
Deposit	2.575***	0.012	0.495***	0.071***
	[29.425]	[0.770]	[45.277]	[4.480]
%female applicants	-0.165***	-0.057***	-0.128***	-
	[-9.008]	[-13.305]	[-36.523]	-
%minor applicants	-1.620***	-0.148***	-0.164***	-
	[-112.819]	[-44.978]	[-67.862]	-
Loan/Income	0.065***	0.009***	0.002*	-
	[11.197]	[7.564]	[1.693]	-
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.4984	0.2163	0.3564	0.2683
Observations	602,682	436,485	472,411	498,930

Table 4: Exogenous and Internal CEO Turnovers

This table reports OLS regression results which estimate the effect of distance to the bank CEO's hometown on bank lending and branching policies. We report estimates of the following equation:

$$Y_{i,k,t} = \alpha_{i,k,t} + \beta_1 \text{Ln(dist. hometown)}_{i,k,t} + \text{Loan Controls}_{i,k,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{i,k,t}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan)*, the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. *Ln(dist. hometown)* is natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. **Panel A** analyzes a subsample of banks that experience at least one exogenous CEO turnover event. A turnover is considered to be exogenous if it arises from CEO's death, long-term illness, long-planned retirements, or if the turnover takes place when the CEO is at least 60 years of age. **Panel B** analyzes a subsample of banks that experience at least an exogenous CEO turnover event where the incoming CEO is also an existing employee in the bank. Control variables are collapsed for brevity. Control variables include: *Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Exogenous turnovers

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.170***	-0.004***	-0.012***	-0.026***
	[-25.193]	[-3.794]	[-17.302]	[-15.773]
Ln(dist. HQ)	-0.871***	-0.025***	-0.022***	-0.181***
	[-119.622]	[-28.918]	[-33.353]	[-96.383]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.555	0.275	0.408	0.289
Observations	392,099	301,937	324,875	340,119

Panel B: Exogenous turnovers where incoming CEO is an existing bank employee

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.156***	-0.002**	-0.012***	-0.026***
	[-22.528]	[-2.468]	[-16.509]	[-15.639]
Ln(dist. HQ)	-0.848***	-0.025***	-0.020***	-0.177***
	[-113.646]	[-27.997]	[-30.534]	[-92.371]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.556	0.271	0.401	0.289
Observations	379,895	292,976	317,258	330,053

Table 5: Controlling for observable CEO characteristics

This table reports OLS regression results which estimate the effect of distance to the bank CEO's hometown on bank lending and branching policies. We report estimates of the following equation:

$$Y_{ikt} = \alpha_{ikt} + \beta_1 \text{Ln(dist. hometown)}_{ikt} + \text{Loan Controls}_{ikt} + \text{Bank Controls}_{it} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{ikt}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan),* the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. *Ln(dist. hometown)* is natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. **Panel A** includes additional controls for observable CEO characteristics: *MBA*, a dummy that equals one if the CEO has an MBA degree; *Ivy League*, a dummy that equals one if the CEO obtains a degree from an Ivy League institution; *Age*, the age of CEO; *Depression baby*, a dummy that equals one if the CEO is born between 1930 and 1939; *Crisis career starter*, a dummy that equals one if the CEO starts their career (assuming at the age of 22) during a crisis period (defined according to the NBER crisis database); *Overconfidence*, a dummy variable that equals one if moneyness of the option holdings is 67% and above; *Military experience*, a dummy that equals one if the CEO has prior military experience. **Panel B** includes additional controls for components of CEO pay: *Ln(total compensation)*, the natural logarithm of the CEO's total compensation (tdc1); *Cash component*, (salary + bonus) divided by total compensation (tdc1); *vega (scaled)*, vega divided by cash component (salary + bonus); *delta (scaled)* is delta divided by cash component (salary + bonus). **Panel C** includes additional controls for bank governance: *Board independence*, the fraction of outside directors on the boards; *G-index*, index of governance provisions developed by Gompers, Ishii, and Matrick (2003). Control variables are collapsed for brevity. Control variables include: *Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Controlling for CEO's observable characteristics

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.373***	-0.019***	-0.011***	-0.045***
	[-36.833]	[-13.456]	[-10.863]	[-16.927]
Ln(dist. HQ)	-0.836***	-0.031***	-0.029***	-0.161***
	[-85.883]	[-25.518]	[-32.646]	[-62.479]
MBA	0.838***	-0.063**	-0.048**	-0.028
	[3.295]	[-2.147]	[-2.054]	[-0.369]
Ivy League	-3.865***	-0.309	0.023	0.978***
	[-4.309]	[-1.180]	[0.718]	[4.695]
Age	-0.071***	-0.004***	-0.007***	-0.001
	[-19.455]	[-7.298]	[-15.500]	[-0.960]
Depression baby	3.438***	0.27	0.236***	-0.207***
	[22.621]	[1.072]	[13.635]	[-6.300]
Crisis career starter	-0.342***	-0.007	0.050***	-0.01
	[-10.293]	[-1.304]	[12.734]	[-1.452]
Overconfidence	-0.026	0.017**	-0.045***	0.031***
	[-0.679]	[2.484]	[-9.215]	[4.483]
Military experience	-0.673*	0.088*	0.157***	-0.082
	[-1.766]	[1.832]	[3.734]	[-0.848]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.5937	0.3324	0.3992	0.3272
Observations	221,849	164,127	180,862	191,056

Panel B: Controlling for CEO pay elements

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.283***	-0.012***	-0.016***	-0.039***
	[-43.359]	[-13.567]	[-24.359]	[-25.940]
Ln(dist. HQ)	-0.848***	-0.027***	-0.023***	-0.165***
	[-124.721]	[-33.832]	[-36.920]	[-96.222]
Ln(total compensation)	0.032***	0.028***	-0.017***	-0.005***
	[3.230]	[16.090]	[-13.941]	[-2.722]
Cash component	-0.203***	-0.006	-0.124***	-0.003
	[-5.433]	[-0.912]	[-26.994]	[-0.389]
Vega	0.362***	-0.006***	0.018***	0.015***
	[31.340]	[-3.407]	[13.614]	[5.696]
Delta	0.031***	0.002***	0.004***	0.001***
	[17.234]	[6.130]	[14.294]	[3.795]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.5441	0.2528	0.3789	0.2741
Observations	478,116	354,985	392,057	401,325

Panel C: Controlling for bank corporate governance

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.268***	-0.013***	-0.017***	-0.036***
	[-40.457]	[-13.962]	[-25.470]	[-24.115]
Ln(dist. HQ)	-0.864***	-0.027***	-0.021***	-0.165***
	[-123.979]	[-32.147]	[-33.492]	[-95.802]
Fraction of outside directors	-0.116***	-0.047***	-0.007	-0.067***
	[-3.003]	[-6.674]	[-1.594]	[-7.754]
G-Index	-0.087***	-0.007***	-0.015***	-0.001*
	[-21.513]	[-9.174]	[-30.798]	[-1.670]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.5441	0.2528	0.3789	0.2741
Observations	478,116	354,985	392,057	401,325

Table 6: Refining measures of CEO's hometown proximity

This table reports OLS regression results which estimate the effect of distance to the bank CEO's hometown on bank lending and branching policies. We report estimates of the following equation:

$$Y_{ikt} = \alpha_{ikt} + \beta_1 \text{Ln(dist. hometown)}_{ikt} \times \text{CEO characteristics}_{it} + \text{Loan Controls}_{ikt} + \text{Bank Controls}_{it} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{ikt}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan)*, the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. *Ln(dist. hometown)* is natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. *Hometown UG* is a dummy that equals one if the CEO undertakes an undergraduate degree in the same state as her birth state. *Out-state CEO* is a dummy that equals one if the CEO was born in a state different from the bank's HQ state. Control variables are collapsed for brevity. Control variables include: *Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: CEOs undertaking undergraduate degree in birth state

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Hometown UG*Ln(dist. hometown)	-0.399***	-0.008***	-0.022***	-0.049***
	[-34.193]	[-4.927]	[-18.653]	[-17.965]
Hometown UG*Ln(dist. HQ)	0.154***	-0.003*	0.007***	0.005*
	[14.917]	[-1.830]	[7.196]	[1.810]
Ln(dist. hometown)	-0.012	-0.008***	-0.003***	-0.001
	[-1.312]	[-6.037]	[-3.766]	[-0.465]
Ln(dist. HQ)	-1.026***	-0.027***	-0.034***	-0.178***
	[-119.616]	[-25.023]	[-40.806]	[-83.764]
Hometown UG	1.418***	0.068***	0.01	0.317***
	[23.489]	[7.598]	[1.441]	[23.042]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.503	0.218	0.366	0.267
Observations	592,974	430,309	466,788	492,018

Panel B: Only includes CEOs born in a state different from the bank's HQ state

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Ln(dist. hometown)	-0.109***	-0.009***	-0.015***	-0.019***
	[-15.163]	[-8.138]	[-18.812]	[-11.344]
Ln(dist. HQ)	-0.837***	-0.027***	-0.023***	-0.161***
	[-124.828]	[-31.043]	[-36.342]	[-92.358]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.581	0.3	0.451	0.301
Observations	336,611	244,895	273,379	276,850

Table 7: CEO Hometown Favoritism and Bank Performance

This table reports estimates of an OLS estimation regression which estimates the proportion of lending by the bank in the home state of the CEO to various measures of bank performance We report estimates of the following equation:

$$Y_{it} = \alpha_{it} + \beta_1 \%\text{mortgage loan in home state}_{it} + \text{Bank Controls}_{it} + \text{Bank FE} + \text{Year FE} + \varepsilon_{it}$$

where subscripts *i* and *t* indicate bank and year, respectively. Y is either: (1) *Total Loans/Total Assets*, a bank's total loans divided by its total assets; (2) *Bad Loans/Total Assets*, total non-performing loans divided by total assets; (3) *ROA*, net income divided by total assets; and (4) *Stock returns*, (closing stock prices minus opening stock prices) divided by opening stock prices. *%mortgage loan in home state* is a bank's portion of mortgage lending made in the CEO's birth state. The coefficient β_1 on *%mortgage loan in home state* is our variable of interest. All models include year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Dependent variables	Total loans/Total assets		Non-performing Loans/Total assets		ROA		Stock returns	
	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
%mortgage loan in home state	0.009	0.023	-0.001	-0.010	-0.015	0.792	-0.010	-0.137
	(0.960)	(0.332)	(-1.180)	(-1.013)	(-0.158)	(0.895)	(-0.171)	(-0.748)
Assets	0.008	-0.006	0.003	0.003	-0.192**	0.042	-0.199**	-0.150*
	(0.966)	(-0.396)	(1.328)	(0.475)	(-2.119)	(0.190)	(-2.577)	(-1.977)
Leverage	-0.139	-0.057	0.038	-0.008	-21.655***	-23.674***	0.571	1.674*
	(-1.224)	(-0.208)	(0.932)	(-0.068)	(-12.771)	(-6.173)	(0.466)	(1.905)
ROA	0.001	-0.002	-0.007***	-0.006**	-	-	0.075	0.083***
	(0.632)	(-0.670)	(-8.974)	(-2.063)	-	-	(1.481)	(3.656)
Lending	-	-	-0.019**	-0.052*	0.209	-0.515	-0.984**	-0.787
	-	-	(-2.577)	(-1.704)	(0.636)	(-0.638)	(-1.988)	(-1.621)
Deposit	0.187***	0.111	0.022**	0.001	-2.101***	-1.853	0.690*	0.396
	(2.969)	(1.070)	(1.995)	(0.045)	(-4.451)	(-1.445)	(1.937)	(1.140)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.145	0.167	0.515	0.338	0.411	0.383	0.066	0.173
Observations	5,357	922	5,357	922	5,357	922	5,269	913

Table 8: Why do CEOs favor their hometown?

This table reports estimates of OLS estimation regressions which estimatesthe CEO hometown favoritism effects on bank business policies conditional on the cultural characteristics of the CEO. We report estimates of the following equation:

$$Y_{ikt} = \alpha_{ikt} + \beta_1 \text{Ln(dist. hometown)}_{ikt} \text{ x CEO cultural values}_{it} + \text{Loan Controls}_{ikt} + \text{Bank Controls}_{it} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{ikt}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *ln(originated loan)*, the natural logarithm of the nominal amount of mortgage loans originated by a bank in a county-year; (2) *Δln(originated loan),* the percentage change in mortgage originations by a bank in a given county relative to the prior year; (3) *Approval rate*, the number of approved mortgage loan applications divided by the total number of applications received; or (4) Ln(*branches)*, the natural logarithm of the number of branches a bank has in a county in a year. *Ln(dist. hometown)* is natural logarithm of the distance between the bank CEO's hometown county and the county in which lending or branching decisions take place. CEO cultural values is one of the following: *Patriotism* and *Selflessness*, which capture how much a society values individual sacrifice for their own country and other people (Panels A and B); *Collectivism*, which reflects an individual's integration in groups (Panel C); and *Humane-oriented*, which measures the extent to which a society encourages an individual to be altruistic (Panel D). Control variables are collapsed for brevity. Control variables include: *Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Patriotism

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Patriotism*Ln(dist. hometown)	-0.341***	-0.008*	-0.018***	-0.065**
	[-12.294]	[-1.782]	[-5.875]	[-2.183]
Patriotism*Ln(dist. HQ)	0.346***	0.025***	0.010***	-0.024***
	[13.474]	[6.274]	[3.875]	[-3.945]
Ln(dist. hometown)	0.909***	0.009	0.044***	-0.133***
	[9.432]	[0.547]	[4.195]	[-5.817]
Ln(dist. HQ)	-2.214***	-0.113***	-0.068***	-0.088***
	[-24.668]	[-8.165]	[-7.255]	[-4.206]
Patriotism	0.385***	-0.013	0.116***	-0.065**
	[3.033]	[-0.594]	[8.083]	[-2.183]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.4756	0.2406	0.4158	0.2676
Observations	320,597	211,396	245,798	279,568

Panel B: Selflessness

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Selflessness*Ln(dist. hometown)	-0.976***	-0.028***	-0.030***	-0.121***
	[-15.647]	[-2.747]	[-4.226]	[-8.534]
Selflessness*Ln(dist. HQ)	1.110***	0.055***	0.031***	0.117***
	[19.004]	[6.084]	[4.980]	[8.927]
Ln(dist. hometown)	0.088***	-0.010**	-0.006**	0.019***
	[3.742]	[-2.517]	[-2.292]	[3.376]
Ln(dist. HQ)	-1.414***	-0.046***	-0.043***	-0.212***
	[-61.818]	[-13.324]	[-17.982]	[-42.118]
Selflessness	1.090***	0.163***	0.097***	0.120*
	[3.559]	[3.172]	[2.787]	[1.703]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.4764	0.2411	0.4156	0.268
Observations	320,597	211,396	245,798	279,568

Panel C: Collectivism

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Collectivism*Ln(dist. hometown)	-0.144***	-0.004	-0.014***	-0.006
	[-6.647]	[-1.193]	[-6.501]	[-1.178]
Collectivism*Ln(dist. HQ)	0.377***	0.009***	0.013***	0.005
	[17.952]	[3.174]	[6.174]	[0.961]
Ln(dist. hometown)	0.335***	-0.002	0.046***	-0.006
	[3.770]	[-0.121]	[4.977]	[-0.296]
Ln(dist. HQ)	-2.535***	-0.064***	-0.084***	-0.195***
	[-29.261]	[-5.277]	[-9.617]	[-9.284]
Collectivism	-2.335***	0.027	-0.064***	-0.054*
	[-20.527]	[1.462]	[-5.306]	[-1.859]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.489	0.2223	0.3984	0.2663
Observations	377,581	258,338	297,069	329,629

Panel D: Humane-orientation

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Humane-oriented*Ln(dist. hometown)	-0.169***	-0.008***	-0.014***	0.002
	[-9.388]	[-2.889]	[-7.378]	[0.521]
Humane-oriented*Ln(dist. HQ)	0.267***	0.008***	0.010***	-0.037***
	[15.601]	[3.209]	[5.507]	[-8.200]
Ln(dist. hometown)	0.429***	0.013	0.043***	-0.036**
	[5.915]	[1.206]	[5.630]	[-2.063]
Ln(dist. HQ)	-2.057***	-0.056***	-0.069***	-0.029
	[-29.824]	[-5.806]	[-9.882]	[-1.635]
Humane-oriented	0.267***	0.008***	0.010***	-0.037***
	[15.601]	[3.209]	[5.507]	[-8.200]
Control variables	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.4884	0.2224	0.3977	0.2669
Observations	377,581	258,338	297,069	329,629

Table 9: How do CEOs favor their hometown?

This table reports estimates of an OLS estimation regression which estimates CEO hometown favoritism on bank business policies conditional on county and applicant characteristics We report estimates of the following equation:

$$Y_{ikt} = \alpha_{ikt} + \beta_1 \text{Ln(dist. hometown)}_{ikt} \text{ x Struggle county}_{kt} \text{ or Marginal applicant}_{ikt} + \text{Loan Controls}_{ikt} + \text{Bank Controls}_{it} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{ikt}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *Approval rate*, defined as the number of approved mortgage loan applications divided by the total number of applications received; (2) *Δln(originated loan)*, defined as the logarithmic originated mortgage loans relative to the prior year divided by logarithmic originated loans in the prior year; or (3) *Δbranches*, defined as the number of branches minus the number of branches in the prior year scaled by number of branches in the prior year. *Ln(dist. hometown)* is the logarithmic distance between the bank CEOs hometown county and the county in which lending or branching decisions take place. In Panel A, *Struggle county* is defined using the county's unemployment rate (Columns (1)-(2)) or the county's proportion of houses not occupied by its owner (Columns (3)-(4)). In Panel B, *Marginal applicant* is defined using the mortgage applicant's reverse income tecile (Columns (1)-(2)), loan-to-income ratio (Columns (3)-(4)), or race (Columns (5)-(6)). The coefficient β_1 on *Ln(dist. hometown) x Struggle county or Marginal applicant* are our variables of interest. Control variables include: (*Struggle county*Ln(dist. HQ), Struggle county in Panel A),* (*Marginal applicant*Ln(dist. HQ), Marginal applicant in Panel B), Ln(dist. HQ), Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Marginal applicant defined as:	**Reverse Income Levels**			**%Minority applicants**			**%Female applicants**		
Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(originated loan)	Δln(originated loan)	Approval rate	ln(originated loan)	Δln(originated loan)	Approval rate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Marginal applicant*Ln(dist. hometown)	-0.019***	-0.003***	-0.002***	-0.100***	-0.016***	-0.009***	-0.078***	-0.014**	-0.009**
	[-10.526]	[-10.900]	[-9.245]	[-5.436]	[-4.873]	[-3.608]	[-2.669]	[-2.288]	[-2.013]
Marginal applicant*Ln(dist. HQ)	-0.048***	-0.001***	-0.002***	0.114***	0.009***	0.011***	0.293***	0.029***	0.021***
	[-26.924]	[-4.575]	[-11.731]	[6.481]	[2.970]	[5.055]	[10.554]	[5.200]	[4.724]
Ln(dist. hometown)	-0.298***	-0.001	-0.009***	-0.212***	-0.007***	-0.020***	-0.226***	-0.009***	-0.015***
	[-35.723]	[-0.717]	[-10.648]	[-26.179]	[-5.350]	[-20.827]	[-27.422]	[-5.851]	[-12.474]
Ln(dist. HQ)	-0.744***	-0.022***	-0.018***	-0.960***	-0.031***	-0.033***	-0.987***	-0.035***	-0.034***
	[-89.282]	[-20.306]	[-22.608]	[-127.996]	[-27.671]	[-38.358]	[-119.512]	[-24.124]	[-30.224]
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.512	0.232	0.38	0.498	0.216	0.357	0.499	0.216	0.357
Observations	602,682	436,485	472,411	602,682	436,485	472,411	602,682	436,485	472,411

Table 10: Proximity to CEO's hometown and small business lending

This table (Panel A) reports estimates of an OLS regression which estimates the effect of CEO hometown favoritism on small business lending and Panel B reports estimates of an OLS regression which estimates the effect of CEO hometown favoritism on aggregate bank performance.We report estimates of the following equation in Panel A:

$$Y_{i,k,t} = \alpha_{i,k,t} + \beta_1 \text{Ln(dist. hometown)}_{i,k,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{i,k,t}$$

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is *Δln(#loans*) in odd-numbered columns, defined as logarithm of the number of loans originated relative to the prior year divided by logarithm number of loans in the prior year. In even-numbered columns, Y is *Δln($loans),* defined as logarithm $ amount of loans originated relative to the prior year divided by logarithm $ amount of loans in the prior year. Columns (1)-(2) include loans whose amount at origination is less than or equal to $100,000. Columns (3)-(4) include loans whose amount at origination is more than $100,000 but less than or equal to $250,000. Columns (5)-(6) include loans whose amount at origination is more than $250,000 but less than or equal to $1,000,000. *Ln(dist. hometown)* is the logarithmic distance between the bank CEOs hometown county and the county in which lending or branching decisions take place. The coefficient β_1 on *Ln(dist. hometown)* is our variable of interest in Panel A. All models include county-year and bank fixed effects. We report estimates of the following equation in Panel B:

$$Y_{i,t} = \alpha_{i,t} + \beta_1 \%\text{small business loan in home state}_{i,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{Year FE} + \varepsilon_{i,t}$$

where subscripts *i* and *t* indicate bank and year respectively. Y is either: (1) *Total Loans/Total Assets*, a bank's total loans divided by its total assets; (2) *Bad Loans/Total Assets*, total non-performing loans divided by total assets; (3) *ROA*, net income divided by total assets; and (4) *Stock returns*, (closing stock prices minus opening stock prices) divided by opening stock prices. *%small business loan in home state* is the total small business loans that the bank makes in the state that the CEO was born divided by total small business loans. The coefficient β_1 on *%small business loan in home state* is our variable of interest in Panel B. All models include year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Hometown favoritism small business lending

Loan size	Amount <=$100k		100k<Amount <=$250k		250k<Amount <=$1000k	
Dependent variables:	Δln(#loans)	Δln($loans)	Δln(#loans)	Δln($loans)	Δln(#loans)	Δln($loans)
	(1)	(2)	(3)	(4)	(5)	(6)
Ln(dist. hometown)	-0.007***	-0.012***	-0.008***	-0.009***	0.003	0.002
	(-3.535)	(-8.837)	(-2.735)	(-4.235)	(0.958)	(1.152)
Ln(dist. hometown)*Ln(dist. HQ)	0.001***	0.002***	-0.001	-0.001*	-0.004***	-0.003***
	(3.499)	(8.943)	(-1.201)	(-1.790)	(-6.341)	(-8.479)
Ln(dist. HQ)	0.001	-0.012***	-0.027***	-0.034***	-0.011***	-0.019***
	(0.486)	(-8.186)	(-8.040)	(-13.652)	(-3.312)	(-7.731)
Assets	0.052***	0.034***	0.032***	0.025***	0.052***	0.015**
	(10.116)	(9.316)	(3.490)	(3.568)	(5.140)	(2.074)
Leverage	0.337***	0.164**	0.150	0.307**	0.768***	0.525***
	(3.342)	(2.548)	(0.832)	(2.280)	(4.012)	(3.859)
ROA	-0.041***	-0.015***	-0.005*	-0.000	-0.000	0.006**
	(-21.866)	(-11.951)	(-1.695)	(-0.177)	(-0.005)	(2.478)
Lending	0.439***	0.261***	0.015	-0.041	-0.054	-0.072**
	(18.339)	(16.347)	(0.363)	(-1.313)	(-1.252)	(-2.262)
Deposit	0.555***	0.353***	-0.267***	-0.173***	-0.231***	-0.140***
	(19.860)	(17.348)	(-5.067)	(-4.285)	(-4.306)	(-3.531)
County-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.043	0.033	0.036	0.055	0.031	0.051
Observations	277,496	277,483	117,654	117,654	113,175	113,175

Panel B: Home-biased small business lending and bank outcomes

Dependent variables	Total loans/Total assets		Non-performing Loans/Total assets		ROA		Stock returns	
	All CEOs	Out-state CEO	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs
	(1)	(2)	(3)	(4)	(5)	(6)		
%small business loan in home state	0.050	-0.014	-0.002	0.003	-0.014	0.340	0.054	-0.039
	(1.146)	(-0.148)	(-1.267)	(0.256)	(-0.148)	(0.484)	(1.278)	(-0.203)
Assets	-0.014	-0.292***	0.004	0.004	-0.292***	-0.276	-0.205**	-0.174**
	(-0.800)	(-2.847)	(1.130)	(0.462)	(-2.847)	(-1.298)	(-2.132)	(-2.037)
Leverage	-0.094	-22.183***	0.036	-0.012	-22.183***	-22.500***	0.989	2.043*
	(-0.307)	(-10.401)	(0.606)	(-0.077)	(-10.401)	(-5.030)	(0.617)	(1.746)
ROA	-0.001	0.267	-0.007***	-0.006*	-	-	0.057	0.106***
	(-0.252)	(0.697)	(-7.065)	(-1.772)	-	-	(0.799)	(4.392)
Lending	-	-	-0.021**	-0.066	0.267	-0.177	-1.158*	-1.131*
	-	-	(-2.199)	(-1.631)	(0.697)	(-0.252)	(-1.720)	(-1.709)
Deposits	0.198**	-2.494***	0.040***	0.013	-2.494***	-2.098*	1.073**	0.570
	(2.038)	(-5.043)	(2.722)	(0.499)	(-5.043)	(-1.691)	(2.168)	(1.104)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.163	0.183	0.418	0.402	0.497	0.340	0.064	0.250
Observations	3,913	775	3,913	775	3,913	775	3,872	770

Table 11: County-level outcomes

This table reports estimates of an OLS estimation regression which estimates if CEO hometown favoritism affects county economic development. We report estimates of the following equation:

$$Y_{kt} = \alpha_{kt} + \beta_1 \text{Hometown Favoritism Exposure}_{kt} + \text{County Controls}_{kt} + \text{County FE} + \text{Year FE} + \varepsilon_{kt}$$

where subscripts *k* and *t* indicate county and year, respectively. Y is either: (1) *Ln(Personal Income),* the natural logarithm of the individual's income from wages, investment enterprises and other ventures, or (2) *Unemployment rate*. *Hometown favoritism exposure* is the fraction of branches (Panel A) in the county that is exposed to CEO's hometown favoritism. A branch is considered to be exposed to hometown favoritism if it is located within 400 miles (25^{th} percentile) from the bank CEO's birthplace. *Hometown favoritism exposure* defined as the fraction of mortgage lending and the fraction of small business lending that are exposed to CEO's hometown favoritism in Panel B and C respectively. The coefficient β_1 on *Hometown favoritism exposure* is our variable of interest. All models include year and county fixed effects. Standard errors are clustered at the county level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Exposure measured using #branches		
Dependent variables	**Ln(Personal Income)**	**Unemployment rate**
	(1)	(2)
Hometown Favoritism Exposure$_{t-1}$	0.016***	-0.268***
	(3.542)	(-4.224)
HQ Favoritism Exposure $_{t-1}$	0.016***	-0.193**
	(3.039)	(-2.539)
Ln(HHI) $_{t-1}$	0.000	0.006
	(0.042)	(0.259)
Ln(Population) $_{t-1}$	-0.002	0.020
	(-1.166)	(1.228)
County FE	Yes	Yes
Year FE	Yes	Yes
R-squared	0.356	0.209
Observations	22,741	22,741

Panel B: Exposure measured using mortgage loan originations		
Dependent variables	**Ln(Personal Income)**	**Unemployment rate**
	(1)	(2)
Hometown Favoritism Exposure$_{t-1}$	0.041***	-0.726***
	(7.499)	(-9.841)
HQ Favoritism Exposure $_{t-1}$	0.017***	-0.234***
	(3.025)	(-2.948)
Ln(HHI) $_{t-1}$	-0.002	0.004
	(-0.737)	(0.176)
Ln(Population) $_{t-1}$	-0.002	0.016
	(-1.210)	(1.121)
County FE	Yes	Yes
Year FE	Yes	Yes
R-squared	0.356	0.209
Observations	22,741	22,741

Appendix A1: Variable construction and definitions

Variable	Definition	Source
Key explanatory variables		
Ln(dist. hometown)	The natural logarithms of the physical distance between the bank CEO's hometown county and the county in which lending or branching decisions take place.	Various sources
Ln(dist. HQ)	The natural logarithms of the physical distance between the bank HQ county and the county in which lending or branching decisions take place	SOD
Hometown state	A dummy that equals one if the CEO's birth state and the state in which the lending or branching decisions take place is the same	Various sources
HQ state	A dummy that equals one if the bank's HQ state and the state in which the lending or branching decisions take place is the same	SOD
Bank characteristics		
Assets	Natural logarithm of total assets	FR Y-9C
Leverage	Total liabilities divided by total assets	FR Y-9C
ROA (%)	Earnings before interest and taxes divided by total assets	FR Y-9C
Lending	Total loans divided by total assets	FR Y-9C
Deposit	Total deposits divided by total assets	FR Y-9C
Non-performing loans	Non-performing loans divided by total assets	FY-Y9C
%mortgage loan in home state	The fraction of mortgage lending made in the CEO's birth state	HMDA
%small business loan in home state	The fraction of small business lending made in the CEO's birth state	CRA
Mortgage loan characteristics		
Approval rate	The number of mortgage loan applications approved divided by the total number of applications received by a bank in a county-year	HMDA
Δln(originated loan)	The logarithmic originated mortgage loans relative to the prior year divided by logarithmic originated loans in the prior year by a bank in a county-year	HMDA
Δbranches	The number of branches minus the number of branches in the prior year scaled by number of branches in the prior year for a bank in a county-year	HMDA
%female applicants	The ratio of the number of applications from female applicants to the total number of applications reviewed for each bank-county-year.	HMDA
%minor applicants	The ratio of the number of applications from minority applicants to the total number of applications reviewed for each bank-county-year. Minority applicants include all applicants whose reported race is non-white	HMDA
Loan/Income	The average ratio of the loan amount in a mortgage application to the applicant's income for applications reviewed in each bank-county-year	HMDA
Reverse Income Decile	10 – Applicant's Income Decile	HMDA
Small business loan characteristics		
Δln(# loan)	The logarithm of the number of loans originated relative to the prior year divided by logarithm number of loans in the prior year	CRA
Δln($loan)	The logarithm $ amount of loans originated relative to the prior year divided by logarithm $ amount of loans in the prior year.	CRA
County-level characteristics		
Unemployment rate	Unemployment rate of the county	Bureau of Labor Statistics
%non-home owner	The fraction of houses not occupied by the owner in the county	Bureau of Labor Statistics
Ln(Personal Income)	The natural logarithm of the average individual's income from wages, investment enterprises and other ventures in the county	Bureau of Labor Statistics

Ln(HHI)	The natural logarithm of the HHI of deposits (calculated as the summation of the deposit^2 of branches) in the country	SOD
Ln(Population)	The natural logarithm of the population in the county	Bureau of Labor Statistics
Home Favoritism Exposure	The proportion of branches in a county that is considered exposed to CEO hometown favoritisim. A branch is considered to be exposed to hometown favoritism if it is located within 400 miles (25th percentile) from the bank CEO's birthplace	Various
HQ Favoritism Exposure	The proportion of branches in a county that is considered exposed to the HQ. A branch is considered to be exposed to hometown favoritism if it is located within 400 miles (25th percentile) from the bank's HQ	Various
CEO's characteristics		
MBA	Dummy equals one if the CEO has an MBA degree	BoardEx
Ivy League	Dummy equals one if the CEO obtains a degree from an Ivy League institution	BoardEx
Age	The age of the CEO	BoardEx
Depression baby	Dummy equals one if the CEO is born between 1920 and 1929	BoardEx
Crisis career starter	Dummy equals one if the CEO starts her career (assuming at the age of 22) during a crisis	BoardEx, NBER crisis database
Overconfidence	Equals one if the CEO holds exercisable stock options that are at least 67% in the money.	BoardEx
Military experience	Dummy equals one if the CEO has prior military experience	BoardEx
Hometown UG	Dummy equals one if the CEO undertakes an undergraduate degree in her birth state	BoardEx
Out-state CEOs	Dummy equals one if the CEO was born in a state different from the bank's HQ state	BoardEx
Collectivism	Measures the individual integration to groups based on the cultural ancestry of the CEO	Hofstede
Patriotism	Measures how much a society values individual sacrifice for their own country based on the cultural ancestry of the CEO	European Value Survey (EVS)
Selflessness	Measures how much a society values individual sacrifice for other people based on the cultural ancestry of the CEO	European Value Survey (EVS)
Humane-oriented	Measures how much a society encourages individuals to be altruistic based on the cultural ancestry of the CEO	GLOBE

Appendix A2: CEO's Birth State

This table reports descriptive statistics of states in which bank CEOS were born in. The sample covers the period 1999–2014 for which data on CEO birthplace are available.

Birth State	#CEOs	Percentage (%)
AL	13	2.68
AR	2	0.41
AZ	3	0.62
CA	27	5.57
CT	10	2.06
DC	2	0.41
FL	10	2.06
GA	13	2.68
HI	3	0.62
IA	6	1.24
IL	20	4.12
IN	19	3.92
KS	4	0.82
KY	7	1.44
LA	3	0.62
MA	17	3.51
MD	9	1.86
ME	8	1.65
MI	11	2.27
MN	7	1.44
MO	8	1.65
MS	19	3.92
MT	2	0.41
NC	31	6.39
ND	1	0.21
NE	2	0.41
NJ	16	3.3
NY	48	9.9
OH	25	5.15
OK	3	0.62
OR	2	0.41
PA	48	9.9
RI	4	0.82
SC	13	2.68
SD	2	0.41
TN	2	0.41
TX	18	3.71
UT	3	0.62
VA	24	4.95
VT	3	0.62
WA	8	1.65
WI	3	0.62
WV	6	1.24

Internet Appendix IA1: Hometown State

This table reports estimates of an OLS regression which estimates the effect of CEO hometown favoritism on bank business policies. We report estimates of the following equation:

$$Y_{i,k,t} = \alpha_{i,k,t} + \beta_1 \text{Hometown state}_{i,k,t} + \text{Loan Controls}_{i,k,t} + \text{Bank Controls}_{i,t} + \text{Bank FE} + \text{County-Year FE} + \varepsilon_{i,k,t}$$

where subscripts *i, k* and *t* indicate bank, county and year respectively. Y is either: (1) *Approval rate*, defined as the number of approved mortgage loan applications divided by the total number of applications received; (2) *Δln(originated loan)*, defined as the logarithmic originated mortgage loans relative to the prior year divided by logarithmic originated loans in the prior year; or (3) *Δbranches*, defined as the number of branches minus the number of branches in the prior year scaled by number of branches in the prior year. *Hometown state* is a dummy variable that equals one if the county that bank decisions take place in is in the state where the CEO was born and zero otherwise. The coefficient β_1 on *Hometown state* is our variable of interest. Control variables include: *hometown state*HQ state, Assets, Leverage, ROA, Lending, Deposit, %female applicants, %minor applicants* and *Loan/Income.* All models include county-year and bank fixed effects. Standard errors are clustered at the bank level. The sample covers the period 1999–2014 for which data on CEO birthplace are available. Refer to Appendix A1 for the definition and construction of variables used in this study. The constant is suppressed. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch$_{t+1}$)
	(1)	(2)	(3)	(4)
Hometown state	0.437***	0.016***	0.031***	0.070***
	[27.281]	[6.354]	[16.659]	[18.081]
HQ State	2.303***	0.081***	0.093***	0.314***
	[154.038]	[37.856]	[58.047]	[81.616]
Controls	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.479	0.215	0.355	0.226
Observations	602,682	436,485	472,411	498,930

Internet Appendix IA 2: Excluding smallest and largest banks

This table presents various robustness tests. In Panel A, we modify our baseline regressions (Panel A, Table 2) by: performing our regressions based on a standard Heckman's (1979) two-step procedure to account for potential self-selection (Row (1)); exclude the 10% smallest banks (Row (2)); exclude the 10% largest banks (Row (3)); exclude the 2007-09 financial crisis (Row (4)); include additional controls for the staggered deregulation of interstate bank branching laws (Rice and Strahan 2010) (Row (5)). In Panel B, we modify our exogenous CEO turnovers regressions (Panel A, Table 4) by increasing the age requirement for the outgoing CEOs from 60 to 65 and 70 years (Rows (6) and (7)) removing CEO turnovers that occur when the bank has a negative ROA (Row (8)). For brevity, we only display the estimates and *t-statistics* for *Ln(dist. Hometown).* ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Dep. Variables	ln(originated loan)	Δln(originated loan)	Approval rate	ln(branch)
	(1)	(2)	(3)	(4)
Panel A: Modifying baseline results (Panel A, Table 2)				
(1) Heckman (1979) two-step procedure	-0.149***	-0.009***	-0.013***	-0.035***
	[-10.675]	[-11.850]	[-24.118]	[-19.149]
(2) Excluding the 10% smallest banks	-0.263***	-0.013***	-0.017***	-0.032***
	[-43.149]	[-15.104]	[-27.313]	[-21.685]
(3) Excluding the 10% largest banks	-0.233***	-0.012***	-0.015***	-0.028***
	[-41.261]	[-14.851]	[-25.032]	[-19.187]
(4) Excluding the 2007-9 financial crisis	-0.264***	-0.011***	-0.018***	-0.041***
	[-43.100]	[-13.007]	[-27.711]	[-19.698]
(5) Controlling for IBBEA deregulation	-0.276***	-0.017***	-0.015***	-0.037***
	[-36.605]	[-14.782]	[-18.934]	[-14.687]
Panel B: Modifying Exogenous CEO turnover tests (Panel A, Table 4)				
(6) Outgoing CEOs at least 65 years	-0.071***	-0.013***	-0.010***	-0.005*
	[-6.043]	[-7.082]	[-8.185]	[-1.750]
(7) Outgoing CEOs at least 70 years	-0.319***	-0.022***	-0.014***	-0.043***
	[-14.630]	[-6.081]	[-5.572]	[-7.543]
(8) Exclude turnovers when ROA <0	-0.173***	-0.003***	-0.012***	-0.028***
	[-25.104]	[-3.302]	[-16.606]	[-16.603]