



# Do Minority Banks Matter? Evidence from the Community Reinvestment Act

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# Motivation

- Fair and equitable access to credit to minorities is an important policy goal
- ECOA, CRA, Fair Housing Laws – Long running banking regulations based on income targeting
- Yet, the redistributive goals of such policies remain underachieved
- The racial homeownership gap, was at its highest in 2019, 31.2% – persistent and increasing

## Research Question

- Can Minority Depository Institutions (MDIs) help?
  - Mission-driven lending, social, cultural, and geographic proximity





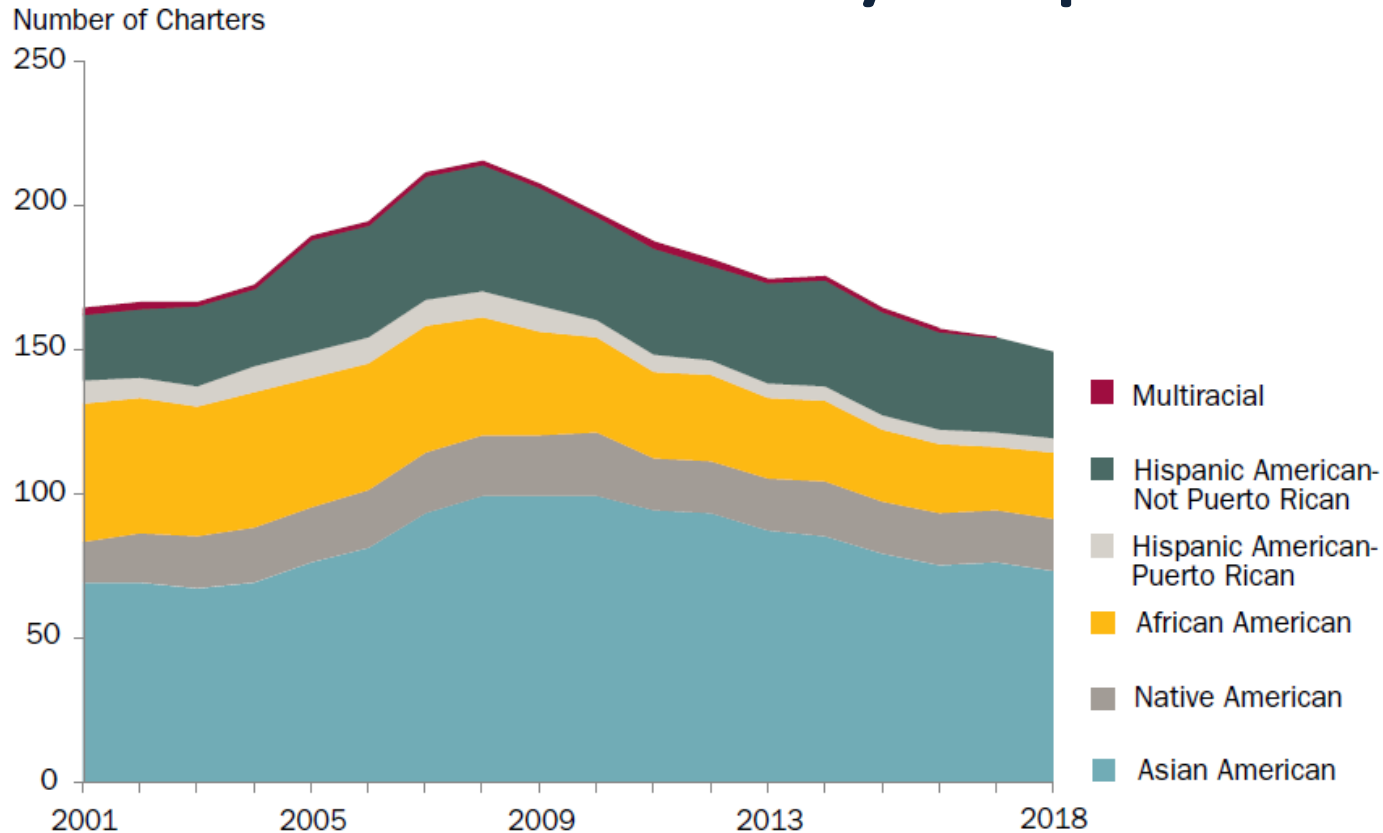
# Preview of Results

- Census tracts that lose MDI presence following MDI-Community bank mergers, see a decline of about 37% in mortgage credit supply
- Decline is persistent up to 6 years, back of envelope calculation ~ about \$92 billion less minority mortgage credit in aggregate
- Census tracts that see physical closure of MDI branches see higher decline vis-à-vis tracts where branch ownership changes
- Loss of MDI presence at a tract-level results in a decline of about 3% in minority homeownership at a county-level





# Minority Depository Institutions



Source: FDIC

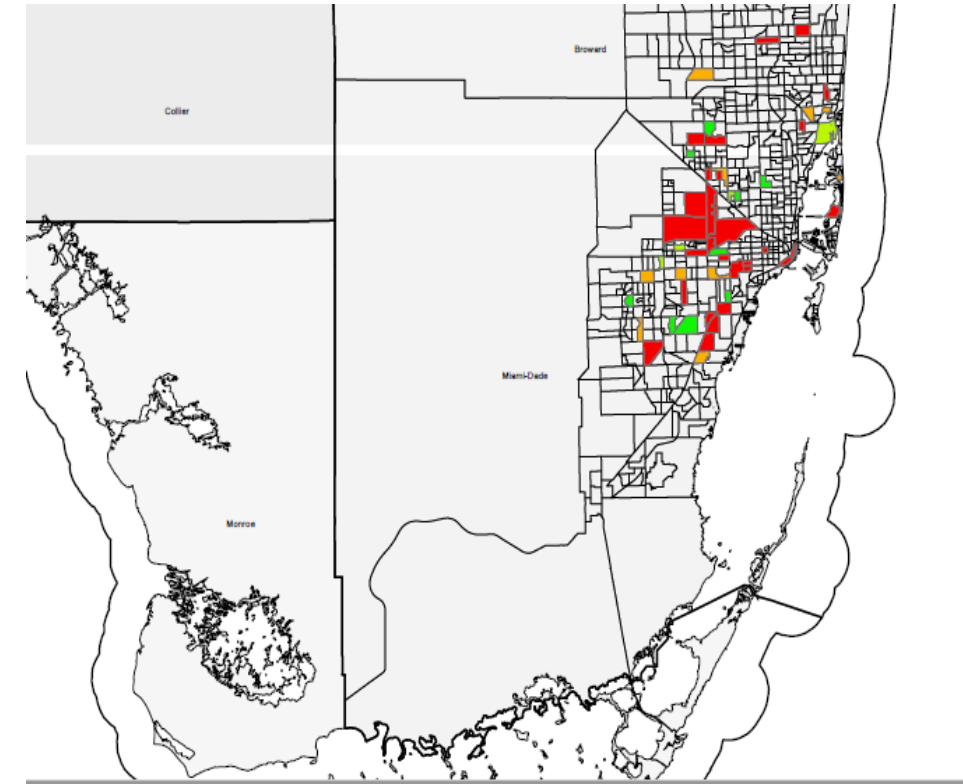
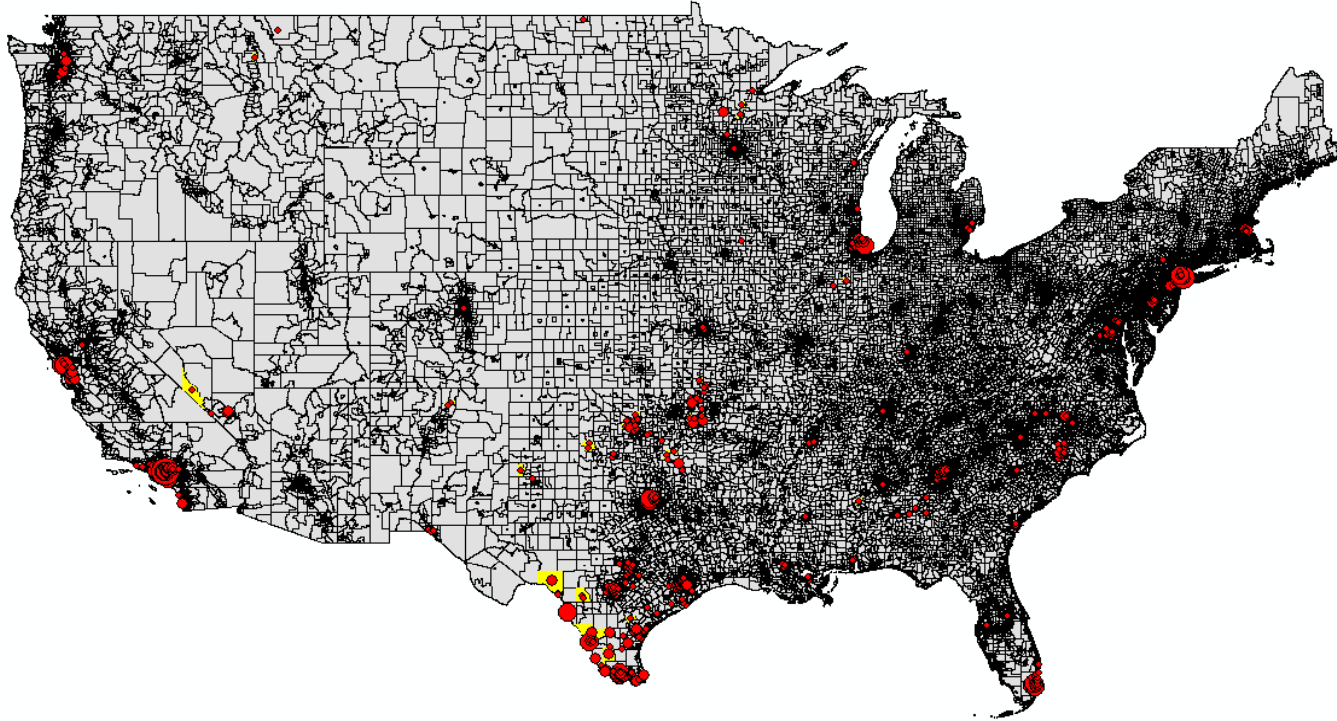
Defined in Section 308 of the FIRREA and Section 367 of Dodd Frank

- 51 percent or more of the voting stock is owned by minority individuals
- OR a majority of the board of directors is minority
- AND the community that the institution serves is predominantly minority
- **Minority - Minority** (Section 308 of FIRREA) “Black-American, Asian American, Hispanic American, or Native American.”





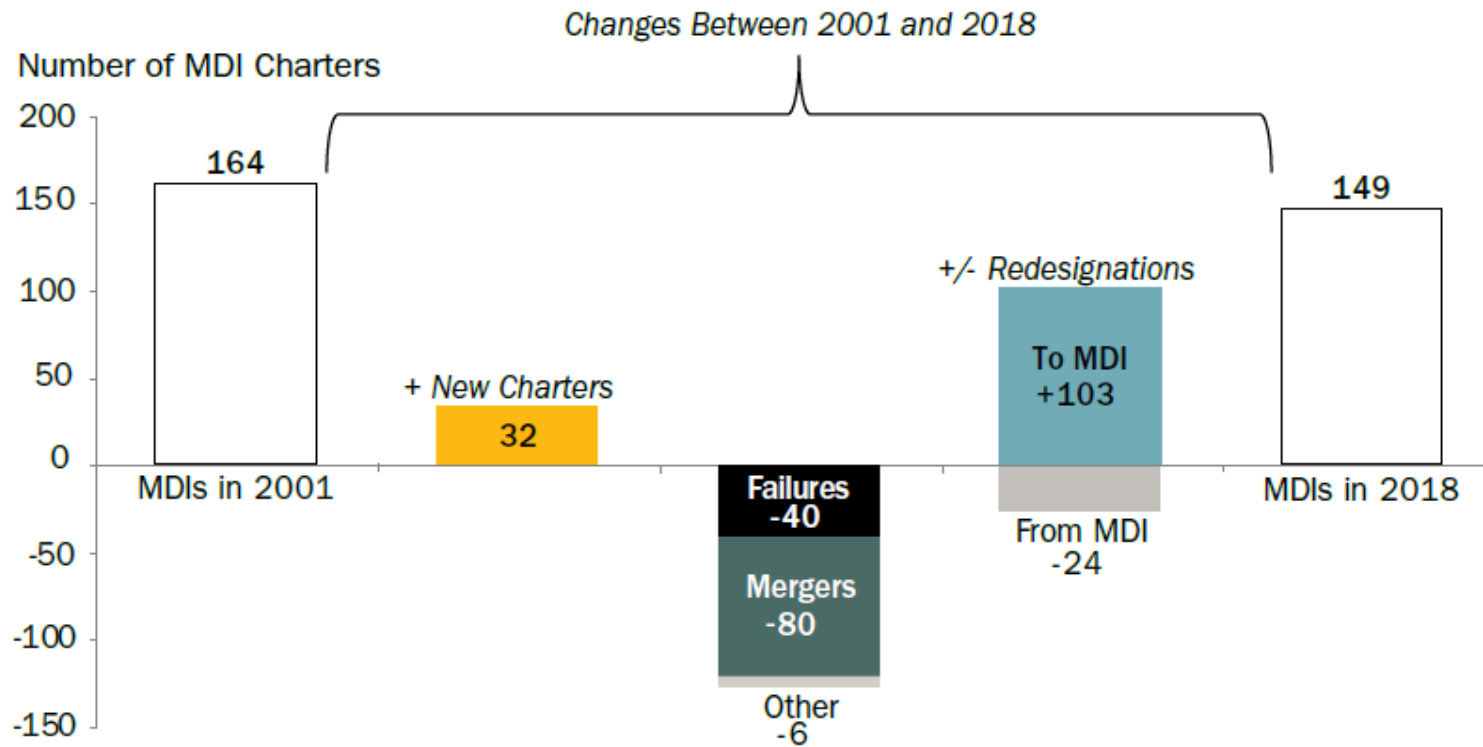
# Geographic Location







# Structural Changes



Source: FDIC

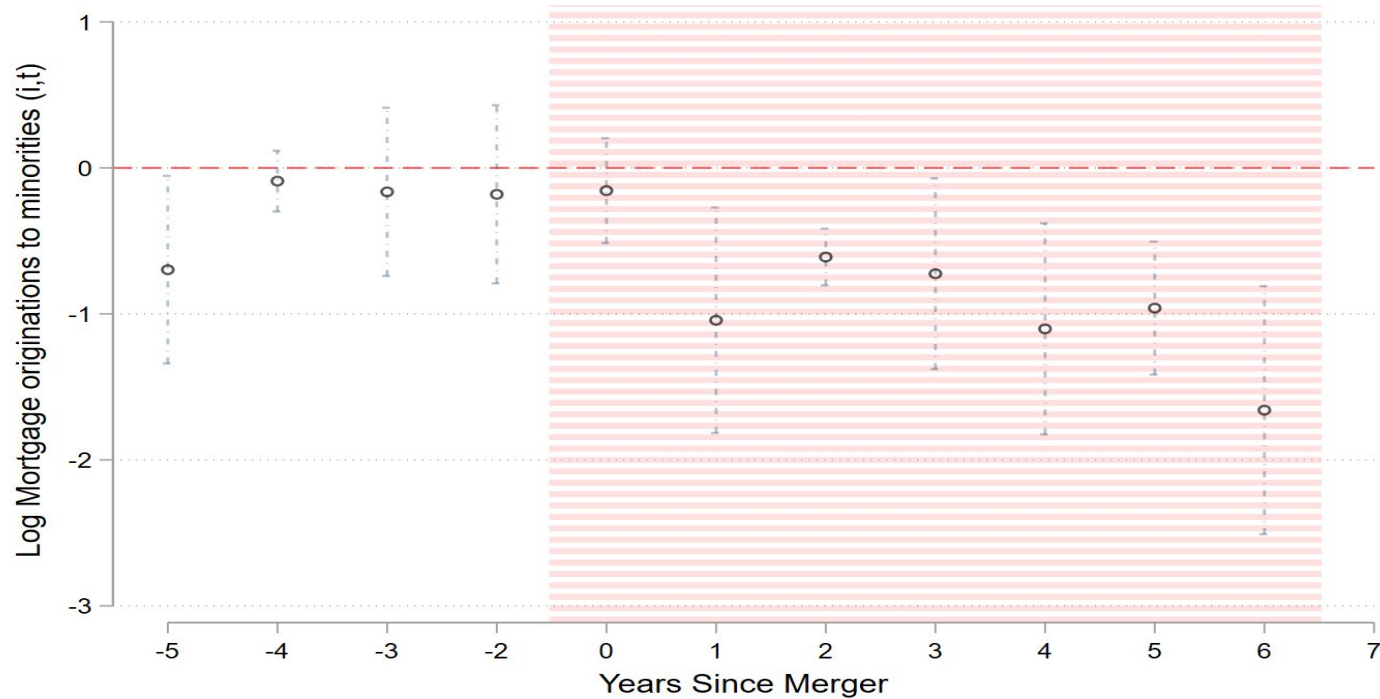




# Result – 1

This figure plots the coefficients of the following model:

$$\log(y_{i,t}^{minority}) = \alpha_i + \gamma_{c,t} + \beta_t \sum \text{Treat}_i \cdot \mathbf{I}_{T=t} + \beta_2 X_{i,t-1} + \varepsilon_{i,t},$$

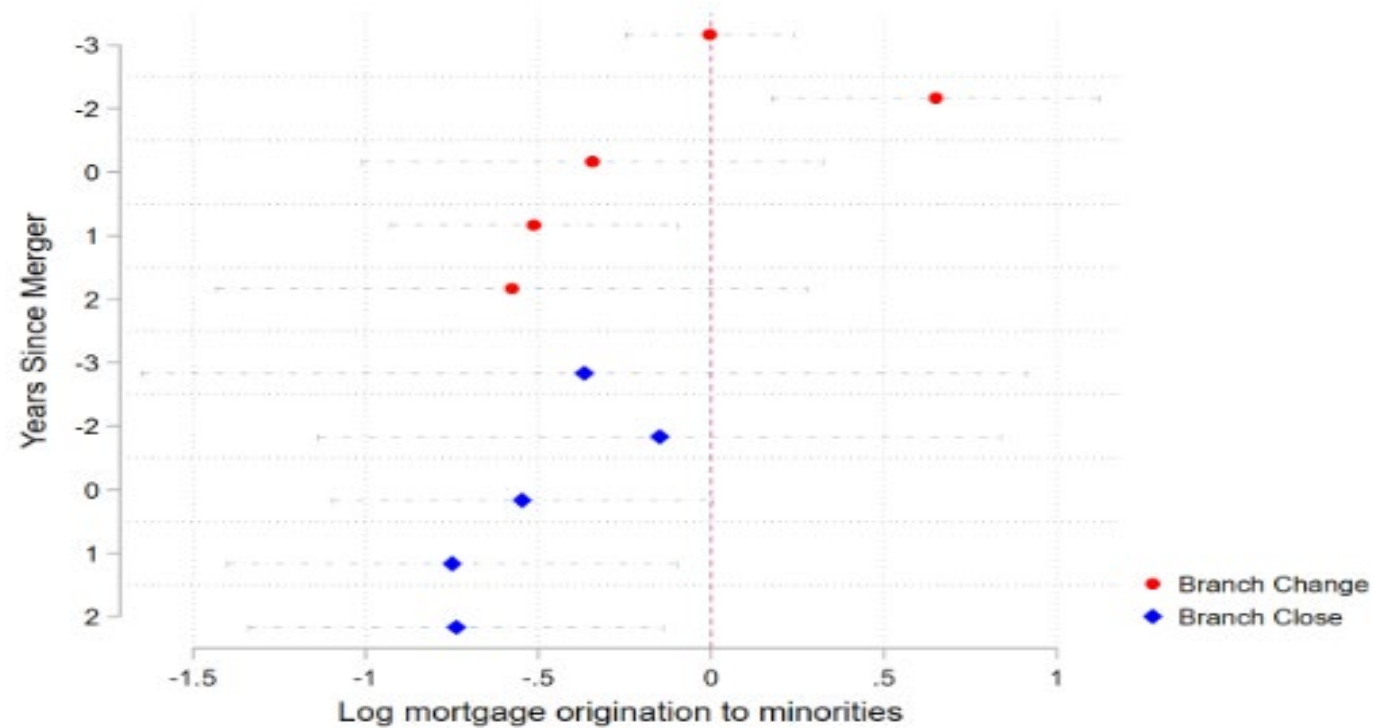




# Result – 2

This figure plots the coefficients of the following model:

$$\log(y_{i,t}^{minority}) = \alpha_i + \gamma_{c,t} + \beta_1 \text{Treat}_i \cdot \text{Post}_t \cdot C_i + \beta_2 X_{i,t-1} + \varepsilon_{i,t}$$

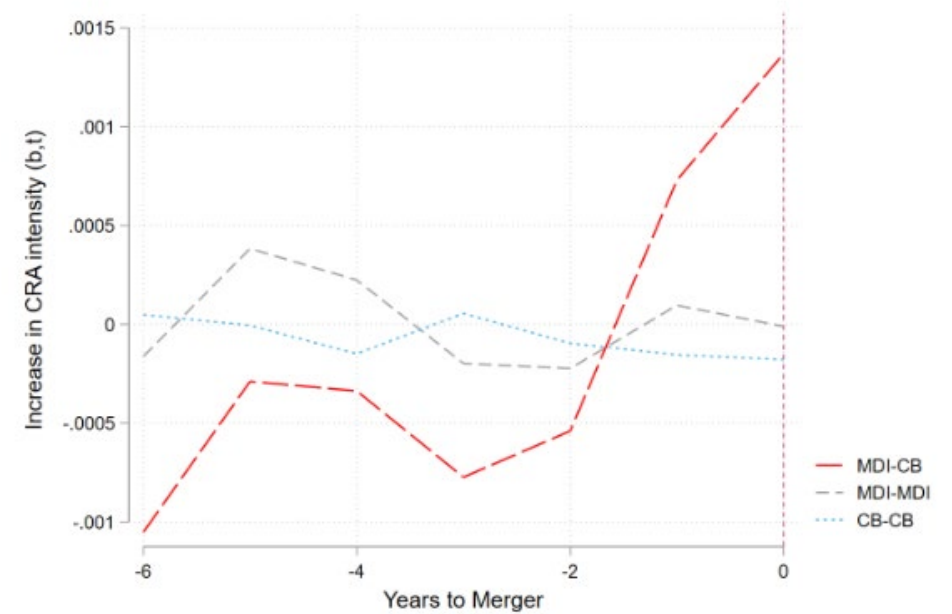
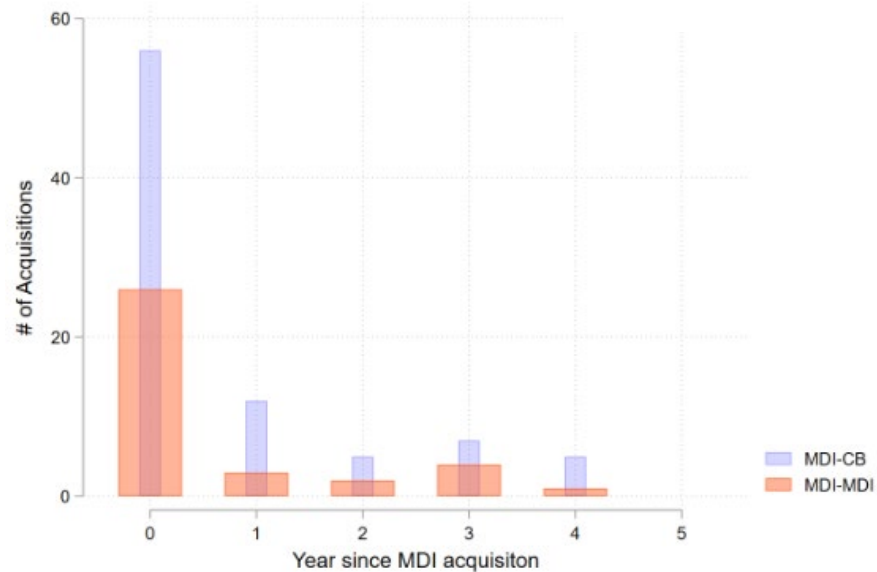






# Instrumental Variable

$$C_{i,t} = \sum_b S_{b,i,t} \times \frac{\text{Exam}_{b,t}}{R_{i,t}}$$

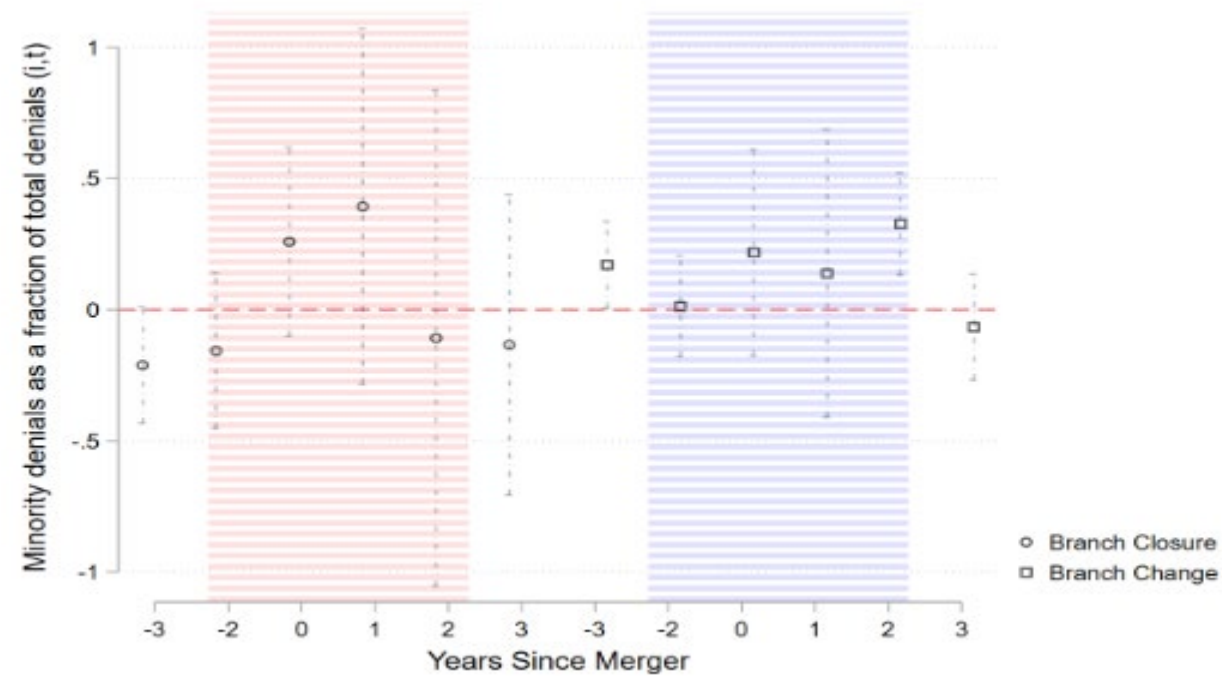




# Result – 3

This figure plots the coefficients of the following model:

$$F_{i,t}^{minority} = \alpha_i + \gamma_{c,t} + \beta_1 \text{Treat}_i \cdot \text{Post}_t \cdot C_i + \beta_2 X_{i,t-1} + \varepsilon_{i,t}$$





# Result – 4

This table estimates the following model:

$$M_{c,t} = \alpha_c + \gamma_{m,t} + \beta_1 S_{c,t-1} + \beta_1 X_{c,t-1} + \varepsilon_{c,t}$$

|                       | County Year - Percentage Minority Home-ownership |                       |                          |                       |                         |                        |
|-----------------------|--|-----------------------|--------------------------|-----------------------|-------------------------|------------------------|
|                       | (1)  | (2)                   | (3)                      | (4)                   | (5)                     | (6)                    |
| Deposit Share Treated | -2.9868***<br>(1.0927)                           | -3.4168**<br>(1.3991) | -58.2241***<br>(12.3109) | -3.5308**<br>(1.4506) | -18.2869***<br>(1.5873) | -3.1233***<br>(0.5813) |
| County GDP            | Yes  | Yes                   | Yes                      | Yes                   | Yes                     | Yes                    |
| County HPI            | Yes  | Yes                   | Yes                      | Yes                   | Yes                     | Yes                    |
| County Controls       | Yes  | Yes                   | Yes                      | Yes                   | Yes                     | Yes                    |
| County FE             | Yes  | Yes                   | Yes                      | Yes                   | Yes                     | Yes                    |
| Year FE               | Yes  | Yes                   | Yes                      | Yes                   | Yes                     | Yes                    |
| MSA FE                | No   | Yes                   | No                       | Yes                   | Yes                     | Yes                    |
| MSA-Year FE           | No   | No                    | Yes                      | No                    | No                      | No                     |
| Observations          | 541  | 322                   | 112                      | 273                   | 151                     | 122                    |
| Adjusted $R^2$        | 0.9901   | 0.9918                | 0.9940                   | 0.9882                | 0.9859                  | 0.9894                 |
| Sub-sample            | Full   | Full                  | Full                     | Large Metro           | Central City            | Suburb                 |

\* p<0.10, \*\* p<0.05, \*\*\* p<0.01





# Conclusions

- MDIs are examples of a fruitful symbiotic relationship between the markets, the state, and the community
- A significant and persistent minority credit supply gap results when neighborhoods lose the presence of local minority-owned banks.
- MDIs matter significantly in reducing the homeownership gap, every effort must be made to preserve and promote this unique banking ecosystem
- *Best effort basis* – Section 308 of FIRREA, tax holidays dedicated to minority bank investments and benefits in terms of regulatory ratios would be two steps in the right direction

