The Social Impact of Minority Depository Institutions: An Analysis of Mortgage Lending and Homeownership

National Bankers Association Foundation

What is A Minority Depository Institution?

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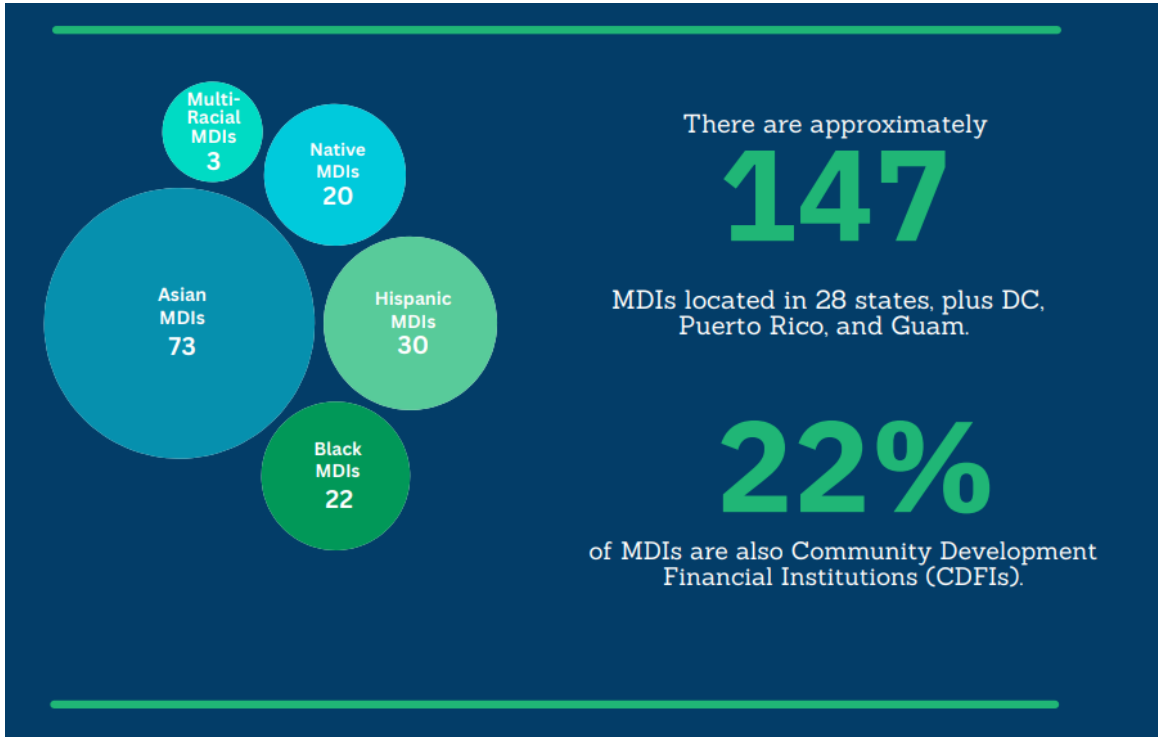
Mission-driven community banks that serve majority-minority and typically low-income urban, rural, and suburban communities:

- MDIs are present in 33 states/territories and have more than 1500 branches nationwide.
- 25% of MDI branches are in a zip code where that is the only bank present.
- The median asset size of an MDI is $400million, and the total MDI sector holds $344B in assets.
- Prior research including from FDIC (2019) finds that MDIs originate a higher share of lending to minority and LMI borrowers and communities.



Prior Research on MDI Social Impact

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- Research from FDIC in 2019 establishes that MDIs originate a higher share of their lending across major loan products to minority borrowers than do community banks and large banks.
- Research from the Chicago Fed in 2017 finds that MDI branches are more likely to be located in nonwhite communities, with lower incomes and higher poverty rates than the national averages.
- In our 2024 analysis of TransUnion credit data, we find that places with MDI branches have better credit health – as measured by factors including credit scores, credit utilization, and delinquencies rates – than demographically similar places that do not have MDI presence.

Data and Methods

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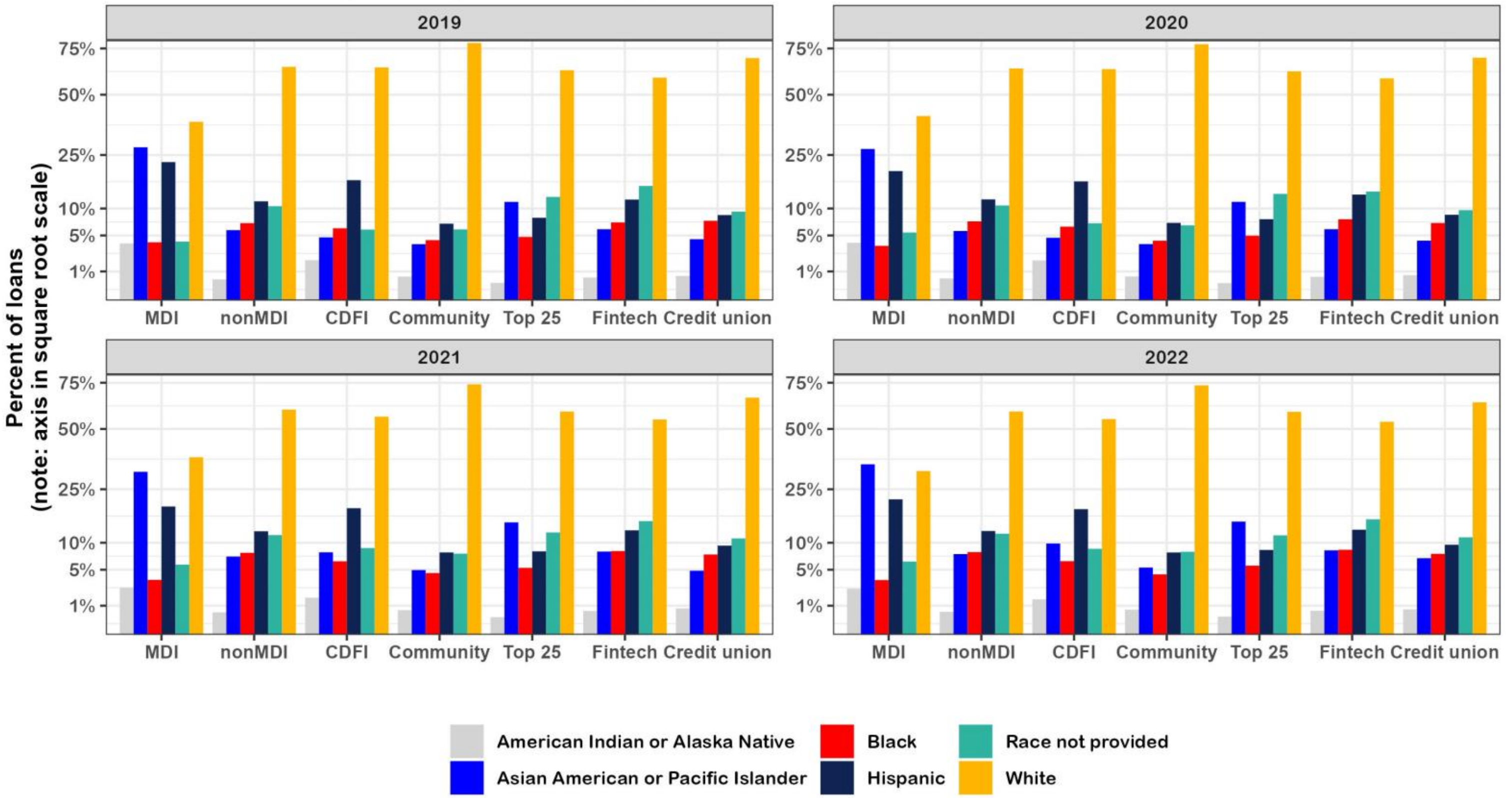
- We examined HMDA data to explore conventional mortgage lending from 2019-2022 by MDIs, CDFIs, Community Banks, Top 25 largest banks, Credit Unions, and Fintechs.
- We used Census data (ACS) to examine the demographics of the places that received lending.
- We used FEMA climate data to compare risk levels in mortgage lending locations.
- We conducted 7 interviews with MDI staff to explore how they lend, what challenges they face, and what strategies/partnerships could increase their ability to lend more.

Key Findings

- 65 MDIs issued mortgages in the 2019-2022 pandemic period, representing lending from nearly half (43%) of all MDIs.
- Collectively, MDIs originated 164,000 mortgages, for a total of nearly $58billion in originations.
- MDIs originated a higher share of mortgages to minority borrowers and to minority communities than did non-MDI lenders.
- MDIs had lower denial rates but higher interest rates.
- Communities that received MDI mortgage lending face disproportionate climate risk.

#1: Higher % of Loans to Minority Borrowers

- **58% of MDI mortgages from this pandemic period were originated to minority borrowers, versus only 27% of non-MDI mortgages**
- **MDIs outperformed all other financial institutions in originating mortgages to minorities in each of the four years – and specifically the share of loans to Asian, Hispanic, and Native American borrowers.**



Source: National Bankers Association Foundation analysis of HMDA Data

#2: Higher % of Loans to Minority Communities

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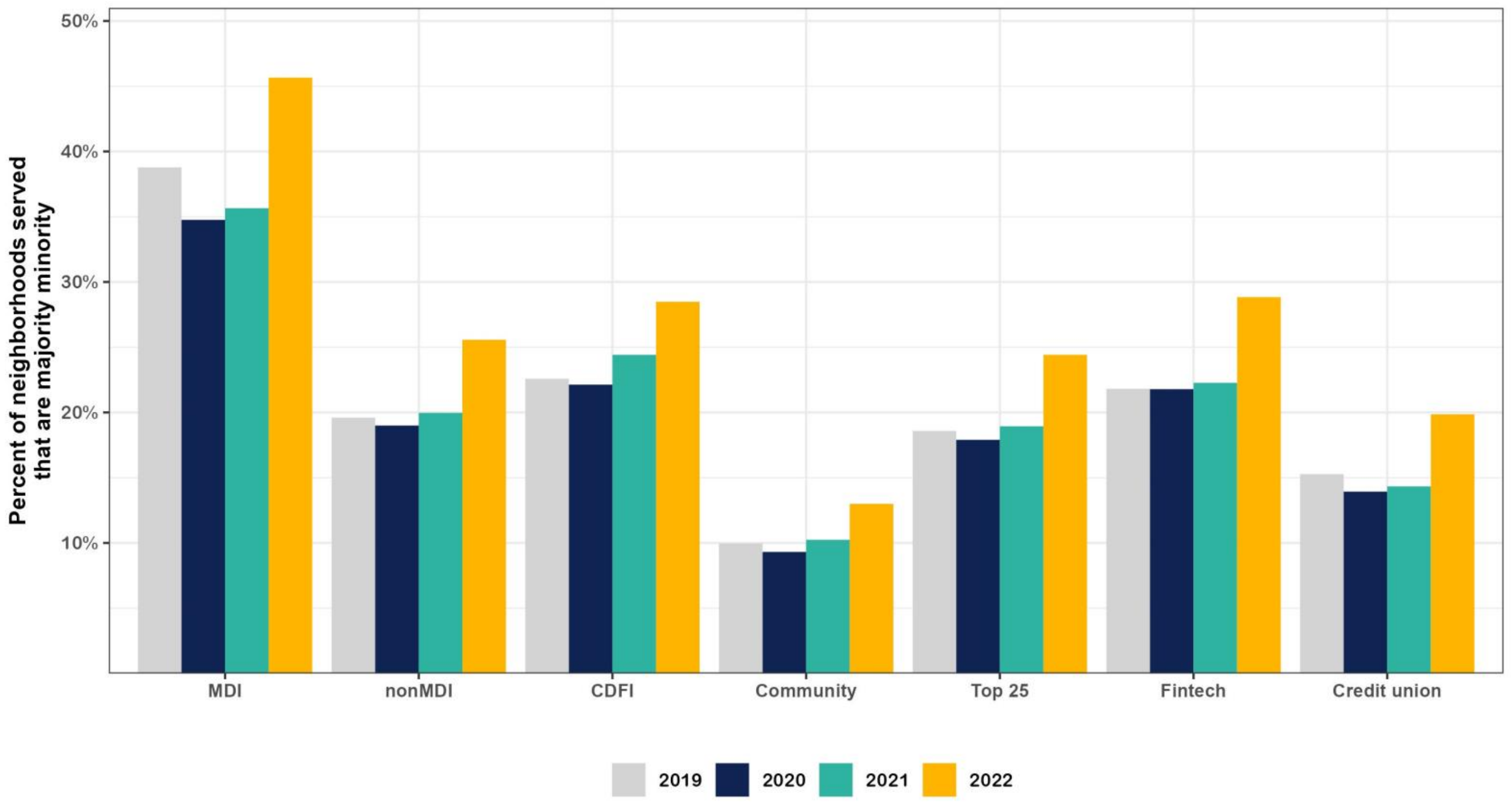
- **MDIs issued a greater share of loans to minority census tracts than all other lender types.**
- **Over the four-year period as a whole, 39% of MDI loans went to minority-majority census tracts versus only 21% of non-MDI loans.**



Source: National Bankers Association Foundation analysis of HMDA Data

#3: Higher % of Loans to LMI Communities

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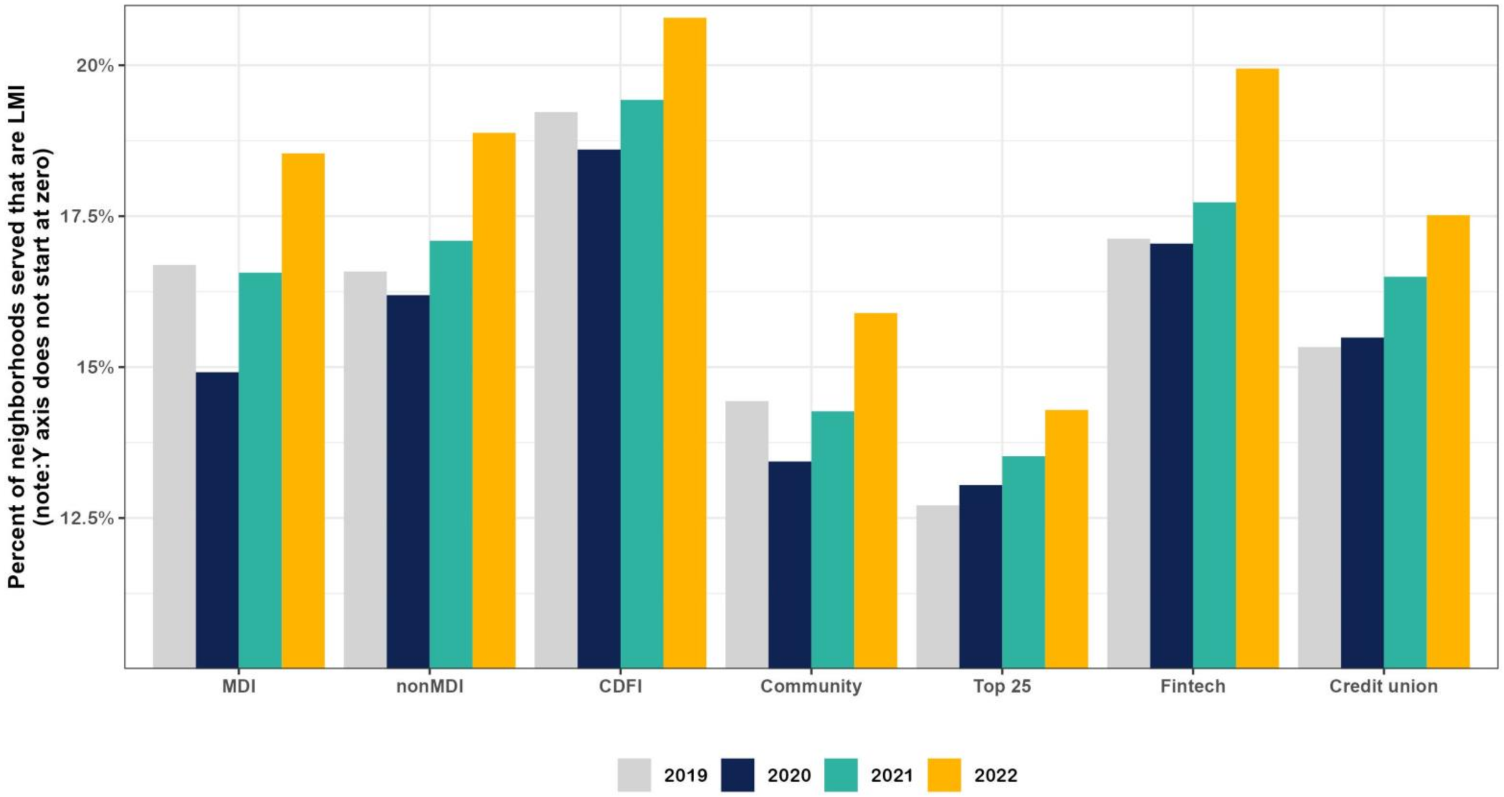
- **MDI and CDFI loans outperformed community banks, credit unions, and the largest banks in their share of lending to LMI census tracts.**
- **MDIs and CDFIs also issued a higher share of loans to LMI borrowers relative to other lender types.**



Source: National Bankers Association Foundation analysis of HMDA Data

#4: Higher Interest Rates Relative to Other Lenders

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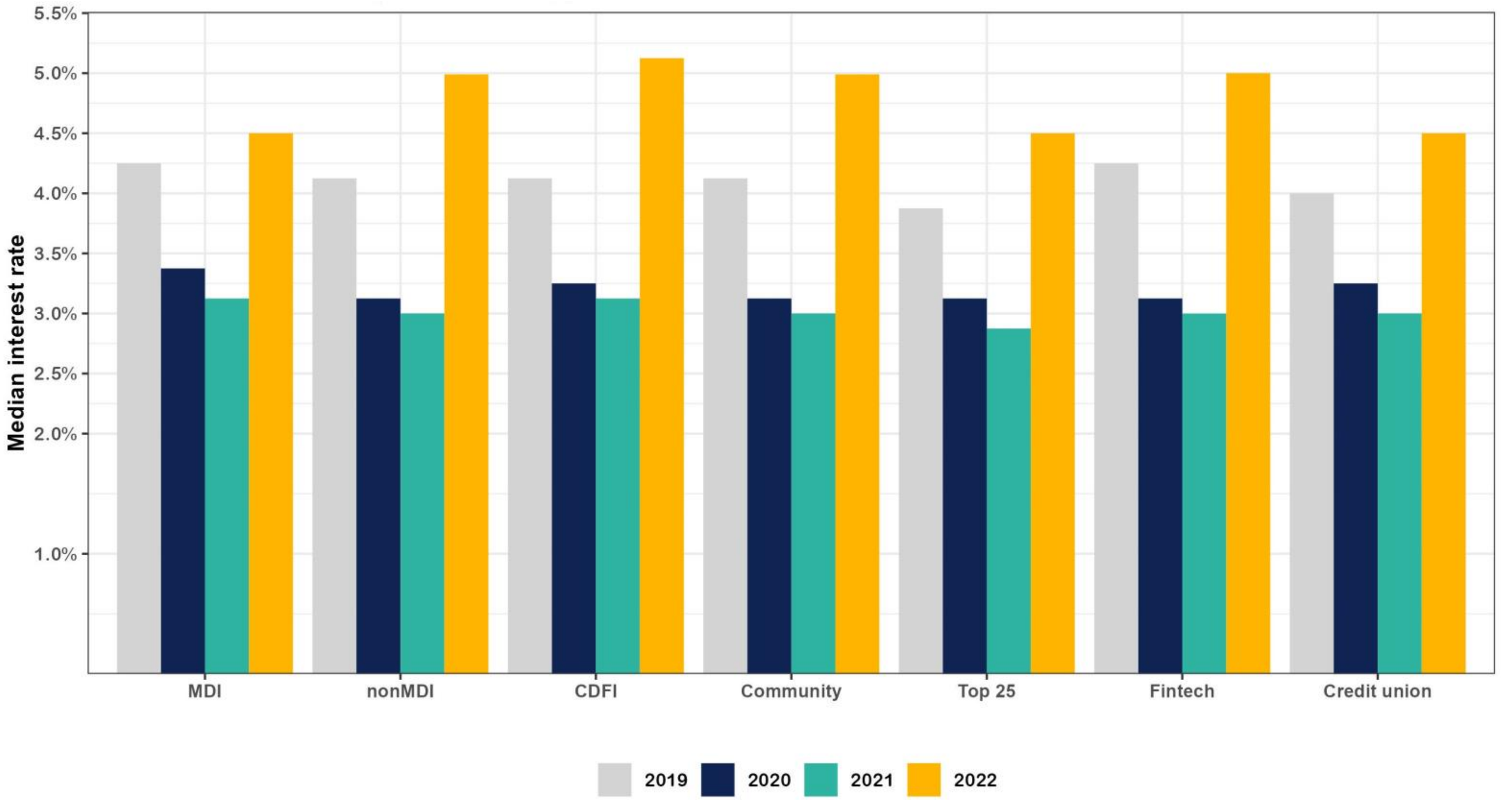
- Factors influencing interest rates include: credit scores, home location, home price, loan amount, down payment, loan term (duration), interest rate type (fixed or adjustable), and loan type (e.g., convention, FHA)
- MDIs likely have higher interest rates due to things like less collateral and lower credit scores among borrowers.



Source: National Bankers Association Foundation analysis of HMDA Data

#5: Lower Denial Rates Relative to Other Lenders

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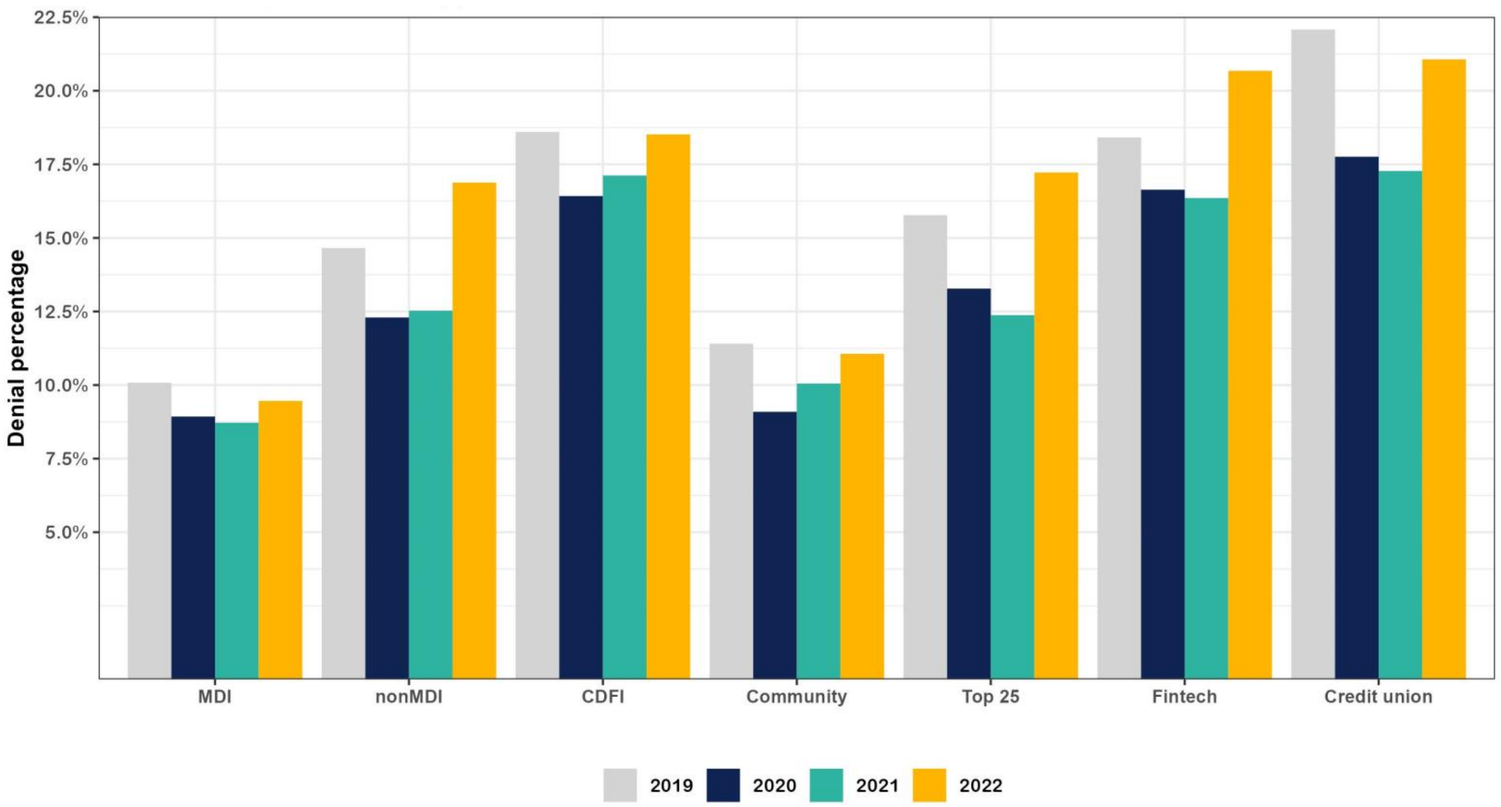
- **In all four years analyzed, MDIs had the lowest denial rates across all lender types.**
- **The lower MDI denial rates are particularly driven largely by Asian and Native American lenders who account for the greatest number of loan activity and who have the lowest denial rates among all MDI types**
- **When listing reasons for denials, MDIs are much less likely to list credit history and much more likely to list collateral relative to other lender types.**



Source: National Bankers Association Foundation analysis of HMDA Data

#6: Greater Climate Risk in MDI Lending Locations

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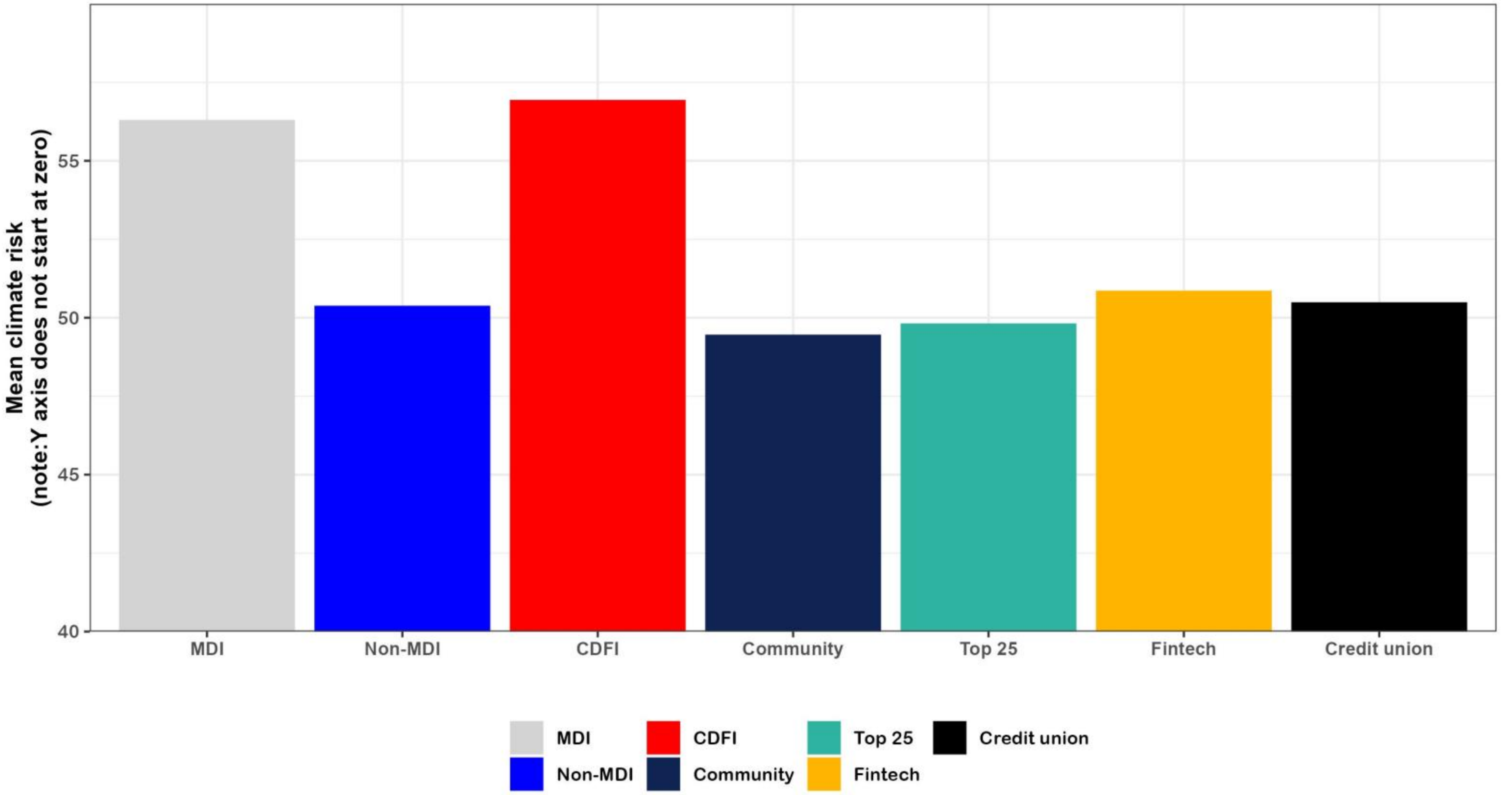
- The average climate risk score is higher in communities that received loans from MDIs and CDFIs.
- 17% of MDI loans went to high risk communities, compared to 14% of non-MDI loans.
- Loans from Hispanic, Black, and Native MDIs went to places with particularly high climate risk.



Source: National Bankers Association Foundation analysis of HMDA Data

Main Insights from Qualitative Interviews

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- MDIs are able to create the most social impact through portfolio loans because these loans can have more flexible underwriting criteria.
- Digitalization enables MDIs to lower origination and compliance costs and increase efficiency, but high touch and in-person still matters.
- The regulatory burden including the cost of generating compliance reporting is a barrier to entry or expansion for MDIs, and it also affects the risk appetite.
- In addition to providing mortgage lending, MDIs are also partnering with developers to create affordable housing, install solar installation, and revitalize cities block by block.
- Impact investors, philanthropists, and other stakeholders can support MDI mortgage lending through strategies that provide liquidity, absorb risk, subsize costs, grow capacity, and enable scale.

4 Moonshot Goals

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Create a secondary market specifically for mission-aligned portfolio loans;

Develop a digital marketplace to facilitate loan purchases for CRA credit;

Create tools and strategies to augment staff constraints and build backend support;

Pass legislation focused on creating equitable opportunity for MDIs in affordable housing.

Conclusion: Revitalizing Neighborhoods Block by Block

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"We have learned that that's if you really want to change a city and change the trajectory of individual property ownership, you really have to do a block at a time, you can't do one house here, five streets down another house, you really have to do a block at a time."

- MDI interviewee

Comments/Questions/Ideas? Email Me!

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