"There You Go Again": Setting the Record Straight on Large Banks' Branch Presence in LMI and Minority Neighborhoods

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The FDIC just released its latest national survey on findings on financial inclusion, the *2021 National Survey of Unbanked and Underbanked Households*, which documents continuation of the long-term trend of improving financial inclusion in the U.S., broad-based across income and demographic groups. Approximately 1.2 million more households were banked in 2021 compared to 2019, and the estimated percentage of unbanked households in the U.S. has fallen to 4.5, the lowest national unbanked rate since the FDIC survey began in 2009. These data show that the nation's large banks are expanding their presence among underserved customers through both branches and digital banking.

At the end of September, the Committee for Better Banks released a study of the 14 largest banks' decisions on where to locate new branches during the period 2010 through 2021. Specifically, the study examines the distribution of these new branches across neighborhoods classified by area income and percent minority population. The study found that this group of large banks established 4,130 new branches during this period, of which 61 percent were in middle- to upper-income, non-minority Census tracts as defined by the FFIEC, while 15 percent were in low- to moderate-income, predominantly minority Census tracts.

These numbers are portrayed as demonstrating a substantial bias toward locating new branches in higher-income and non-minority neighborhoods. For instance, CBB draws the harsh conclusion that "the 14 largest banks heavily favored wealthier white communities." Reuters reports the results accompanied by commentary that "the opening of new U.S. bank branches is leaving behind minority communities despite racial equality pledges from lenders."

In fact, branch openings have been *higher* in minority and LMI communities than in non-minority or wealthier communities after adjusting for the distribution of population growth. That is, the observed distribution does not, in fact, indicate a bias in favor of higher-income or non-minority areas.

Moreover, we show, based on aggregate industry data, that the banking industry has not been forsaking lower-income and minority areas. While the number of bank branches per capita has had a modest decline in recent years, lower-income and minority areas have experienced less of a reduction in branches per capita compared to higher-income and non-minority areas. Moreover, the average distance to the nearest bank branch has been little changed across all neighborhood categories.

Trends in Bank Branch Openings

As noted, the CBB study examines the geographic distribution of branch openings by the 14 largest U.S. banks between 2010 and 2021 across neighborhood economic and demographic classifications.[1] However, the study does not inquire whether the locational distribution of these newly established branches is proportionate to population growth trends, although the latter are a primary factor in determining which communities would be

[1] The 14 banks included in the study are JPMorgan Chase, Wells Fargo, U.S. Bank, PNC Bank, TD Bank, Huntington National Bank, Bank of America, Truist, Fifth Third, KeyBank, Capital One, Citizens, Citibank, and Bank of the West.

best served by new branches.

Therefore, the CBB study presents a critically incomplete picture of these banks' locational choices when establishing new branches. To present a more complete picture, we extend the CBB analysis by comparing the distribution of new branches opened by the 14 large banks between June 2010 and June 2022 across neighborhood categories to the population growth distribution. For convenience, we use a database from S&P Global Market Intelligence that incorporates annual FDIC Summary of Deposits banking structure data, including state, county, and Census tract locations of all bank branches (according to 2013 tract definitions); the institution to which the branch belongs; and the date the branch was opened.[2] We exclude Hawaii, where none of the 14 largest banks have had a presence.

In addition, the database provides annual income and demographic classifications of the Census tracts and annual tract population data. The Census tract classifications available in the data distinguish the four standard neighborhood income categories: low, moderate, middle, and upper; and the Federal Housing Finance Agency definition of minority Census tract—having median income less than that of the broader geographic area to which it belongs (metropolitan statistical area or non-metro portion of the state) and having at least 30 percent minority population. Following common practice, we combine low- and moderate-income Census tracts into the single, LMI classification.[3]

Table 1 presents the findings.[4] About 16 percent of the increase in the U.S. population between 2010 and 2021 occurred in areas classified as LMI, while 23 percent of branch openings of the 14 banks were in these areas.[5] About 25 percent of the increase in U.S. population occurred in areas classified as minority, which compares to 28 percent of the branch openings. Thus, contrary to how their branching activity has been portrayed, the 14 large banks opened a comparatively large share of branches in LMI and minority areas relative to the population growth occurring there.

Table 1: Branch Openings in 2010-2021 by Census Tract Income Range and CRA Minority Designation Analysis of Branch Accessibility

2022 Shares by Census Tract Incomes and Census Tract Race for the 14 Large Institutions					
	Low-Moderate Income	Middle Income	Upper Income	Minority	Non-Minority
2010 to 2022 Share of Branch Openings	23.4	30.2	46.4	27.5	72.5
2021 Number of Households (Millions)	33.5	54.6	36.8	30.2	69.8
2010 Number of Households (Millions)	31.9	51.2	32.9	30.6	69.4
Share of Population Increase	16.3	36.6	47.0	25.3	74.7

[2] We count only openings of new, full-service, brick-and-mortar or retail offices.
[3] We hold a tract's income and demographic classification constant over time, utilizing its 2021 income classification for the purpose of counting the number of branch openings by tract category.
[4] In calculating the distribution of branch openings across income categories, 62 branch openings were dropped due to missing income classification for the corresponding tracts. When looking at all tracts (for number of households and population increase), minus tracts in Hawaii, 976 tracts were dropped due to missing income classification and 73 tracts were dropped due to missing minority classification.
[5] The distribution of new bank branches across income and minority classifications in Table 1 differs a small amount from that calculated by CBB, most likely because CBB chose to utilize classifications different from the 2021 FHFA classifications we utilized.

Analysis Of Branch Accessibility

Households residing in more populated areas in the U.S. are not limited to large institutions but can select among many local banks, savings banks, and credit unions of diverse sizes to obtain banking services. Households in less populated areas may have fewer local options, but typically such areas are served by smaller banks. Thus, patterns of branch opening (or for that matter, opening net of closing) by the largest banks are not necessarily indicative of overall trends in accessibility of bank branches.

In a recent report from the Federal Reserve Bank of Cleveland, and in a previous BPI research note, changes in consumer access to bank branches over time were assessed using two primary measures of accessibility: average distance to the nearest branch as measured (in miles) from Census tract centroid locations, and number of branches per 10,000 people. Here, we update and extend that analysis, focusing on differences between majority minority and other Census tracts, and LMI versus non-LMI tracts.

As shown in Table 2, average distance to the nearest branch exhibits little change over this period within each of these tract categories. The number of bank branches per capita declined, both because of net decline in number of bank branches and increasing population, but larger declines occurred in non-minority and non-LMI areas. Thus, it does not appear that declining number of bank branches during this period has disproportionately affected minority and LMI communities or reduced their access to banking services.

Table 2: Branch Accessibility Trends by Census Tact Income and Demographic Classification

Year	Average Distance to Nearest Branch (Miles)			
	Majority Minority	Not Majority Minority	LMI	Non-LMI
2013	1.33	2.07	1.34	2.02
2022	1.34	2.10	1.33	2.06
2013-2022 Change	0.01	0.03	-0.01	0.04
Year	# of Branches Per 10,000			
	Majority Minority	Not Majority Minority	LMI	Non-LMI
2013	5.00	5.38	5.54	5.21
2022	4.39	4.62	4.84	4.47
2013-2022 Change	-0.61	-0.76	-0.70	-0.74

Table 3 presents the findings based on the same analysis with attention restricted to urban Census tracts (in metropolitan statistical areas.) Average distance to the nearest branch rose slightly over this period within each of these tract categories. Again, we observe relatively larger declines in the number of bank branches per capita within non-minority and non-LMI areas.

Table 3: Branch Accessibility in Urban Census Tracts by Tact Income and Demographic Classification

Year	Average Distance to Nearest Branch (Urban Only) (Miles)			
	Majority Minority	Not Majority Minority	LMI	Non-LMI
2013	0.68	0.71	0.65	0.72
2022	0.72	0.75	0.70	0.76
2013-2022 Change	0.04	0.04	0.05	0.04

Year	# of Branches Per 10,000 (Urban Only)			
	Majority Minority	Not Majority Minority	LMI	Non-LMI
2013	5.05	5.94	5.49	5.68
2022	4.40	5.12	4.77	4.89
2013-2022 Change	-0.65	-0.82	-0.72	-0.79

Concluding Remarks

Reports that recent trends of branch opening and closing exhibit substantial bias in favor of higher-income and non-minority communities do not hold up against closer examination of a more complete set of data. Contrary to how their branching activity has been portrayed, the nation's largest banks opened a comparatively large share of branches in LMI and minority areas relative to population growth. While nationwide, the number of bank branches per capita has declined, larger declines have occurred outside of LMI and minority communities. Average distance to the nearest bank branch has been little changed in recent years, across all neighborhood categories examined.

Finally, it is worth reiterating an important point from the previous BPI research note mentioned above, that household financial inclusion has been improving despite the decline in number of physical bank branches over the past decade. The percentage of households that are unbanked has been declining across all income and demographic groupings. In part, this reflects the fact that banking has become more convenient and accessible through expanded use of internet banking and mobile apps.