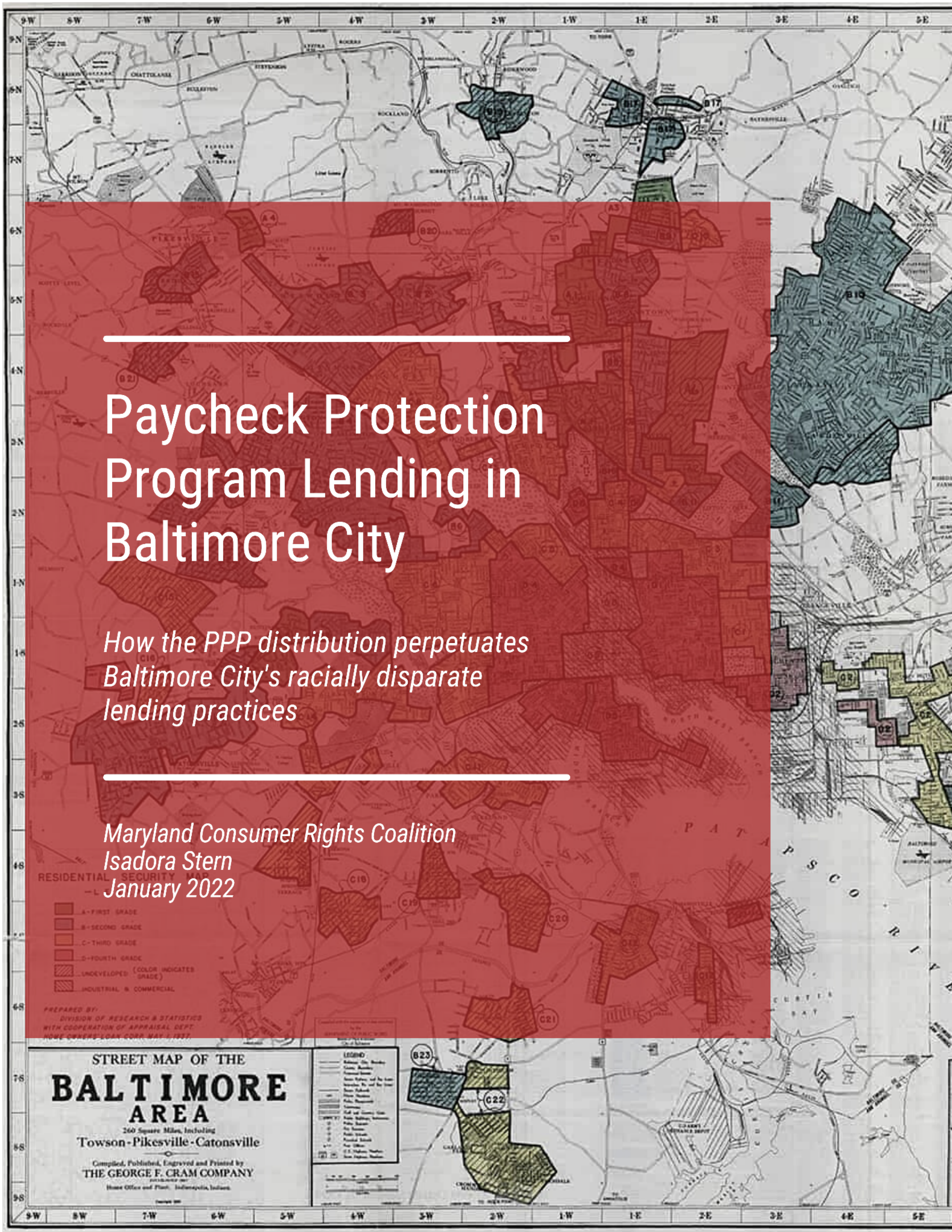

Paycheck Protection Program Lending in Baltimore City

How the PPP distribution perpetuates Baltimore City's racially disparate lending practices

Maryland Consumer Rights Coalition
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January 2022

MCRC

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About the Maryland Consumer Rights Coalition

The Maryland Consumer Rights Coalition (MCRC) advances economic rights and financial inclusion through research, education, advocacy, direct service, and organizing. Founded in 2000, MCRC works with its 8,500 supporters and members to expand economic rights and reduce the racial wealth gap at the local, state, and federal level.

Acknowledgements

Research support for this report was provided by the National Community Reinvestment Coalition (NCRC). The views and opinions expressed in this article are those of the author and do not necessarily reflect the views or policy positions of NCRC.

The Paycheck Protection Program

The COVID-19 public health crisis has devastated both the economic and physical health of Americans. While communities across the nation have experienced the burdens of this crisis, the impacts have been especially hard-felt in low-income communities of color that have experienced disinvestment for decades.[1]

The systematic disinvestment of low-income African-American communities is a result of redlining, a practice that intentionally restricted investment in parts of American cities largely based on the race of the people that lived there.[2] The impacts of redlining have been far reaching and influence where capital does and does not flow within America's cities. Federal response to the health and wealth crisis brought on by COVID-19 shows us that investment is still restricted by the legacy of redlining.

The Federal Paycheck Protection Program was established by the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act to help businesses keep their workforce employed during the COVID-19 crisis. Since its launch in April 2020, the program has injected more than $790 billion into the nation's businesses. [3] However, while the program was administered through the Small Business Administration and the Treasury Department who issued guidance to lenders to ensure that the program prioritized underserved markets, national analysis found widespread racial disparities in how those loans were distributed.[4]

Baltimore

The Federal Housing Administration's practice of redlining has had a devastating impact on Baltimore City's physical and financial landscape. Coined by Dr. Lawrence Brown, many advocates use the terms the "Black Butterfly" and "White L," to describe the two very different Baltimores we see today. The low-income, majority Black neighborhoods that make up the wings of the "Black Butterfly '' span East and West Baltimore and are bisected by the "White L," an affluent area around the Inner Harbor that stretches North to the wealthy neighborhoods of Homeland and Guilford.[5] These neighborhoods, segregated by over a century of structural racist policies and practices, maintain their shape through patterns of lending that continue to favor the "White L" over the "Black Butterfly" time and time again.

The COVID-19 impact on Baltimore City's economy was catastrophic. However, its harm was not felt equally across industries or races. Baltimore City experienced an 8.8% annual unemployment rate in 2020 compared to the 5.2% national average. [6] Both averages were considerably higher than in previous years. While unemployment was documented across many industries, the majority of jobs lost in the

[1] https://ncrc.org/holc-health/

[2] https://urbanhealth.jhu.edu/what-we-do/social-determinants-health-symposium/2016/SDH_2016_Summary_Report.pdf

[3] https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/ppp-data

[4] https://www.ncrc.org/lending-discrimination-within-the-paycheck-protection-program/

[5] https://www.baltimoresun.com/citypaper/bcpnews-two-baltimores-the-white-l-vs-the-black-butterfly-20160628-htmlstory.html

[6] https://msa.maryland.gov/msa/mdmanual/01glance/economy/html/unemployrates.html

crisis were in industries that pay low average wages, with the lowest-paying industries accounting for 30% of all jobs but 53% of the jobs lost from February 2020 to August 2021.[7] Black and Latino employment is disproportionately concentrated in these lower wage industries.[8] Furthermore, Black and Latino workers experienced a far slower jobs recovery than white workers; 8.8% of Black workers and 6.4% of Latino workers were unemployed in August 2021 compared to 4.5% of white workers.[9] Baltimore's low-income, Black communities were hit hardest by the COVID-19 pandemic. Federal aid intended to mitigate job loss and keep businesses open should have been commensurate with the communities' needs.

Analysis of the Paycheck Protection Program (PPP) lending in Baltimore shows a marked improvement from the starkly stratified lending patterns of the past, but still has a way to go to end these practices and repair the damages they caused. Overall, more capital was lent in Baltimore's majority Black zip codes, however this lending was not proportional to the population size and density of these areas. Baltimore City is 62.35% Black or African American and 30.46% white, yet only 54.83% of the total loan amount from the top ten lenders went to majority Black zip codes. Additionally, there are 9,659 people per square mile on average in these zip codes compared to the 5,264 people per square mile on average in non-Hispanic white majority zip codes. The conspicuous difference between the population densities for these areas should have been cause for further lending in majority Black zip codes.

Methodology

Using data from the National Community Reinvestment Coalition (NCRC), MCRC analyzed the lending trends of ten of the largest lenders in the state, representing over 98% of the market: Bank of America, M&T Bank, Wells Fargo Bank, PNC Bank, Truist Bank, Howard Bank, The Harbor Bank of Maryland, Fulton Bank, TD Bank, and Capital One* (see appendix A for market share). Market share was gathered using the Federal Deposit Insurance Corporation's (FDIC) Deposit Market Share Report. Lending from credit unions, fintech, and other non-bank lenders was not analyzed in this report because these financial institutions are not supervised by the Community Reinvestment Act (CRA) regulators responsible for overseeing and enforcing banks to meet their CRA obligations.

Using racial demographic data by zip code from the *Statistical Atlas*, racial groups were classified as the majority if that group made up more than 50% of the zip code's population; if a zip code had no majority, they were labeled "no majority." "White" is the population of all non-Hispanic residents in a zip code and "Black" is the population of all Black or African American residents in a zip code. There are no zip codes where another racial or ethnic demographic comprises the majority demographic group in a zip code. Once zip codes were classified by their racial majority, they were aggregated into the three classifications mentioned above.

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[7] https://www.cbpp.org/job-losses-largest-in-low-wage-industries-15

[8] http://www.jacob-france-institute.org/wp-content/uploads/Analysis-of-Patterns-of-Employment-by-Race-Report_v2c-Online-Version.pdf

[9] https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-economys-effects-on-food-housing-and

*Data for Shore United Bank was unavailable

The population size and density were also gathered from the *Statistical Atlas.* Zip code demographic and population data are inclusive, containing data sets from full zip codes, several of which extend beyond the county lines of Baltimore City.

Using a Pearson correlation coefficient analysis, we calculated the relationship between the racial make-up of a zip code and the total dollar amount lent and the number of loans in each zip code. The percentage of non-Hispanic white population of a zip code was used as the y variable. A Pearson correlation coefficient analysis was also conducted between the population size of a zip code and total dollar amount lent and the number of loans in each zip code. All variables were calculated by zip code. However, no statistical significance was found. Census tract level analysis would show clearer lending patterns both in relation to variables of race and population size and density.

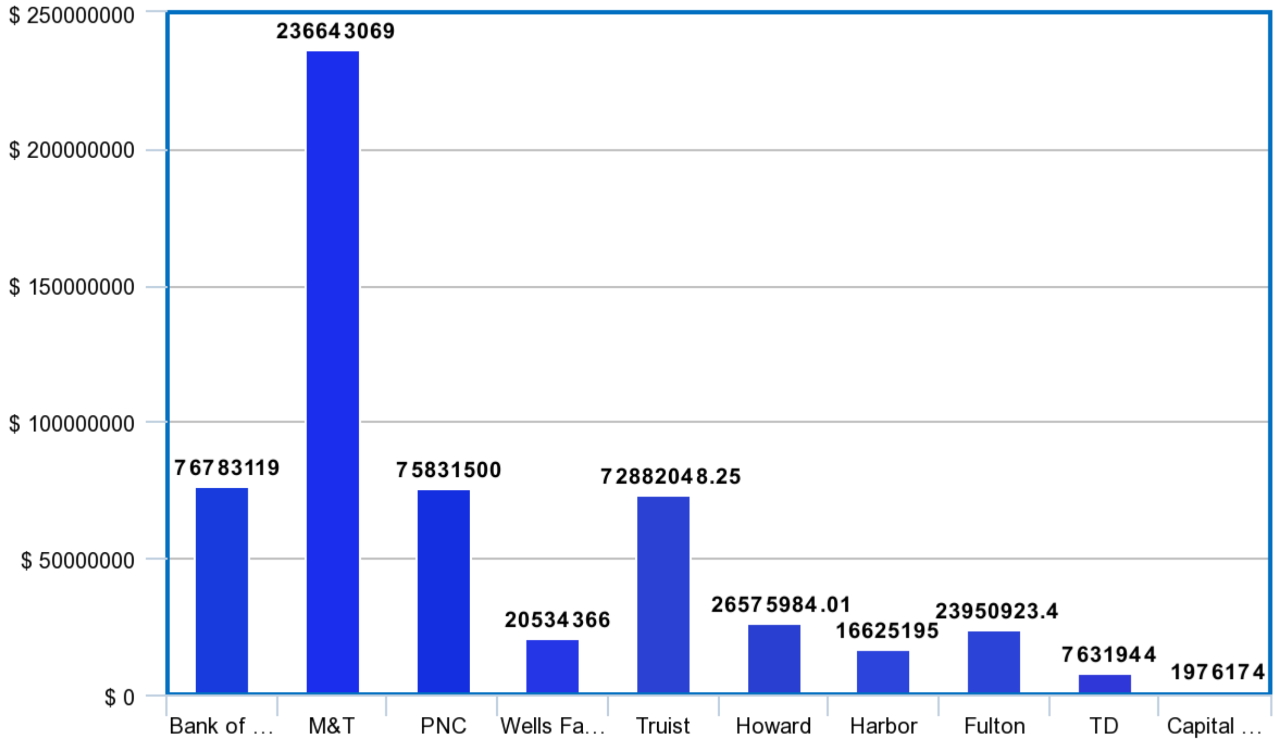
The geographic coordinates (latitude and longitude) provided in the data were mapped in ArcGIS. The lenders' loan data was mapped by zip code, loan amount, and organization type. To further visualize the data, maps and bar charts were created in Tableau.

Findings

<u>Overview</u>

The data shows that Baltimore City's top ten lenders distributed 3,840 loans and $559,639,373.57 from the Paycheck Protection Program to businesses across the city. Image 1 shows the total dollar amount of PPP loans issued by bank and Table 1 displays the total dollar amount of PPP loans issued by bank compared to market share.

Image 1. Total Dollar Amount of PPP Loans Issued by Bank (Banks are in order of Market Share*)



**See Appendix A for FDIC Deposit Market Share Report*

M&T is the second largest market share holder in Baltimore City and lent a total of $236,643,069 which is 42% of the total dollar amount lent in the city by the top ten banks. This is by far the highest percent of the total dollar amount lent in the city. Conversely, Wells Fargo, the third largest bank by market share, lent a total of $20,534,366, making it the fourth smallest PPP lender in the city; Wells Fargo severely under-lent given the bank's share of the market. Bank of America, the number one deposit holder in the city with 20% more deposits than the next largest bank (M&T), lent $76,783,118.91, just shy of 14% of the total dollar amount lent in the city by the top ten banks. This is comparable to the amount lent by PNC and Truist banks, the fourth and fifth largest shareholders in the city.

To examine how much and where PPP funding was allocated through the city, a zip code level analysis was conducted. Table 1 and 2 show how the loan numbers and amounts were distributed across zip codes.

Table 1. Total number of loans by racially aggregated zip codes, by bank

Zip codes aggregated by racial majority				
	Majority White Zip Codes	**Majority Black Zip Codes**	**No Racial Majority**	**% Difference Between # of Loans in Black and White Zip Codes**
Total # of loans	1723	2088	29	19.2%
By Bank				
BoA	455	631	13	32.4%
M&T*	638	592	7	7.5%
Wells Fargo	119	212	5	56.2%
PNC	173	222	1	24.8%
Truist	138	158	1	13.5%
Howard*	77	55	0	33.3%
Harbor	22	117	1	136.7%
Fulton*	63	56	1	11.8%
TD*	24	20	0	18.2%
Capital One	14	25	0	56.4%

**Higher number of loans in white zip codes*

Overall, more loans were lent to businesses in majority Black zip codes. Of the almost 4,000 SBA loans distributed through the city from these lenders, 2,088 (54%) were lent to businesses in majority Black zip codes. The largest difference in the number of loans between majority white and majority Black zip codes was the 136.7% difference in Harbor Bank's lending. Harbor Bank is the only Black-owned and managed commercial bank in Maryland. This may account for the bank's consistent leadership in lending in majority Black zip codes. Four banks (M&T, Howard, Fulton, and TD) distributed a higher number of loans in majority white zip codes. While M&T Bank distributed the greatest amount of PPP loans in Baltimore City, they did lend slightly more (7%) in white zip codes than in Black zip codes. More troubling, Howard Bank, the sixth largest market share holder in Baltimore City, lent 33% more to majority white zip codes than to Black zip codes. Fulton and TD banks, which have smaller footprints and market shares in Baltimore City, lent 11.8 % and 18.2% more in white zip codes.

Table 2 depicts the dollar amount of loans in majority white and majority Black zip codes.

Table 2. Total loan amount by racially aggregated zip codes, by bank

Zip codes aggregated by racial majority				
	Majority White Zip Codes	**Majority Black Zip Codes**	**No Racial Majority**	**% Difference in Amount Lent Between Black and White Zip Codes**
Total Loan Amount	$247,457,768.52	$306,738,160.55	$5,443,444.50	21.4%
By Bank				
BoA	$32,301,355.00	$42,773,287.91	$1,708,476.00	27.9%
M&T	$108,539,290.00	$125,304,564.50	$2,787,602.50	14.3%
Wells Fargo	$9,472,098.00	$10,935,665.00	$126,603.00	14.3%
PNC	$30,358,200.00	$45,094,600.00	$378,700.00	39.1%
Truist	$34,187,701.66	$38,672,646.59	$21,700.00	12.3%
Howard	$12,107,573.12	$14,468,410.89	$0.00	17.8%
Harbor	$1,052,400.00	$15,564,095.00	$8,700.00	174.7%
Fulton*	$12,281,590.74	$11,474,332.66	$195,000.00	6.8%
TD*	$6,579,929.00	$1,052,015.00	$216,663.00	144.9%
Capital One	$577,631.00	$1,398,543.00	$0.00	83.1%

**Higher amount lent in white neighborhoods*

Of the total loan amount lent in Baltimore City, $306,692,893.14 (54.8%) was designated to businesses in majority Black zip codes. The largest difference in amount lent between the aggregated zip codes was the 174.7% difference in Harbor Bank's lending. Of the money lent in zip codes with a racial majority, 94% of Harbor Bank's lending occurred in majority Black zip codes. Fulton Bank and TD Bank both lent more in majority white zip codes than in majority Black zip codes. Fulton Bank lent 51% of its total loan amount to majority white zip codes, or $807,258.08 more. TD Bank lent $5,527,914.00 more in majority white zip codes causing a 145% difference in the bank's lending between majority white and majority Black zip codes. TD is the second smallest market share holder among the banks analyzed; however, it lent 86% of its total loan amount to majority white zip codes.

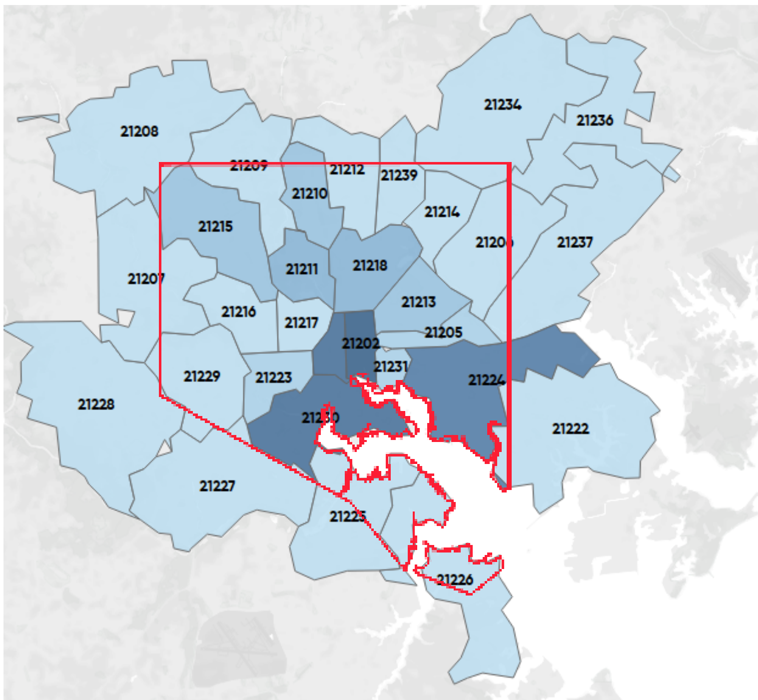
Fulton and TD banks provided both a greater number of loans and larger loan amounts to majority white zip codes. Although Howard Bank made a greater number of loans in majority white zip codes, they loaned 17.8 % more money to majority Black zip codes.

Lending and Population

Baltimore City is 62.35% Black or African American and 30.46% white. However, as seen from Table 1 and 2, lending is not proportional to these demographics. The data show that the lending was marginally larger in majority Black zip codes; however, if lending were to truly reflect the population and needs of Baltimore City, lending should have been allocated to more populous and majority Black zip codes.

Lending and Race

To determine whether there were any patterns between bank lending and racial majority in zip codes, the data was further analyzed for correlation coefficient (r) to express the relationship between lending variables and demographic variables. Findings (Appendix C) were weak and largely statistically insignificant.



While no statistically significant relationship was found between total dollar amount lent and the racial make-up of the zip codes, Image 2 does indicate that there was more lending in zip codes that fall within the “White L” of Baltimore City.

There were higher amounts of lending in zip codes 21202, 21230, 21226 which largely comprise the bottom of the “White L.” These zip codes contain the Inner Harbor, Federal Hill, Fells Point, and Canton - neighborhoods that are highly developed and deeply white (more than 70% white). The lightest colored zip codes received lower amounts of funding. These zip codes hug the perimeter of the map and dip into the center of the city from East and West, shadowing the wings of Dr. Lawrence Brown’s “Black Butterfly.”

Loan Recipients by Business Type

According to Small Business Administration data, sole proprietors, independent contractors and self-employed individuals made up more than 20% of PPP loans nationwide last year. Of the loan recipients analyzed in this report 9.6% were nonprofits and 7.6% were sole proprietors, independent contractors and self-employed individuals. The majority of loans (80%) went to LLCs and corporations. The top five loan recipients that received the largest loans from all ten lenders are described in Table 3.

Table 3. Top Five Loan Recipients

Lender	Loan Amount	Organization	Zip Code	Org Type	Number of Jobs
M&T	$8,587,972	Miles & Stockbridge P.C.	21202	Corporation	416
M&T	$7,222,937	ClearOne Advantage LLC	21224	LLC	498
M&T	$6,174,040	Catalyst Solutions Inc.	21201	Corporation	321
M&T	$5,523,037	Hord Coplan Macht, Inc.	21202	Corporation	314
M&T	$5,489,412	Chase Brexton Health Services, Inc.	21201	Non-Profit Organization	430

All of the above organizations are located in the Inner Harbor or Canton neighborhoods of Baltimore. Like M&T, the largest lending amounts from the other top ten banks were primarily distributed in majority white zip codes and through the “White L.”

A national study of PPP loans conducted by Public Private Strategies found that the success rate of white applicants was 60% compared to a success rate of 29% for Black applicants.[10] While this analysis was not able to examine loans by applicant (only volume and amount of loans), overall, it does show more lending in majority Black zip codes although lending seems to still be concentrated in the “White L” and not proportional to the population demographics in the city.

Summary of Findings

The Paycheck Protection Program was intended to help support job retention especially in areas hardest hit by the pandemic, and yet job recovery for American workers of color is far slower than the job recovery for white workers. Under the Community Reinvestment Act, these financial institutions have a continuing, affirmative obligation to meet the needs of the communities from which they take deposits - especially in low and moderate-income neighborhoods like many in Baltimore City. The top ten banks in Baltimore hold over 98% of the deposits in the city and must be held responsible to the communities from which their capital flows.

As described above, the majority of the banks with the largest market shares in Baltimore City provided a greater number of loans and a larger dollar amount of lending in majority Black zip codes. This is a positive trend after decades of disinvestment in majority Black zip codes. However, three banks provided a greater number of loans in majority white zip codes and two banks both provided a greater number and loan amount in majority white zip codes. This is troubling for banks that are among the top ten deposit-holders in Baltimore City.

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10 https://irp-cdn.multiscreensite.com/45d2c930/files/uploaded/Distribution%20Version%20%2812.10.2020%29%20for%20RMS%20Poll%20Launch%20v1.pdf

Moreover, while the majority of banks' PPP lending favored majority Black zip codes, lending patterns were still concentrated in the "White L", particularly around the Inner Harbor, with more dispersed lending across the "Black Butterfly". Lending patterns still do not reflect the racial demographics of Baltimore City - if they did, one would expect to see lending approaching 60% in majority Black zip codes and 30% in majority white neighborhoods.

Policy Recommendations

Policy

- Create a public banking option at the state or city level with an assessment component to analyze the impact public banking has on lending patterns. A public banking option would ensure that lending was conducted in the public interest and commensurate with the needs of the community
- Establish a state level Community Reinvestment Act (CRA) that extends CRA requirements to a more diverse set of financial institutions including credit unions, fintech, and other non-bank lenders
- Tie city bank deposit decisions to equity considerations. Using the assessment from the report outlined below, the city would be obligated to move city money to a bank that best represents equitable lending

Research

- Research bank lending and branching in a biannual report. Reporting on bank mortgage, small business lending, and branching by census tract will indicate banks' equity considerations and inform the city's banking decisions

Appendix A: FDIC Deposit Market Share Report, deposits as of June 30, 2021

Institution Name	No. of Offices	Deposits ($000)	Market Share
Bank of America, National Association	16	18,070,470	45.39%
Manufacturers and Traders Trust Company	20	10,823,729	27.19%
Wells Fargo Bank, National Association	16	4,160,222	10.45%
PNC Bank, National Association	11	3,560,617	8.94%
Truist Bank	12	1,506,682	3.78%
Howard Bank	3	312,817	0.79%
The Harbor Bank of Maryland	5	231,474	0.58%
Fulton Bank, National Association	3	196,273	0.49%
TD Bank, National Association	1	140,608	0.35%
Capital One, National Association	3	100,394	0.25%