Home Biased Credit Allocations

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Abstract

Banks make more lending and open more branches near their CEO's birthplace. This reflects favoritism rather than information advantages: the effect is stronger during economic downturns, among altruistic CEOs, in struggling counties, and among marginal mortgage applicants. Furthermore, while home 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.

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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, 2012) 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.

We define 'home' as the location where the bank CEO was born, hypothesizing that a CEO's emotional connections to their hometown communities make them more likely to favor their hometown areas over others in making credit allocation decisions.[1] This hypothesis is grounded in the psychology concept of place attachment, which argues that people tend to gravitate toward familiar places such as their hometown (e.g., Hernandez et al., 2007; Low and Altman, 1992).

Consistent with this, we find that banks make more lending and open more branches in areas near their CEO's birthplace. This reflects favoritism rather than information advantages: the effect is stronger during economic downturns, among altruistic CEOs, in struggling counties, and among marginal mortgage applicants. We interpret these results as reflecting the CEO's altruistic intention to help residents near their hometown secure a mortgage loan and buy houses. Intriguingly, while home favoritism does not affect the bank's profitability, it leads to positive economic outcomes in counties exposed to greater favoritism.

[1] Of course, CEOs would not personally involve in making local lending decisions. However, there are many ways CEOs could influence the process without directly involving in making the decisions. For instance, CEOs could open more branches (shown later) and encourage local branch managers to lend more in relevant regions.

To examine our hypothesis, we hand-collect data on the CEO's birthplace from multiple sources, including NDDB, Marquis Who's Who, *ancestry.com*, CEO appointment announcements, and obituaries. This allows us to identify precise birth information up to the county-level of nearly 55% of CEOs of all publicly-listed US banks between 1999 and 2014.[3]

Our empirical strategy takes advantage of the fact that most banks lend in multiple geographic locations and exploits within-bank variation in the proximity between the bank CEO's birthplace county and the county where lending decisions take place. With the inclusion of bank fixed effects and county-year fixed effects, we essentially compare lending decisions of the same bank in the same year in two identical counties but vary only by distance to the CEO's hometown. 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, sets a high bar for alternative stories.

We find that, within the same bank, counties located nearer to the bank CEO's birthplace enjoy a higher mortgage approval rate, higher mortgage originations growth and higher branch growth rate compared to counties located further away. The effects are statistically significant and economically meaningful. A one standard deviation closer to the CEO's hometown is associated with a 9% increase in mortgage origination growth and a 12% increase in branch growth relative to the mean. Thus, the home favoritism effect is not only detected among micro-level decisions such as mortgage lending but also extends to branch opening, a major business decision of a bank. Importantly, all our tests control for the proximity to the bank's headquarter location, indicating that our CEO's home favoritism effect is conceptually distinct from the HQ effect (Giroud, 2013).

[3] This is a significant improvement relative to prior studies (e.g., Bernile, Bhagwat, and Rau, 2017) who are able to identify birth locations for about 30% of CEOs in the S&P1500 sample.

To further increase the precision of our estimates, we condition the baseline findings on the CEO's degree of attachment to their hometown. For example, individuals who spend more time in their birthplace should develop deeper connections to their hometown. We find that our results become even stronger for CEOs who undertake an undergraduate degree in their birth state and thus, are likely to spend most of their formative years there.

Next, we employ multiple strategies to bolster our confidence in a causal interpretation that CEOs favor counties closer to their hometown over others. The main endogeneity challenge is the endogenous CEO-bank matching; that is, there could be unobserved bank heterogeneity that simultaneously explains the matching between the CEO to a bank and the bank's mortgage and branching decisions. Helpfully, the inclusion of bank fixed effects means that our regressions are identified by CEO changes *within* the same bank. This differences out any time-invariant bank characteristics that could simultaneously explain a CEO's preference to join a particular bank and the bank's mortgage and branching decisions near the CEO's hometown.

However, the fixed effects approach does not address CEO-bank matching based on time-*varying* factors. For instance, banks with a plan to expand to California may appoint a California-born CEO, and at the same time, implement strategies to increase lending in California. If so, CEO turnovers could be triggered by changes in bank characteristics that also affects local lending, causing us to over-attribute the home favoritism effect to the CEO (Fee, Hadlock, and Pierce, 2013). We employ two strategies to address this concern.

Our first strategy exploits changes in the proximity to the CEO's birthplace around exogenous CEO turnovers; that is, turnovers arising from natural causes (death or illness), planned retirements, or scheduled succession plans. These turnovers have exogenous timing and are unlikely to be driven by endogenous policy changes set by the board (see Bushman et al. (2018); Dittmar and Duchin (2016)). Therefore, they produce a shock to the proximity to

the CEO's hometown while being exogenous to local lending and branching decisions. As an alternative, we employ a subset of internal CEO turnovers when the incoming CEO is an existing employee within the bank. 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 business strategies. Thus, internal turnovers produce a shock to the proximity to the CEO's hometown while minimizing large changes in bank policies. Reassuringly, we continue to detect statistically significant and economically meaningful home favoritism effects around exogenous and internal CEO turnovers.

As a second identification strategy, we follow Opler and Titman (1994) and Yonker (2017b) and exploit exogenous variation in macroeconomic conditions, i.e., periods of economic boom and bust, to further alleviate concerns about endogenous CEO-bank matching. As banks do not know in advance when the economy will enter boom and bust cycles,[4] they would not be able to appoint CEOs in anticipation of these events. Therefore, any change in bank policies during these macroeconomic shocks should be exogenous to bank-CEO matching and can be directly attributed to the CEO. Intriguingly, we find that the home favoritism effects become particularly salient during bust periods (when credit conditions are tight and an extra favor from the CEO would make a large difference to their hometown communities) but are insignificant during boom periods (when credit is abundant and additional credit is unlikely to matter).

In sum, the above evidence supports a causal interpretation of CEO's favoritism towards their hometown with respect to lending and branching decisions. Furthermore, the home favoritism effects persist even after we control for other personal attributes of the CEO,

[4] Fahlenbrach and Stulz (2011) show that CEOs of banks whose incentives were better aligned with shareholders suffered larger losses in their compensation during the crisis, suggesting the inability of bank CEO's to anticipate the crisis.

including education backgrounds, personal and professional experiences, pay elements, as well as other physio-psychological factors such as overconfidence.

Next, we attempt to disentangle between the two key explanations –information advantages and altruistic home attachment– behind the home favoritism effects. On the one hand, the information explanation suggests that CEOs make more lending and branch openings near their hometown because they have superior information about the local communities. 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 greater and more efficient allocations of credit to areas nearer to the CEO's birthplace[6] (see Agarwal and Hauswald (2010)). Therefore, if CEOs make more lending near their hometown as a result of information advantages, this should lead to positive bank outcomes.

On the other hand, 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 (Proshansky, 1978) and motivate them to invest time and money in the welfare of residents in their place of attachment (e.g., Manzo and Perkins, 2006; Vaske and Kobrin, 2001). Under this explanation, the performance effect linked to home attachment should be nonpositive.

We find strong empirical support for the altruistic home attachment explanation. First, banks that lend more in the CEO's birth state do *not* have a higher profitability (ROA) nor a better loan performance (bad loans/total loans) compared to other banks. These banks also do not make more lending (total loans/total assets). Thus, by favoring their hometown, CEOs

[6] See Malloy (2005), among others, for arguments about the information advantages of local agents; and Agarwal and Hauswald (2010) for arguments about the role of information in facilitating bank lending.

simply reallocate credit from counties located further away to counties proximate to their birthplace; and this does not benefit nor harm the bank's bottom line.

Second, we find that the home favoritism effects concentrate among CEOs whose cultural heritage places a greater emphasis on patriotism, selflessness, humane-orientation, and collectivism.[7] These CEOs are more altruistic and believe that investing in their hometown is a way to contribute back to their community.[8]

Third, the home favoritism effects are more salient among struggling counties (i.e., higher unemployment and lower home ownership rate) and struggling applicants (i.e., poorer, riskier, and non-white applicants). These applicants typically face a higher barrier in accessing bank credit and therefore, an extra favor from the CEO would go a long way to help them secure mortgage credit and buy houses. Thus, CEOs lend more near their hometown because they care about the welfare of residents in their community and want to help them achieve the 'American dream' (Laeven and Popov, 2017) of securing a house.

Finally, we also detect the home favoritism effect in small business lending; that is, 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 (whose amount is below $250,000) but not the larger ones (above $250,000). Thus, while CEOs indeed favor their hometown, they are also mindful about not going overboard with their favoritism. All of these tests consistently support the altruistic

[7] 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.

[8] These findings also rule out other explanations of the home favored 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 local directorship, personal awards, or simply to gain recognition within their community. If so, we should observe *opposite* results in the interaction analyses: e.g., the home favored effects become stronger when the CEO is individualistic.

hometown attachment interpretation, indicating that CEOs lend more near their birthplace because they want to help their hometown communities.

We conclude by showing that home favoritism is beneficial to residents near the bank's CEO birthplace. Specifically, counties with a greater exposure to home favored 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.

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 database, (3) hand-collected CEO's birth county and birth state; (4) Home Mortgage Disclosure Act (HMDA) database; and (5) Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits (SOD) database.

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, including CEO appointment announcements, 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 CEOs (out of 906 CEOs, or 54%) in our sample. This is an improvement over Bernile, Bhagwat

and Rau (2017), who are able to identify the birth location for about 31% of CEOs in the S&P1500 sample. These 485 CEOs work for 369 banks (out of 738 banks) between 1999 and 2014.

An advantage of our approach is that it contains information on the location where the CEO was actually born. Others 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. Appendix A3 displays the number and percentage of bank CEOs according to their birth states. States that produce the most number of bank CEOs are Pennsylvania (48 CEOs) and New York (48 CEOs). At the other extreme, North Dakota only produces one bank CEO. 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 obtain mortgage loan data from the Home Mortgage Disclosure Act (HMDA) database collected by the Federal Financial Institutions Examination Council (FFIEC). The HMDA database 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.[10] Because of this low reporting threshold, almost all banks are included in the dataset.[11]

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

[10] HMDA reporting criteria's can be found at https://www.ffiec.gov/hmda/reporterhistory.htm
[11] See Cortes, Duchin, and Sosyura (2016) for a more detailed description of the HMDA dataset.

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. We take care to drop applications that were closed for incompleteness or withdrawn by the applicant before a decision was made. Following Agarwal et al. (2012), we winsorize loan amount and applicant income at the 1% right tail. Finally, we obtain a list of branches of US banks from the FDIC's Summary of Deposits database.

The sample is constructed by first identifying all publicly-listed US banks, their CEOs, and the CEO's birthplace. This yields a sample of 485 unique CEOs serving 369 unique banks from 1999 to 2014. The bank-level data are then matched to the HMDA and the SOD database, which we then follow Gilje, Loutskina, and Strahan (2016) and collapse it to the bank-county-year level.

3.2 Outcome variables

To test our hypothesis that CEOs favor their hometown in making lending and branching decisions, we use three main outcome variables to measure a bank's willingness to supply mortgage credit and open branches in a given county.

Our first 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

and applicant characteristics constant, *Approval rate* measures a bank's willingness to supply mortgage credit in a county-year.

The second dependent variable, *Δmortgage originations*, is the percentage change in mortgage originations[12] 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, again, controls for bank-specific fluctuations in demand for mortgages over the sample period. Our final dependent variable, *Δbranches*, is the percentage change in the number of branches a bank has in a county relative to the prior year. This variable measures the annual growth rate of branches of a bank in a given county.

[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 69.8%, meaning 7 out of 10 mortgage applications are approved in an average bank-county-year. The average borrower earns about $102,300 per year and applies for a $155,100. The average growth rate in mortgage originations is –7%, which is perhaps driven the large lending reduction during the 2007-2009 financial crisis. Finally, Table 1 reports an average –2% reduction in the number of bank branches, consistent with the overall consolidation trend in the US banking sector in the 2000s.

3.3 Explanatory variable

In this section, we discuss our construction of the main explanatory variable. To illustrate, consider Mr. James E. Rohr, the former CEO of PNC Financial Services Group Inc. He was

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

born in Cleveland, a major city located in Cuyahoga County, Cleveland-Elyria Metropolitan Statistical Area (MSA) in the state of Ohio. We do not know whether Mr. Rohr would consider the city of Cleveland, the county of Cuyahoga, the state of Ohio, or all of these, as his hometown. That is, the geographical unit of 'hometown' is not clear ex-ante and can be different across CEOs. Furthermore, Cuyahoga County is just about 50km away from Lake County. Both counties are located in the state of Ohio and share very similar demographic and economic characteristics. Therefore, it is likely that Mr. Rohr also considers Lake County as part of his hometown identity.

Based on these arguments, we create a continuous, *within*-bank variable to measure a CEO's degree of home attachment. Specifically, *Ln(Dist. Hometown)* is the natural logarithms of the physical distance (in kilometres) between a CEO's birth county and the county in which the mortgage originations and branching decisions take place.[13] To illustrate, PNC Financial Service Group Inc. 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 hometown of PNC CEO (James Rohr), King County (WA) is more than 3,000km away. Naturally, Mr Rohr would identify Lake County (OH) instead of King County (WA) as home.

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 of CEO's home favoritism.

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

4. Empirical Results

4.1 Methodology

We examine a bank's mortgage origination and branching decisions in counties near the CEO's birthplace. The data are structured 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: *Approval Rate*, *ΔMortgage Originations*, and *ΔBranches*. 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 originations and branching decisions occur. If CEOs indeed favor areas near their hometown communities, the estimated coefficient β_1 should be significantly negative, indicating that counties located further away from the CEO's hometown exhibit a lower approval rate, lower mortgage origination growth and lower branch growth compared to the nearer counties.

The most important ingredient of our model is the set of fixed effects. Specifically, all models include both bank fixed effects 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 originations 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 endogenous matching based on time-invariant bank characteristics (see, for example, Custodio and Metzger (2014)).

We further augment bank fixed effects with county-year fixed effects, which remove 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 could be 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. Therefore, 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.

Our model includes several control variables. The most important control is *Ln(dist. HQ*), which is 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 fact that branches located further away from HQ tend to receive less 'attention' from HQ (Giroud, 2013) and thereby may exhibit a different behavior. To further single out the hometown effect from the HQ effect, we also include the interaction term between *Ln(dist. HQ*) and *Ln(dist. hometown)* as an additional control.

Finally, we include 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*. Importantly, 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)-(2)) and branching decisions (Column (3)) vary with the distance to its CEO's hometown. Table 2 presents our baseline results.

[Table 2 around here]

Across all outcome variables, the coefficient estimates on *Ln(dist. hometown)* are negative and statistically significant at the 1% level. This indicates that, within the same bank, counties located nearer to the CEO's hometown enjoy a higher mortgage approval rate (Column (1)), higher mortgage origination growth (Column (2)), and higher branch growth (Column (3)) compared to counties located further away. The effects are economically substantial. The magnitude of coefficient estimate in Column (2) indicates that a one standard deviation increase in ln distance to the CEO hometown is associated with a 9%[15] lower mortgage origination growth.

We also observe a higher branch growth rate in counties closer to the CEO's hometown, with a one standard deviation decrease in *Ln(dist. hometown)* increases branch growth by 12% relative to the mean. This implies that the CEO's home favored effect is not only detected among micro-level decisions such as mortgage approvals but also extends to branch opening, a major business decision that could directly affect the bank's profitability and survival. This suggests that the decision to favor hometown over other locations can be a conscious choice made by the CEO. We will explore this argument further in the subsequent sections.

In Appendix A2, we show that our results are robust to using an alternative definition of CEO's hometown attachment. Specifically, we 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. Consistent with the main results, we find that the CEO's birth

[15] 9% = (0.006 x 1.103)/0.074

state enjoys a higher mortgage approval rate, higher mortgage origination growth, and higher branch growth rate compared to other states. In sum, we find that banks lend more and open more branches near their CEO's hometown, suggesting that the CEO's hometown matters for bank business policies.

5. Identification

In this section, we employ multiple strategies to bolster our confidence in a causal interpretation that CEOs favor counties closer to their hometown over others. The first challenge is the omitted variable problem, i.e., there could be some unobserved variables that are correlated with both the distance to the CEO's hometown and the bank's mortgage and branching decisions. The second endogeneity concern is the endogenous CEO-bank matching problem, e.g., a bank with a view to expand to, say, New York are more likely to appoint a New York-born CEO. Finally, there is a concern about potential measurement errors related to our construction of distance to CEO hometown.

5.1 Controlling for omitted CEO characteristics

There is a growing literature documents how various characteristics of CEOs shape firm outcomes. In this section, we test whether the effect of distance to CEO hometown matters after controlling for a host of other CEO traits, including the CEO's 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).[16] In addition, we also control for the CEO's cash and equity compensation incentives (vega and delta) as these could also affect bank policies (Fahlenbrach and Stulz, 2011).

[Table 3 around here]

Table 3 reports the results. Across all specifications and outcome variables, the coefficient estimates on *Ln(dist. hometown)* continue to be negative and highly statistically significant. This gives us confidence that our baseline results are unlikely to be driven by omitted CEO characteristics.

5.2 Addressing CEO-bank matching concerns

There is also a concern that endogenous CEO-bank matching could bias our results. Specifically, there could be unobserved firm heterogeneity that simultaneously explains the matching between the CEO to a bank as well as the bank's mortgage and branching decisions. Helpfully, the inclusion of bank fixed effects means that our regressions are identified by CEO changes *within* the same bank.[18] This differences out any time-invariant bank characteristics that could simultaneously explain a CEO's preference to join a particular bank and the bank's mortgage and branching decisions near the CEO's hometown.

The inclusion of bank fixed effects, however, does not account for CEO-bank matching based on time-*varying* factors. 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. If so, the home favoritism effect is in fact attributed the bank (led by the board of directors) and not the CEO. This implies that

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

[18] To illustrate, in 2013, William Demchak (born in Pittsburgh, Pennsylvania) replaces James E Rohr (born in Cleveland, Ohio) 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, Lake County is 50km away from the outgoing CEO James E Rohr's birthplace but is 213km away from the new CEO William Demchak's birthplace.

some CEO changes could be driven by endogenous policy considerations set by the board and that using these turnovers for identification would cause us to *over*-attribute the home favoritism effect to the CEO (Fee, Hadlock, and Pierce, 2013).[19] To mitigate this concern, we use two strategies: (i) exogenous CEO turnovers and (ii) exogenous changes in credit markets shaped by macroeconomic cycles of boom and bust.

5.2.1 Exogenous CEO turnovers

As a first approach, we rely on a subset of banks that experience changes in their CEOs for plausibly exogenous reasons. Consider, for instance, a tragic situation when the current CEO suddenly passes away for natural reasons, forcing the board to find a new CEO. This turnover event has exogenous timing (the board cannot anticipate the CEO's sudden death) and is very unlikely to be driven by policy considerations concerning lending or branching decisions near the CEO's hometown. Therefore, exogenous CEO turnovers produce a shock to distance to a CEO's hometown while being exogenous 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 three criteria: (1) the outgoing CEO departs as a result of death or illness; (2) the outgoing CEO is at least 60 years old 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). We find that 60% of CEO turnovers can be classified as exogenous, consistent with the frequency of exogenous turnover reported in the literature (e.g., Dittmar and Duchin, 2016).

[19] See Custodio and Metzger (2014) and Fee, Hadlock, and Pierce (2013) for detailed discussions on CEO-firm matching.

Following Dittmar and Duchin (2016), we estimate a bank fixed effects (and county-year fixed effects) panel regressions on our three outcome variables based on the subsample of banks experiencing at least one exogenous CEO turnover during the sample period. Reassuringly, the results in Panel A of Table 4 indicate that the coefficients *Ln(dist. hometown)* continue to be negative and statistically significant at the 1% level across all outcome variables.

[Table 4 around here]

In Panel B of Table 4, we focus on an alternative CEO turnover event: internal CEO turnovers. Internal CEO turnovers are turnover events where the incoming CEO is an existing employee in the bank before her CEO appointment. Internal candidates are typically groomed for the CEO position over a long period of time and therefore, their appointment is likely to reflect a continuity in the bank's strategies (Dittmar and Duchin, 2016). Therefore, while internal CEO turnovers produce a shock to the distance to a CEO's hometown, it minimizes large changes in the bank's business strategies. As shown in Panel B, when limiting our sample to banks that experience at least one CEO internal turnover event, the coefficient estimates on *Ln(dist. hometown)* remain negative and highly significant across all outcome variables. Taken together, results in Table 4 suggest that our findings are unlikely to be driven by endogenous CEO-bank matching.

5.2.2 Exogenous boom and bust cycles

As an alternative, we follow Opler and Titman (1994) and Yonker (2017b) and exploit exogenous variation in macroeconomic conditions–i.e., periods of economic boom and bust–to further alleviate concerns about the endogenous CEO-bank matching. This setting offers two identification advantages. First, since banks do not know in advance when the economy will

enter boom and bust cycles,[21] they would not be able to appoint CEOs in anticipation of these events. Therefore, any change in bank policies during these macroeconomic shocks should be exogenous to bank-CEO matching and can be directly attributed to the CEO.

Second, our use of both boom and bust periods allows us to contrast the CEO home favoritism effects between bust periods (when credit conditions are tight and an extra favor from the CEO would make a large difference to their hometown communities) as compared to boom periods (when credit is abundant and additional credit is unlikely to matter). Therefore, if our baseline results indeed capture the home favoritism effect, this effect should become more salient during bust periods rather than during boom periods.

To examine this hypothesis, we create *Boom* as a dummy variable that equals one for years 2004 to 2006 and zero otherwise and *Bust* as a dummy variable that equals one for the years of 2007 and 2008 and zero otherwise. Our coefficients of interest are the interaction terms *Ln(dist. Hometown)*Bust* and *Ln(dist. Hometown)*Boom.* A similar set of control variables and fixed effects are included. Table 5 reports the results.

[Table 5 around here]

Table 5 shows that the interaction term *Bust*Ln(dist. Hometown)* has statistically negative coefficients in Columns (1) and (2).[23] This indicates that, during bust periods, the mortgage approval rate and mortgage origination growth are higher in counties nearer to the CEO's hometown compared to counties that are further away. In contrast, the interaction term *Boom*Ln(dist. Hometown)* has statistically insignificant coefficients across all outcome variables. This implies that the home favoritism effect becomes more salient during economic downturn, which is when mortgage applicants struggle to get their loan approved to buy houses.

[21] Fahlenbrach and Stulz (2011) show that CEOs of banks whose incentives were better aligned with shareholders suffered larger losses in their compensation during the crisis, suggesting the inability of bank CEO's to anticipate the crisis.

[23] In Column (3), the coefficient of the interaction term is negative but statistically insignificant. This could be because branching decisions are bigger business decisions and require more layers of approvals.

Therefore, it appears that CEOs make a conscious choice to continue extending mortgage credits to their hometown communities when they require it the most. These findings lend strong support to our CEO home favoritism hypothesis.

5.3 Refining definitions of CEO's home attachment

Up to this point, we measure a CEO's home attachment using 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 this section, we refine this measurement to sharpen our interpretation of the CEO's home favoritism effect. First, we condition the baseline results on the CEO's degree of attachment to their hometown communities by interacting *ln(dist. Hometown)* with *Hometown UG*, a dummy variable that equals one if the CEO undertakes an undergraduate degree in the same state as her birth state. The intuition is straightforward: individuals who study in their birth state are likely to spend most of their formative years in the place they were born and therefore, could feel more emotionally attached to their hometown communities (Mesch and Manor, 1998).

[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.[24] To completely isolate the CEO's home favoritism effect from the bank's HQ effect, we interact *ln(dist. Hometown)* with *Out-of-state CEO*, a dummy variable that equals one if the CEO was born in a state different from the bank's HQ state. Table 6 displays the interactions results with *Hometown UG* in Panel A and *Out-of-state CEO* in Panel B.

[24] This possibility is remote since we already control for Ln(dist. HQ).

As shown in Panel A of Table 6, the coefficient estimates on *Hometown UG*Ln(dist. Hometown)* are negative and statistically significant across all outcome variables, indicating that the CEO's home favoritism effects (i.e., higher mortgage approval rate, higher mortgage origination growth rate, and higher branch growth rate nearer to the CEO's hometown) become even stronger when the CEO obtains her undergraduate degree from her birth state. This is consistent with the idea that when CEOs spend more time in their birth state and become more deeply rooted in the community, they exhibit a stronger tendency to favor their hometown. As two-thirds of CEOs in our sample study for an undergraduate degree in the state they were born and thus form significant attachment to their birthplace, the true effect of home favoritism should be 1.5 the size of our baseline estimates.

Columns (1) and (2) of Panel B show statistically negative coefficient estimates on the interaction term *Out-of-state CEO*Ln(dist. hometown)*, indicating that the CEO's home favoritism effect is stronger for out-of-state CEOs. Put differently, a CEO who was born in California but work in Ohio show a greater favoritism to their Californian communities compared to a CEO who was born and work in California. Hence, the HQ effect in fact produces a downward bias on our baseline estimation. In sum, if anything, measurement errors are likely to *understate* the true magnitude of the CEO's home favored effect.

All in all, the results in this section show that endogeneity concerns pertaining to omitted CEO characteristics, CEO-bank matching, and measurement errors are unlikely to influence the interpretation of our findings. This gives us confidence that we indeed capture a causal effect of a CEO's hometown favoritism on the mortgage originations and branching decisions. The results also suggest that CEOs favor their hometown *because* they are emotionally attached to and care about their hometown communities. We formally test for this claim in the next sections.

6. Home favoritism or information advantages?

So far, we find that counties nearer to the CEO's hometown enjoy more lending and branch openings compared to others. Moreover, this effect is stronger during periods of economic downturn. While these results strongly imply that CEOs favor their hometown for altruistic reasons, it could still be possible that these decisions are information-based. In this section, we attempt to disentangle between these two explanations by conducting several performance-based analyses.

The *information* explanation suggests that CEOs make more lending and branch openings near their hometown because they have superior information about the local communities.[25] 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.[26]

In contrast, 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 money in the welfare of residents in their place of attachment (e.g., Manzo and Perkins, 2006; Vaske and Kobrin, 2001).

Importantly, the two hypotheses offer different empirical predictions concerning performance. If CEOs make more lending near their hometown as a result of information

[25] 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.

[26] 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.

advantages, these loans should outperform in the long-run. In contrast, 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. We create a new variable, *%home-state mortgage loan*, which is a bank's portion of mortgage lending made in the CEO's birth state, and regress it against several bank-level performance outcomes (total loans/total assets, fraction of bad loans, and ROA). If the information hypothesis prevails, banks with a larger home-state portion of mortgage lending should outperform others. Otherwise, the effects should be nonpositive. Table 7 displays the results. Bank and year fixed effects are included in all regression specifications. [27]

[Table 7 around here]

As shown in Table 7, *none* of the coefficient estimates are statistically significant at the conventional level. These results apply to both the full sample and the subsample where only *out-of-state* CEOs are included.[28] Hence, whether or not a bank has a greater portion of mortgage lending in the CEO's birth state does not affect its total lending (total loans/total assets),[29] loan performance (bad loans/total loans), or profitability (ROA). At the very least, these findings rule out the information advantage hypothesis. They support the interpretation that CEOs allocate more resources to their hometown communities because they are attached to their birthplace.

[27] In the main analyses, both the dependent and explanatory variables are measured in the same year. We obtain similar conclusions if lagging *%mortgage loan in home state* by one or two years.

[28] Since many of the CEOs in our sample work for banks headquarted in the same state as their birth state, we also conduct separate analyses where only *out-of-state* CEOs are included.

[29] The fact that %home-state mortgage loans does not explain a bank's (total loans/total assets) is perhaps the most interesting non-result. This implies that CEOs do not alternate the composition of its total assets to accommodate greater mortgage lending. Lending is simply reallocated from counties that are located further away from the CEO's hometown to counties that are geographically proximate.

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 on other CEO's traits and values. Intuitively, if a person is selfish and is only interested in their own benefits, they would not be concerned about their hometown. This implies that the home favoritism effect occurs because the CEO is altruistic and wants to contribute back to their hometown community.

As we are unable to directly observe a CEO's degree of altruism or patriotism, we resort to measure a CEO's values 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 country that emphasizes restraint tend to make more economical use of the bank's resources.

We leverage on this idea and infer a CEO's level of altruism based on their inherited cultural values of (1) *Collectivism*, which reflects an individual's integration in groups; (2)-(3) *Patriotism* and *Selflessness*, which capture how much a society values individual sacrifice for their own country and other people; and (4) *Humane-oriented*, which measures the extent to which a society encourages an individual to be altruistic.[31] If our altruistic interpretation is

[31] Please refer to Nguyen, Hagendorff, and Eshraghi (2018) for a detailed description of the data collection process. We thank the authors for providing the data on CEO cultural traits.

correct, CEOs who inherit cultural values that emphasize collectivism, patriotism, selflessness, and humane-orientation should exhibit a greater tendency to favor their hometown.

To construct this test, we assign each CEO four cultural indices based on their ancestor's country of origin. We then interact each of these cultural indices with *Ln(dist. Hometown)* and report the results in Table 8.

[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 CEOs who inherit cultural values that place a greater emphasis on collectivism, patriotism, selflessness and humane-orientation make more lending and branch openings near their hometown compared to other CEOs. 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.

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 during periods of economic downturn when credit conditions are tight 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).[33]

In Panel A of Table 9, we condition the baseline results on the CEO birth county's characteristics.[34] Specifically, we interact *Ln(dist. Hometown)* with county-level measures of unemployment rate (Columns (1)-(3)) and %non-home ownership[35] (Columns (4)-(6)). The interaction terms in the mortgage lending specifications have statistically negative coefficients, indicating that the CEO's home favoritism effects are stronger in counties with weaker economic conditions, i.e., those plagued with a high unemployment rate and those where local residents struggle to secure a permanent house.

[Table 9 around here]

In Panel B of 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 decile where a higher index indicates poorer applicants; (2) *risky applicants*, measured using the applicant's loan-to-income ratio where a higher ratio indicates riskier applicants; and (3) *non-white applicants*. The interaction terms have statistically negative coefficients, indicating that the CEO's home favored effects are stronger among applicants facing higher barriers to secure a mortgage loan: i.e., those that are poorer, riskier, and belong to a minority group. 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 in struggling

[33] Of course, the CEO would not make individual mortgage lending decisions themselves. However, they could *influence* these decisions by communicating with local branch managers.
[34] Similar results are obtained if we use the CEO's birth MSA or state instead of county.
[35] A high ratio of non-home ownership indicates that local residents mostly live in rented houses rather than owning a house.

counties and among marginal mortgage applicants support 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.[36] All regressions include bank and county-year fixed effects. Table 10, Panel A reports the results. As small business loans vary substantially in size, 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

[36] 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.

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.[37] We also include *HQ Favoritism Exposure* to control for possible confounded effects associated with the bank's HQ location. All models include county and 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]

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

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*.[38] 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.

9. 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 attachment rather than information advantages. 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.

[38] 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.

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)	558,932	6.658	1.105	3.682	6.832	8.301
Ln(dist. HQ)	558,932	6.530	1.213	3.504	6.723	8.318
Dist. hometown	558,932	1,219	1,038	38.71	925.6	4,028
Dist. HQ	558,932	1,162	1,065	32.25	829.9	4,094
Key dependent variables						
Approval rate	558,932	0.698	0.303	0.000	0.759	1.000
ΔLn(originated loan)	408,184	-0.074	0.309	-1.000	-0.007	0.415
Δbranches	85,086	-0.027	0.139	-1.000	0.000	0.143
Loan characteristics						
%minor applicants	558,932	0.329	0.333	0.000	0.231	1.000
%female applicants	558,932	0.199	0.229	0.000	0.167	1.000
Loan	558,932	155.100	670.500	6.000	97.960	1000.000
Income	558,932	102.300	210.400	20.000	69.410	683.000
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 state	3,913	0.532	0.431	0.000	0.637	1.000
CEO characteristics						
Out-of-state CEO	485	0.412	0.487	0.000	0.000	1.000
Hometown UG	474	0.640	0.481	0.000	1.000	1.000
Ivy	474	0.136	0.342	0.000	0.000	1.000
MBA	474	0.231	0.422	0.000	0.000	1.000
County characteristics						
Unemployment rate (%)	22,741	6.188	2.505	2.328	5.636	13.600
Non-ownership (%)	22,741	26.820	7.709	14.000	25.400	52.300

Table 2: CEO Hometown Favouritism and Mortgage Lending

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:

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

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *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. The coefficient β_1 on *Ln(dist. hometown)* is our variable of interest. 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.

Dependent variables	Approval rate	Δln(originated loan)	Δbranches
	(1)	(2)	(3)
Ln(dist. hometown)	-0.008***	-0.006***	-0.003***
	(-8.919)	(-4.813)	(-3.248)
Ln(dist. hometown)* Ln(dist. HQ)	0.000	-0.002***	0.001***
	(0.400)	(-8.596)	(3.173)
Ln(dist. HQ)	-0.004***	-0.023***	-0.007***
	(-4.591)	(-17.359)	(-5.751)
Assets	-0.021***	0.065***	0.023***
	(-9.626)	(20.675)	(5.473)
Leverage	-0.755***	-0.936***	0.029
	(-20.076)	(-16.790)	(0.429)
ROA	0.011***	0.007***	0.002*
	(15.417)	(7.252)	(1.889)
Lending	0.004	0.191***	0.102***
	(0.464)	(13.938)	(5.574)
Deposit	0.352***	0.082***	0.033
	(36.103)	(5.743)	(1.416)
%female applicants	-0.085***	-0.049***	-
	(-34.595)	(-11.759)	-
%minor applicants	-0.142***	-0.152***	-
	(-70.978)	(-48.258)	-
Loan/Income	0.000	-0.001*	-
	(0.697)	(-1.835)	-
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.178	0.097	0.058
Observations	558,932	408,184	85,086

Table 3: Controlling for observable CEO characteristics

This table examines how the mortgage origination and branching decisions in counties near the CEO's birth place. We report OLS 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_{ikt} is either: (1) *Approval rate*, the number of mortgage loan applications approved divided by the total number of applications received by a bank in a county-year; (2) *Δln(originated loan)*, the percentage change in mortgage originations of a bank in a county-year relative to the prior year; and (3) *Δbranches*, the percentage change in the number of branches of a bank in a county relative to the prior year. *Ln(dist. hometown)* is the natural logarithm of the physical 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)* is the natural logarithm of the CEO's total compensation (tdc1); *Cash component* is (salary + bonus) divided by total compensation (tdc1); *vega (scaled)* is vega divided by cash component (salary + bonus); *delta (scaled)* is delta divided by cash component (salary + bonus). The coefficient β_1 on *Ln(dist. hometown)* is our variable of interest. All models include county-year and bank fixed effects. 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 variable definitions. *t-statistics* are reported in parentheses. ***, **, and * indicate significance at the 1, 5 and 10% level, respectively.

Panel A: Controlling for CEO characteristics

Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Ln(dist. hometown)	-0.004*	-0.028***	-0.006***
	(-1.879)	(-7.646)	(-3.002)
Ln(dist. HQ)	-0.011***	-0.042***	-0.007***
	(-4.925)	(-11.726)	(-3.266)
Ln(dist. hometown)*Ln(dist. HQ)	0.000	0.001**	0.001***
	(1.011)	(2.366)	(3.083)
MBA	-0.045*	-0.053*	-0.264***
	(-1.724)	(-1.855)	(-3.356)
Ivy League	-0.195***	-0.210***	-0.662***
	(-6.282)	(-3.048)	(-2.843)
Age	-0.006***	-0.008***	0.002***
	(-12.213)	(-14.325)	(2.804)
Depression baby	-0.073	-0.021	0.269
	(-1.444)	(-0.076)	(1.129)
Crisis career starter	0.045***	-0.015***	-0.015*
	(12.224)	(-2.924)	(-1.746)
Overconfidence	-0.032***	0.009	-0.014
	(-7.472)	(1.463)	(-1.460)
Military experience	0.159***	0.096**	0.326***
	(4.214)	(2.089)	(3.722)
Controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.122	0.131	0.086
Observations	209,237	158,544	32,310

Panel B: Controlling for CEO pay			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Ln(dist. hometown)	-0.017***	-0.020***	-0.003**
	(-10.607)	(-8.747)	(-2.412)
Ln(dist. HQ)	-0.012***	-0.031***	-0.006***
	(-6.980)	(-13.515)	(-3.601)
Ln(dist. hometown)*Ln(dist. HQ)	0.001***	0.000	0.001**
	(5.865)	(0.289)	(2.368)
Ln(total compensation)	-0.011***	0.017***	0.007***
	(-9.547)	(10.453)	(3.442)
Cash component	-0.099***	0.020***	0.015**
	(-22.261)	(3.266)	(2.006)
vega (scaled)	0.018***	0.027***	0.008***
	(14.219)	(15.770)	(3.170)
delta (scaled)	0.002***	-0.002***	-0.001
	(9.652)	(-6.695)	(-0.918)
Controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.179	0.107	0.041
Observations	424,896	314,520	63,677

Table 4: Exogenous CEO Turnover Events

This table reports estimates of an OLS regression which estimates the effect of CEO hometown favoritism on bank business policies around CEO turnover events. 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) *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. The coefficient β_1 on *Ln(dist. hometown)* is our variable of interest. In Panel A, we only include banks which have experienced at least one exogenous CEO turnover event. Exogenous CEO turnovers are defined as one of the following reasons: CEO's death, CEO's long-term illness, the turnover is part of a long-planned retirement, or the turnover takes place when the CEO is at least 60 years of age. In Panel B, we only include banks which have experienced at least one internal CEO turnover event. Internal CEO turnovers are defined as when the new CEO is an existing employee of the bank. 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			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Ln(dist. hometown)	-0.012***	-0.007***	-0.004***
	(-9.035)	(-4.202)	(-2.621)
Ln(dist. hometown)*Ln(dist. HQ)	0.001***	-0.000	0.001***
	(3.269)	(-0.988)	(3.101)
Ln(dist. HQ)	-0.006***	-0.026***	-0.007***
	(-4.129)	(-14.364)	(-4.548)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.196	0.104	0.049
Observations	365,993	283,372	61,259

Panel B: Internal turnovers			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Ln(dist. hometown)	-0.012***	-0.011***	-0.003**
	(-8.848)	(-6.157)	(-2.367)
Ln(dist. hometown)* Ln(dist. HQ)	0.001***	-0.000	0.001**
	(3.833)	(-1.051)	(2.008)
Ln(dist. HQ)	-0.005***	-0.025***	-0.006***
	(-3.942)	(-13.642)	(-3.240)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.199	0.106	0.039
Observations	360,624	274,379	60,078

Table 5: CEO Hometown Favoritism: Boom and Bust Periods

This table reports estimates of an OLS regression which estimates the effect of CEO hometown favoritism on bank business policies during boom and bust periods. 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) *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. *Bust* is a dummy that equals one for years of 2007-2008 and zero otherwise. *Boom* is a dummy that equals one for years of 2002-2004 and zero otherwise. The coefficient β_1 on *Ln(dist. hometown) Boom* and β_2 on *Ln(dist. hometown) x Bust* are our variables of interest. Control variables include: *Bust*Ln(dist. HQ), Boom*Ln(dist,HQ), 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.

Dependent variables	Approval rate	Δln(originated loan)	Δbranches
	(1)	(2)	(3)
Bust*Ln(dist. hometown)	-0.011***	-0.016***	-0.002
	(-4.615)	(-4.925)	(-1.195)
Bust*Ln(dist. hometown)* Ln(dist. HQ)	0.000	0.004***	0.000
	(0.935)	(7.196)	(1.205)
Boom*Ln(dist. hometown)	-0.003	0.001	-0.002
	(-1.512)	(0.514)	(-0.768)
Boom*Ln(dist. hometown)* Ln(dist. HQ)	0.001**	-0.002***	0.000
	(2.169)	(-4.312)	(0.884)
Ln(Home)* Ln(HQ)	-0.000	-0.002***	0.000**
	(-0.960)	(-7.864)	(2.159)
Ln(Home)	-0.006***	-0.004***	-0.003**
	(-5.421)	(-2.847)	(-2.318)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.178	0.097	0.058
Observations	558,932	408,184	85,086

Table 6: Refining measures of CEO's hometown proximity

This table reports estimates of an OLS estimation regression which estimates the cross-sectional CEO hometown favoritism effects on bank business policies. We report estimates of the following equation:

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

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *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. *Hometown UG* is a dummy that equals one if the CEO undertakes an undergraduate degree in the same state as her birth state. *Out-of-state CEO* is a dummy that equals one if the CEO was born in a state different from the bank's HQ state. The coefficient β_1 on *Ln(dist. hometown) x CEO characteristics* is our variable of interest. Control variables include: (*Hometown UG*Ln(dist. HQ), Hometown UG in Panel A),* (*Out-of-state CEOs*Ln(dist. HQ),Out-of-state CEOS 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.

Panel A: CEOs undertake undergraduate degree in birth state			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Hometown UG*Ln(dist. hometown)	-0.018***	-0.008***	-0.005**
	(-8.905)	(-2.904)	(-2.260)
Hometown UG*Ln(dist. hometown)*Ln(dist. HQ)	0.001***	-0.001***	0.000
	(2.837)	(-2.921)	(1.044)
Ln(dist. hometown)*Ln(dist. HQ)	-0.001***	-0.001***	0.000
	(-5.234)	(-4.546)	(1.195)
Ln(dist. hometown)	0.007***	-0.000	-0.000
	(4.262)	(-0.060)	(-0.233)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.186	0.098	0.058
Observations	550,376	402,306	83,361

Panel B: Out-of-state CEOs			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Out-of-state CEO*Ln(dist. hometown)	-0.017***	-0.033***	0.002
	(-4.689)	(-6.489)	(0.506)
Out-of-state CEO *Ln(dist. hometown)*Ln(dist. HQ)	0.002***	0.007***	-0.000
	(3.178)	(9.986)	(-0.334)
Ln(dist. hometown)*Ln(dist. HQ)	0.001***	-0.003***	0.001**
	(2.971)	(-14.502)	(2.344)
Ln(dist. hometown)	-0.007***	-0.006***	-0.004***
	(-5.440)	(-3.485)	(-2.581)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.185	0.098	0.056
Observations	558,932	408,184	85,086

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; and (3) *ROA*, net income divided by total assets. *%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	
	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs	All CEOs	Out-state CEOs
	(1)	(2)	(3)	(4)	(5)	(6)
%mortgage loan in home state	0.009	0.023	-0.001	-0.010	-0.015	0.792
	(0.960)	(0.332)	(-1.180)	(-1.013)	(-0.158)	(0.895)
Assets	0.008	-0.006	0.003	0.003	-0.192**	0.042
	(0.966)	(-0.396)	(1.328)	(0.475)	(-2.119)	(0.190)
Leverage	-0.139	-0.057	0.038	-0.008	-21.655***	-23.674***
	(-1.224)	(-0.208)	(0.932)	(-0.068)	(-12.771)	(-6.173)
ROA	0.001	-0.002	-0.007***	-0.006**	-	-
	(0.632)	(-0.670)	(-8.974)	(-2.063)	-	-
Lending	-	-	-0.019**	-0.052*	0.209	-0.515
	-	-	(-2.577)	(-1.704)	(0.636)	(-0.638)
Deposit	0.187***	0.111	0.022**	0.001	-2.101***	-1.853
	(2.969)	(1.070)	(1.995)	(0.045)	(-4.451)	(-1.445)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.145	0.167	0.515	0.338	0.411	0.383
Observations	5,357	922	5,357	922	5,357	922

Table 8: Why do CEOs favor their hometown?

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

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

where subscripts *i*, *k* and *t* indicate bank, county and year respectively. Y is either: (1) *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. CEO characteristics are the CEO's inherited cultural values of *Collectivism*, which reflects an individual's integration in groups (Panel A); *Patriotism* and *Selflessness*, which capture how much a society values individual sacrifice for their own country and other people (Panels B and C); and *Humane-oriented*, which measures the extent to which a society encourages an individual to be altruistic (Panel D). The coefficient β_1 on *Ln(dist. hometown) x CEO characteristics* is our variable of interest. Control variables include: (*Collectivism*Ln(dist. HQ), Collectivism in Panel A)*, (*Patriotism*Ln(dist. HQ), Patriotism in Panel B)*, (*Selflessness*Ln(dist. HQ), Selflessness in Panel C)*, (*Humane-oriented*Ln(dist. HQ), Human-oriented 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.

Panel A: CEO's Collectivism Culture			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Collectivism*Ln(dist. hometown)	-0.017***	-0.034***	-0.004
	(-4.381)	(-6.269)	(-0.946)
Collectivism *Ln(dist. hometown)*Ln(dist. HQ)	0.001*	0.004***	0.001
	(1.897)	(4.818)	(1.064)
Ln(dist. hometown)*Ln(dist. HQ)	-0.004*	-0.020***	-0.004
	(-1.747)	(-5.910)	(-1.043)
Ln(dist. hometown)	0.064***	0.143***	0.014
	(3.942)	(6.233)	(0.751)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.226	0.105	0.083
Observations	298,238	197,651	41,435

Panel B: CEO's Patriotism Culture			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Patriotism*Ln(dist. hometown)	-0.009**	-0.050***	-0.005
	(-2.089)	(-8.121)	(-1.019)
Patriotism*Ln(dist. hometown)*Ln(dist. HQ)	0.000	0.007***	0.001
	(0.753)	(7.342)	(1.108)
Ln(dist. hometown)*Ln(dist. HQ)	-0.002	-0.028***	-0.005
	(-0.736)	(-8.979)	(-1.323)
Ln(dist. hometown)	0.027*	0.178***	0.015
	(1.791)	(8.319)	(0.943)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.239	0.108	0.091
Observations	298,238	197,651	41,435

Panel C: CEO's Selflessness Culture			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Selflessness*Ln(dist. hometown)	-0.011	-0.134***	-0.022*
	(-1.102)	(-9.538)	(-1.886)
Selflessness*Ln(dist. hometown)*Ln(dist. HQ)	0.002	0.021***	0.003
	(1.311)	(10.189)	(1.110)
Ln(dist. hometown)*Ln(dist. HQ)	-0.001	-0.012***	-0.002*
	(-1.143)	(-16.975)	(-1.767)
Ln(dist. hometown)	-0.001	0.048***	0.006
	(-0.159)	(9.565)	(1.479)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.239	0.108	0.091
Observations	298,238	197,651	41,435

Panel D: CEO's humane-oriented culture			
Dependent variables	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Humane-oriented*Ln(dist. hometown)	-0.024***	-0.041***	-0.004
	(-7.667)	(-8.905)	(-1.178)
Humane-oriented *Ln(dist. hometown)*Ln(dist. HQ)	0.002***	0.005***	0.001
	(4.565)	(7.051)	(1.106)
Ln(dist. hometown)*Ln(dist. HQ)	-0.008***	-0.023***	-0.003
	(-4.201)	(-8.438)	(-1.084)
Ln(dist. hometown)	0.091***	0.165***	0.014
	(7.129)	(8.947)	(0.950)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.226	0.105	0.083
Observations	298,238	197,651	41,435

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.

Panel A: Struggling counties				
struggling counties defined as:	Unemployment rate		%non-home owner	
Dependent variables	Approval rate	Δln($originated loan)	Approval rate	Δln($originated loan)
	(1)	(2)	(3)	(4)
Struggle county*Ln(dist. hometown)	-0.001***	-0.003***	-0.019**	-0.035***
	(-2.873)	(-5.072)	(-2.481)	(-3.272)
Struggle county*Ln(dist. hometown)*Ln(dist. HQ)	0.000***	0.001***	0.007***	0.006***
	(3.306)	(6.140)	(4.877)	(3.454)
Ln(dist. hometown)*Ln(dist. HQ)	-0.001***	-0.005***	-0.002***	-0.003***
	(-2.968)	(-8.884)	(-4.222)	(-5.375)
Ln(dist. hometown)	-0.001	0.011***	-0.002	0.004
	(-0.371)	(3.071)	(-0.681)	(0.949)
Other controls	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
R-squared	0.184	0.101	0.178	0.098
Observations	558,051	407,556	558,051	407,556

Panel B: Marginal applicants						
Marginal applicants defined as:	**Reverse Income Deciles**		**Loan/Income**		**%Minor applicants**	
Dependent variables	Approval rate	Δln($originated loan)	Approval rate	Δln($originated loan)	Approval rate	Δln($originated loan)
	(1)	(2)	(3)	(4)	(5)	(6)
Marginal applicant*Ln(dist. hometown)	-0.001***	-0.001**	-0.001*	-0.004***	0.003	-0.050***
	(-3.304)	(-2.124)	(-1.646)	(-3.785)	(0.619)	(-7.265)
Marginal applicant*Ln(dist. hometown)*Ln(dist. HQ)	0.000	0.000	-0.003***	-0.003***	0.000	0.006***
	(1.171)	(0.320)	(-81.865)	(-57.466)	(0.019)	(5.595)
Ln(dist. hometown)*Ln(dist. HQ)	-0.004**	-0.002	0.001***	-0.003***	0.000	-0.003***
	(-2.309)	(-1.038)	(13.474)	(-24.035)	(0.150)	(-9.785)
Ln(dist. hometown)	-0.001	-0.018***	-0.014***	-0.000	-0.004**	-0.017***
	(-0.759)	(-7.918)	(-14.734)	(-0.002)	(-2.249)	(-7.680)
Other controls	Yes	Yes	Yes	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.197	0.113	0.197	0.113	0.178	0.097
Observations	558,932	408,184	558,932	408,184	558,932	408,184

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* defined as the number total loans divided by total assets (Columns (1)-(2)); (2) *Bad Loans/Total Assets*, defined as total non-performing loans divided by total assets (Columns (3)-(4)); or (3) *ROA*, defined as total income divided by total assets (Columns (5)-(6)). *%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	
	All CEOs	Out-state CEO	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
	(1.146)	(-0.148)	(-1.267)	(0.256)	(-0.148)	(0.484)
Assets	-0.014	-0.292***	0.004	0.004	-0.292***	-0.276
	(-0.800)	(-2.847)	(1.130)	(0.462)	(-2.847)	(-1.298)
Leverage	-0.094	-22.183***	0.036	-0.012	-22.183***	-22.500***
	(-0.307)	(-10.401)	(0.606)	(-0.077)	(-10.401)	(-5.030)
ROA	-0.001	0.267	-0.007***	-0.006*	-	-
	(-0.252)	(0.697)	(-7.065)	(-1.772)	-	-
Lending	-	-	-0.021**	-0.066	0.267	-0.177
	-	-	(-2.199)	(-1.631)	(0.697)	(-0.252)
Deposits	0.198**	-2.494***	0.040***	0.013	-2.494***	-2.098*
	(2.038)	(-5.043)	(2.722)	(0.499)	(-5.043)	(-1.691)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.163	0.183	0.418	0.402	0.497	0.340
Observations	3,913	775	3,913	775	3,913	775

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-of-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: Robustness tests

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.

Dependent variable:	Approval rate	Δln($originated loan)	Δbranches
	(1)	(2)	(3)
Hometown state	0.011***	0.021***	0.006**
	(6.831)	(9.414)	(2.450)
HQ state	0.020***	0.096***	0.012***
	(13.883)	(48.762)	(5.551)
Other controls	Yes	Yes	Yes
County-year FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
R-squared	0.178	0.095	0.058
Observations	559,263	408,377	85,138

Appendix A3: 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
AL	13	2.68