The Future of Rural Banking

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The views and opinions expressed are those of the presenter. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.
Regional Patterns of Growth and Decline in Rural Areas
Population Change: Nonmetro, 2010-2015

Population Change in NonMetro, 1976-2015

Population Growth will be uneven across North and South Carolina, 2010-2020

Projected Population Growth, 2010-20

- Population Loss
- 0 - 6%
- 6 - 12%
- 12 - 18%
- 18% or more

Source: NC Office State Budget Management, SC Revenue and Fiscal Affairs Office
Rural Banking
State of Rural Banking

- Branch closures continue to increase
- Growing reliance on alternative delivery systems
  - ATMs
  - Online/mobile banking
  - Telephone call centers
- Branches remain relevant
  - Face-to-Face relationship preferred by some
  - Complex transactions
  - Small business needs
## North Carolina: Counties at risk of becoming “bank deserts”

<table>
<thead>
<tr>
<th>County</th>
<th>Existing Branches</th>
<th>Risk Factors</th>
</tr>
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<tbody>
<tr>
<td>Northampton</td>
<td>1</td>
<td>Population loss, low average deposits, low median HH income, recent branch closures</td>
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<tr>
<td>Tyrrell</td>
<td>2</td>
<td>Population loss, low average deposits, low median HH income</td>
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<td>Gates</td>
<td>2</td>
<td>Population loss, low average deposits</td>
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<tr>
<td>Warren</td>
<td>2</td>
<td>Population loss, low median HH income</td>
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<tr>
<td>Caswell</td>
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<td>Population loss, low average deposits</td>
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<td>Jones</td>
<td>2</td>
<td>Low average deposits</td>
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<td>Bertie</td>
<td>3</td>
<td>Population loss, low median HH income, recent branch closures, national bank with low deposits</td>
</tr>
<tr>
<td>Washington</td>
<td>4</td>
<td>Population loss, low average deposits, low median HH income, recent branch closures</td>
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<tr>
<td>Anson</td>
<td>5</td>
<td>Population loss, low median HH income, recent branch closures, national bank</td>
</tr>
</tbody>
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North Carolina: CFPB Rural and Underserved Counties for Banking
North Carolina: Bank Branches per capita
Making Good on the Promise of Technology for Rural America

Federal Reserve Study of Mobile Banking

- Mobile banking usage in non-metro areas:
  - 33% of residents used mobile banking
  - 17% used mobile payments
  - 84% own a mobile phone
  - Just 54% own a smartphone
  - 57% report access to a wireless network is “nearly always available”
Mobile Banking Availability

- Is mobile banking offered by your financial institution?
  - 65% said yes compared to 75% in metro areas
  - 30% report not knowing if mobile banking was offered compared to 21% in metro areas
Small Business Lending
Total Amount of Small Business Loans Outstanding at Commercial Banks
Loans <$100 Thousand, by Bank Size Group

Data source: Call Reports. SBL includes small C&I and business loans backed by CRE. Asset size and SBL balances are inflation-adjusted to 2015 dollar value.
Is there still a place for relationship banking for the smallest small businesses?

Perhaps no:
- Small business loans – particularly small dollar loans below $250,000 – cost the same to underwrite as larger loans;
- Larger banks can use automated underwriting for business credit cards and lines of credit;
- Online alternative lenders are expanding access to small-dollar loans

Perhaps yes:
- Banks with <$10B in assets still account for a disproportionate high, though shrinking, share of small business lending;
- Small businesses say their banks are a trusted source of advice;
- Research has shown community banks’ lending is more likely to remain fairly steady during a recession
The Community Reinvestment Act
The Community Reinvestment Act and Branch Closures

- Convenient branch access is an important factor in determining availability of credit and non-credit services.
- Service test performance standards place primary emphasis on full service branches while still considering alternative systems, i.e., online banking.
- Principal focus on:
  - Current distribution of branches.
  - Record of opening and closing branches.
  - Particularly branches located in LMI geographies or primarily serving LMI individuals.
  - Institution is not required to expand branch network or operate unprofitable branches.
Rural Challenges for the CRA

- Smaller populations and low population densities
- Larger depository institutions less inclined to invest capital in rural communities that are excluded from their CRA assessment areas
- Community Development Financial Institutions (CDFIs) face challenges when operating outside of CRA assessment areas
- CDFIs that are rural can have a smaller scale and may be less self-sufficient, and two of their biggest challenges are raising capital and deploying that capital
Solutions?
Banking Development Districts

New York encouraged the establishment of bank branches in areas across the state where there is demonstrated need for banking services

- Banks apply with local government for designation of a Banking Development District (BDD)
- State of NY deposits $10 million in subsidized deposits
- Initial deposit is 4 years – no limitation on renewal requests
- Can also request that the State Comptroller deposit non-subsidized, market rate deposits in the amount of $25 million for 5 years
- 42 approved BDDs, the majority in urban areas – 6 in rural areas
Bank of North Dakota

- State-owned-run financial institution, based in Bismarck, North Dakota; Nation’s only state-owned bank
- Established by legislative action in 1919 to promote agriculture, commerce and industry in North Dakota
- An economic development agency and “banker’s bank” that lessens the loan risks of private banks and helps them finance larger projects
- From the 1940s until the early 1960s, the bank served mostly as a public funds depository and municipal bond buyer; guarantees student loans
- In addition to economic development support, BND has provided recovery funding during disasters
Personal Banking
Small Business Banking

• Cash management and armored transit offer drop safe solutions for high volume cash businesses

• Conditional credit provided for deposits to small businesses

• Settle deposits, confirm credit for banks based on agreed upon schedule.
Inside Institutions and Businesses
Mobile Response Unit Bus
CRA Solutions

- Bank donation or sale on favorable terms or rent-free, of former branch may be eligible for CRA consideration
- Amount of contribution or amount of loss incurred
- CRA statute—Donation or discount of branch located in a predominantly minority neighborhood benefits any minority depository institution or women's depository institution
- Donation/discount meets definition of community development—for example:
  - To a Community Development Financial Institution or a low-income or community development credit union, if entity primarily lends in LMI areas or to LMI individuals
  - To an entity engaged in community development activities, for example, community health care center for LMI seniors
CRA Consideration for Broadband

Alternative delivery systems, i.e. online and mobile banking, expand access to financial services

- Possible viable option in rural areas lacking broadband access
- Financing for communication infrastructure in underserved rural area, because this activity revitalizes or stabilizes
Community Development Financial Institutions (CDFIs)

• USDA Rural Development Relationship
  • USDA amended the Community Facility Direct Loan Programs regulations to make loans to qualified mission-driven re-lenders, opening the program to re-lenders like CDFIs to facilitate the flow of capital into rural communities

• Financial Institution partnership with CDFIs
  • Investment opportunities
  • Correspondent banking relationship to buy and sell loans

• CDFIs leverage other investments
  • Foundations
  • Donor Advised Funds
  • Impact Investments