

Rural Initiative

Relationship banking

Meeting of the Community Bank and Credit Union Advisory Boards
April 7, 2022



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Rural Initiative

The Consumer Financial Protection Bureau has launched a new initiative to focus on financial issues facing rural America. Our effort will initially focus on rural banking deserts, discriminatory and predatory agricultural credit, and manufactured housing.

How do we define “rural”?

- There are many different definitions of “rural” used across the government.
- The CFPB’s “rural and underserved” counties list includes 28 million people, or 8% of the population.
- The Census definition by tract includes 60 million people, or 19% of the population.

Relationship banking is especially important for rural Americans

- Rural people depend on visiting bank tellers at nearly double the rate of urban and suburban
Rural: 33.4%; Urban: 16.9%; Suburban 18.7%.
- Rural HHs visit branches more than urban and suburban. In 2019, nearly nine in ten rural households visited a branch, and about four in ten rural households visited ten or more times. Much higher than their urban and suburban counterparts.

Smaller financial institutions play an essential role in rural communities

- Community banks are almost **3x** more likely than noncommunity institutions to locate their offices in a nonmetro area in 2011.
- Community banks hold the majority of banking deposits in both micropolitan and rural counties.

Trends in consolidation and the prevalence of small banks

- FDIC-insured institutions have fallen from a peak of 18,083 in 1986 to 5,033 as of 2020.
- The number of institutions with less than \$1 billion in assets fell from 17,514 to 4,116 during that time.
- Most of the decline in the number of institutions in the past 30 years was due to mergers, which averaged more than 400 a year from 1990 to 2016.
- The decline in rural branches has been more modest, but impact varies greatly by location.

Banking "Deserts" are more prevalent in rural areas

- The Federal Reserve defines bank deserts as census tracts in which there are no branches within a 10-mile radius from the tracts' centers.
- They have identified 1,132 deserts, of which 734 (65%) were in rural areas.
- The Fed also identified 1,055 potential banking deserts, of which 851 (81%) were in rural areas.
- Overall, rural census tracts are 10x more likely to be in a banking desert than urban tracts.

Evidence is still unclear on the role of FinTech in rural areas

- Rural populations have the lowest adoption of internet-based financial services.
- Rural areas have less access to broadband and rural populations skew older.
- Some observers have reported on the potential for increased use of fintech in rural areas.

Feedback from stakeholders

- Rural economies have unique characteristics, and relationship banking is especially important for small businesses in these communities.
- Rural stakeholders want someone from their community with “skin in the game” who knows their business and cares about storefronts on Main Street.
- Loss of banks can also mean loss of the people who often provide much needed expertise and leadership, undermining the civic fabric of rural communities.

Gathering information

- More so than the rest of the country, rural Americans depend on the relationship banking model that community banks provide.
- Your perspectives on how to better serve rural communities are especially important.



Questions

- What are the challenges you are facing in serving rural communities, particularly in the context of:
 - The biggest banks becoming bigger through mergers?
 - Unregulated entities entering the market?
 - Consolidation across other sectors of rural economies?

Contact Us

Consumer Financial Protection Bureau Rural Initiative

Blog: <https://www.consumerfinance.gov/about-us/blog/new-effort-focused-on-financial-issues-facing-rural-communities/>

Email: shawn.sebastian@cfpb.gov