Perspectives from Main Street: Bank Branch Access in Rural Communities

November 2019

Board of Governors of the Federal Reserve System

Perspectives from Main Street: Bank Branch Access in Rural Communities

November 2019

Board of Governors of the Federal Reserve System

This and other Federal Reserve Board reports and publications are available online at
https://www.federalreserve.gov/publications/default.htm.

To order copies of Federal Reserve Board publications offered in print,
see the Board's Publication Order Form (https://www.federalreserve.gov/files/orderform.pdf)
or contact:

Printing and Fulfillment
Mail Stop K1-120
Board of Governors of the Federal Reserve System
Washington, DC 20551
(ph) 202-452-3245
(fax) 202-728-5886
(email) Publications-BOG@frb.gov

Acknowledgments

The insights and findings referenced throughout this report are the result of the collaborative effort, input, and analysis of the following teams:

Overall Project Coordination

Andrew Dumont, Board of Governors of the Federal Reserve System
Amanda Roberts, Board of Governors of the Federal Reserve System

Trends in the Availability of Bank Branches

Curie Chang, Board of Governors of the Federal Reserve System
Andrew Dumont, Board of Governors of the Federal Reserve System

Use of Bank Branches by Consumers and Small Businesses

Andrew Dumont, Board of Governors of the Federal Reserve System
Alejandra Lopez-Fernandini, Board of Governors of the Federal Reserve System
Ellen Merry, Board of Governors of the Federal Reserve System

Listening Session Outreach

Bonnie Blankenship, Federal Reserve Bank of Cleveland
Jeanne Milliken Bonds, formerly of the Federal Reserve Bank of Richmond
Nathaniel Borek, Federal Reserve Bank of Philadelphia
Meredith Covington, Federal Reserve Bank of St. Louis
Chelsea Cruz, Federal Reserve Bank of New York
Andrew Dumont, Board of Governors of the Federal Reserve System
Sameera Fazili, Federal Reserve Bank of Atlanta
Adrian Franco, Federal Reserve Bank of New York
Jackie Gausvik, Federal Reserve Bank of Minneapolis
Ben Horowitz, Federal Reserve Bank of Minneapolis
Michou Kokodoko, Federal Reserve Bank of Minneapolis
Craig Nolte, Federal Reserve Bank of San Francisco
Patrick Pontius, Federal Reserve Bank of Atlanta
Amanda Roberts, Board of Governors of the Federal Reserve System
Noelle St.Clair, formerly of the Federal Reserve Bank of Philadelphia
Nisha Sutaria, Federal Reserve Bank of Atlanta
Marion Williams, Federal Reserve Bank of Atlanta

Contents

Executive Summary

The mission of the Federal Reserve System is to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems and to promote optimal economic performance. Because consumers and communities are critical participants in the economy, their economic and financial well-being is essential to our nation's overall economic vitality and soundness. With this in mind, the Federal Reserve System's community development function engages in activities that promote the economic and financial health of consumers and communities across America, with a particular focus on the well-being of low- and moderate-income and other historically underserved households and communities, including rural areas.

In recent years, consumer and community groups have raised concerns about the effects that bank branch closures and financial industry consolidation are having on access to financial services in low-income and other underserved communities.[1] Community groups have also raised concerns about the potential for industry consolidation to blunt the effectiveness of the Community Reinvestment Act (CRA), which encourages banks to help meet the credit needs of the communities they serve.

This report contributes to the public's understanding of trends in the banking industry in three ways. First, it analyzes which communities across the country have been deeply affected by bank branch closures.[2] Second, it summarizes data and research on how and to what extent different groups of consumers and small businesses utilize bank branches. Lastly, it highlights key takeaways from listening sessions that sought to identify how individuals and businesses within affected communities are impacted when their local bank branch closes.[3]

Key Findings

Bank Branch Trends

- While nearly half of counties either gained bank branches or retained the same number of bank branches between 2012 and 2017, the majority lost bank branches over this period. Indeed, some rural counties have experienced considerable recent declines in bank branches.
- These deeply affected rural counties tend to be poorer, composed of residents with fewer years of education, and have a greater proportion of African American residents relative to other rural counties.
- Between 2012 and 2017, there was also a substantial increase in the number of communities that contained no bank headquarters, the majority of which were rural.

Use of Bank Branches by Consumers and Small Businesses

- A growing share of consumers with bank accounts are adopting online and mobile banking, primarily for more simple functions such as checking balances. However, branches continue to be an important banking channel for consumers, especially for deposit and withdrawal transactions and for resolving problems.

[1] This report uses the term *financial services* to refer to the full complement of financial products and services typically used by consumer and small business clients. For consumers, these include checking and savings accounts, credit cards, mortgages, consumer loans, auto loans, and cash deposits and withdrawals, among others. For small businesses, these include commercial real estate loans, equipment loans, auto loans, merchant card processing, cash management (Treasury) services, commercial credit cards, direct payroll deposit services, and working capital and other lines of credit, among others.

[2] This report defines "deeply affected" as a county that had 10 or fewer branches in 2012 and lost at least 50 percent of those branches by 2017.

[3] The authors compiled the listening session takeaways contained in the report from the notes of the Federal Reserve Board and Federal Reserve Bank staff who conducted the listening sessions. Consequently, the takeaways are reflective of the perceptions of the individuals who participated in the listening sessions, and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System or any individual Federal Reserve Bank.

- The shift to digital channels is occurring more gradually for certain consumer groups. This is particularly true for those who are older, have lower incomes or fewer years of formal education, or who live in rural areas.
- The majority of small businesses prefer to utilize local banks to access financial services and may garner tangible benefits from doing so in terms of credit availability and the terms of that credit.
- While small businesses have increasingly chosen to access credit through online lenders, they generally report lower levels of satisfaction with online lenders than is reported by those who used banks, and they express concerns about transparency regarding product cost and terms.
- The shift from local to online lenders appears to be more prevalent among credit-challenged small business borrowers than it is among small businesses at large.

Takeaways from Listening Sessions

- Consumers and small business owners in communities experiencing considerable bank branch closures report that they are finding local or technological substitutes for many, but not all, of the services they used to access at the bank branch that closed.
- But, banking clients in affected communities generally report increased costs and reduced convenience in accessing financial services. These challenges appear to be exacerbated for certain groups, such as those with lower incomes or less reliable access to transportation, older individuals, and small business owners.
- The effect of bank branch closures on communities appears to involve a community-level effect that goes beyond the effects on particular individuals.

Trends in the Availability of Bank Branches

While many rural counties either gained bank branches, or continued to have the same number of bank branches between 2012 and 2017, just over 40 percent lost branches during this period. And, some rural counties experienced considerable declines in bank branches over these five years. These deeply affected rural counties tend to be poorer, composed of residents with fewer years of education, and have a greater proportion of African American residents relative to other rural counties.

County-Level Analysis of Changes in Bank Branch Availability

Between 2012 and 2017, both urban and rural areas contained counties that experienced bank branch gains, counties that experienced bank branch losses, and counties that experienced no net gain or loss in bank branches. In aggregate, urban counties experienced an absolute net loss in the number of bank branches that was four times the size of net losses in rural areas. These absolute net losses translated into a 7 percent decline in the number of bank branches in both urban and rural areas over this period. While both areas experienced similar overall net percentage losses over this period, differences are evident when these areas are grouped into those that experienced net gains, net losses, or no changes during the five-year period (table 1).[4]

The impact of these losses is magnified by low branch concentration in rural areas (table 2). The difference between branch concentrations in rural and urban areas is due partly to the difference in average land area between the two; on average, rural counties have 1.4 times the land area of urban counties.

Since rural areas tend to be more geographically remote, the report also looked at bank branch densities on a per capita basis. By this measure, rural areas may appear better served than urban areas. However, given the large geographic area, even residents in rural counties with relatively high numbers of bank branches may lack ready access to banking services due to the distributional effects of branch locations. The issue of distance intensifies the dilemma of inaccessibility in rural areas when a branch closes, as many rural areas lack robust public transportation that would allow for easy transition to an alternative branch for those with no or inconsistent access to a car or other form of personal transportation.[5]

Also notable during this time frame is the substantial decline in the number of bank headquarters located in rural markets, driven by industry consolidation. In fact, between 2012 and 2017, more than 100 banking markets went from containing the headquarters of at least one bank to containing no bank's headquarters. Almost all of these markets with no bank headquarters are rural.

Feedback from community stakeholders suggests that banks are more attuned to the needs of the communities in which they are headquartered, so this loss could have a negative impact on the affected local markets. The Federal Reserve encourages future research into whether there is a material effect on the availability of credit or other financial services when an area loses the headquarters of a bank, irrespective of whether there is a change in the number of bank branches in total.

4 Of the 794 rural counties that lost branches between 2012 and 2017, 393 were micropolitan areas, with the other 401 being non-core rural areas. The non-core rural counties lost 17 percent of their branches between 2012 and 2017, while the micropolitan areas lost 13 percent of their branches over this period.

5 Jeremy Mattson, *Rural Transit Fact Book 2017* (Fargo, ND: Small Urban and Rural Transit Center at the Upper Great Plains Transportation Institute, North Dakota State University, October 2017), https://www.surtc.org/transitfactbook/downloads/2017-rural-transit-fact-book.pdf.

Table 1. Branch changes between 2012 and 2017

Type of county	Areas that gained branches			Areas that lost branches			Areas with no net change	All areas		
	Number of counties	Net change in branches	Percent change	Number of counties	Net change in branches	Percent change	Number of counties	Number of counties	Net change in branches	Percent change
Urban	125	324	6	802	-5,756	-9	236	1,163	-5,432	-7
Rural	164	201	12	794	-1,533	-14	993	1,951	-1,332	-7
All	**289**	**525**	**7**	**1,596**	**-7,289**	**-10**	**1,229**	**3,114**	**-6,764**	**-7**

Note: Here and in subsequent tables and figures, analysis excludes U.S. territories as well as counties that have undergone code changes.

Source: Federal Reserve Board staff calculations using 2012 and 2017 Summary of Deposits filed with the Federal Deposit Insurance Corporation (FDIC).

Table 2. Branches per 100 square miles and per 10,000 people

Type of county	Bank branches per 100 square miles		Bank branches per 10,000 people	
	2012	2017	2012	2017
Rural				
All rural counties	1.9	1.8	5.3	5.1
Deeply affected rural counties	0.7	0.3	5.5	2.3
Urban				
All urban counties	19.7	18.4	3.3	3.0
Deeply affected urban counties	0.6	0.2	2.3	0.5

Source: Federal Reserve Board staff calculations using 2012 and 2017 Summary of Deposits filed with the FDIC.

Deeply Affected Rural Counties

The finding that there is substantial variation in recent bank branching trends on a community-by-community basis calls for a deeper understanding of the counties most affected by bank branch closures.

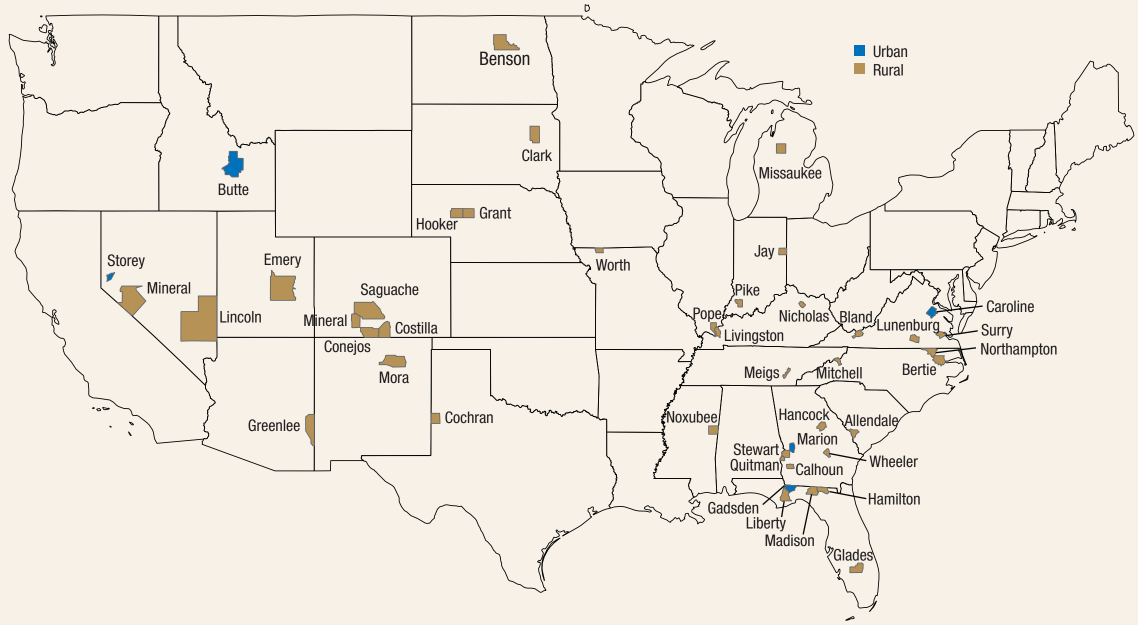
This report identifies 44 counties considered "deeply affected," defined as a county that had 10 or fewer branches in 2012 and lost at least 50 percent of those branches by 2017. Thirty-nine of these counties, or 89 percent, were rural counties (see figure 1).[6] Importantly, the methodology used in this report (described in appendix A) is designed to highlight places witnessing a substantial recent decline in bank branches, and not what are commonly referred to as "banking deserts"—or those areas without sufficient access to bank branches. Consequently, there are many areas of the country that struggle with access to financial services, including many rural and tribal communities, which are not highlighted in this report.

The deeply affected rural counties had fewer bank branches per 100 square miles than rural counties overall, both at the beginning and the end of the five-year period. While deeply affected rural counties had slightly more bank branches per 10,000 people in 2012 than rural counties overall, by 2017 they had less than half as many.

Rural counties deeply affected by branch closures had higher poverty rates, lower median incomes, a higher share of their population with less than a high school degree, and a higher share of their population who were African American relative to all rural counties. Deeply affected rural counties had a similar age distribution among their populations as all rural counties (table 3).

[6] Six of the 39 deeply affected rural counties were micropolitan areas, with the other 33 being non-core rural counties. The five urban counties were smaller outlying counties within their metropolitan statistical areas, with populations ranging from 2,613 to 46,113 in 2017.

Figure 1. Counties deeply affected by bank branch closures



Note: *Deeply affected* means a county that had 10 or fewer branches in 2012 and lost at least 50 percent of those branches by 2017. The following urban counties were deeply affected: Marion County, Georgia; Gadsden County, Florida; Butte County, Idaho; Storey County, Nevada; and Caroline County, Virginia.

Table 3. Comparison between deeply affected rural counties and all rural counties, by demographic and socioeconomic characteristics

Percent, except as noted

Characteristic	Deeply affected rural counties	All rural counties
Median family income (dollars)	48,853	57,022
Median poverty rate	21	17
Level of educational attainment		
Less than high school diploma	20	14
High school graduate (includes equivalency)	39	36
Some college, no degree	21	22
Associate's degree	8	9
Bachelor's degree or higher	13	19
Race/ethnicity		
White	70	84
Black or African American	24	8
American Indian and Alaska Native	2	2
Asian	1	1
Native Hawaiian and other Pacific Islander	0	0
Some other race	2	2
Two or more races	1	2
Hispanic or Latino (of any race)	9	8
Age		
Under 18 years	21	22
18–64 years	60	60
65 years and over	19	18

Note: As with the other demographic and socioeconomic data detailed in this report, the data on the level of educational attainment of residents in these rural areas is based on the results of the American Community Survey. The American Community Survey instructs respondents not to report their receipt of certificates or diplomas for training in specific trades or from vocational, technical, or business schools when responding to questions on educational attainment. As such, these data, and those reported in table 4, do not provide information on these other important forms of educational attainment.

Source: American Community Survey 5-year estimates, 2013–17.

Use of Bank Branches by Consumers and Small Businesses

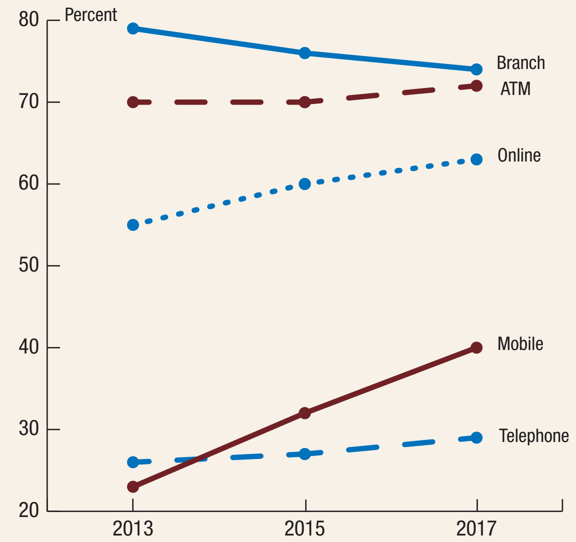
In aggregate, population groups found to be more prevalent in deeply affected rural counties report using bank branches at higher rates than other groups. Consequently, residents of these deeply affected counties may be experiencing disproportionately negative effects because of the recent bank branch closures that have occurred in their communities.

Research also indicates that small businesses have long preferred to utilize local banks to access financial services, and may garner tangible benefits from doing so in terms of credit availability and the terms of that credit. As a result, decreases in the presence of local institutions likely reduce the financial well-being of these small businesses.

Use of Bank Branches by Consumers

Overall, bank branches remain the most widely used way for individuals to access a bank account. In the 2017 Federal Deposit Insurance Corporation (FDIC) Survey of Unbanked and Underbanked Households, nearly three-quarters of banked households in the United States reported using a bank teller to access an account in the past year, the highest level of any method of accessing an account (see figure 2).

Figure 2. Methods households used to access a bank account in the past 12 months



Note: Percent of households with a bank account accessed in past 12 months.

Source: 2017 FDIC Survey of Unbanked and Underbanked Households.

The majority of in-branch consumer transactions are deposit- or withdrawal-related.[7] Some consumers who could make mobile deposits or move money remotely instead choose an ATM or branch to do so—most, according to one survey, because they had to go to the ATM or branch for some other activity. A smaller share of respondents cited an immediate need for funds and lack of clarity about when money deposited via a phone would be available, a preference for using an ATM or branch after trying mobile deposit, or concerns that the check amount exceeded the limits for mobile deposit.[8]

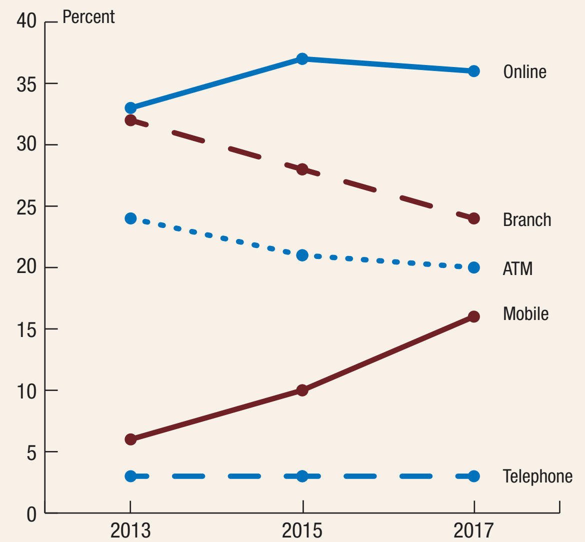
In addition, consumers generally prefer to resolve a problem through assistance received in person or by phone rather than through digital channels, thus driving consumer demand for in-branch interactions. Customers report being more satisfied with an outcome to a complex problem, such as disputing a fee or taking out a loan, when they interact with a person instead of a screen.[9] This finding is consistent

7 For more detailed information, see Sam Dodini, Alejandra Lopez-Fernandini, Ellen Merry, and Logan Thomas, *Consumers and Mobile Financial Services 2016* (Washington: Board of Governors of the Federal Reserve System, March 2016), https://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201603.pdf; and FMSI, *FMSI Teller Line Study 2017* (Alpharetta, GA: FMSI, 2017).

8 Javelin Strategy & Research, *Why Digital Banking Often Fails to Reduce Offline Volume* (Pleasanton, CA: Javelin Strategy & Research, November 2017) (subscription required).

9 Bain & Company Research Now, *Evolving the Customer Experience in Banking* (Boston: Bain & Company, Inc., 2017), http://www2.bain.com/Images/BAIN_REPORT_Evolving_the_Customer_Experience_in_Banking.pdf.

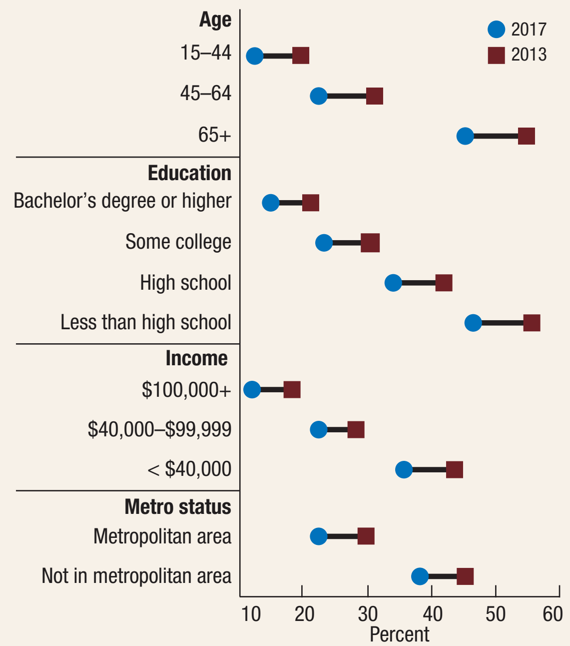
Figure 3. Most frequently used method of accessing bank account



Note: Percent of households with a bank account accessed in past 12 months.

Source: 2017 FDIC Survey of Unbanked and Underbanked Households.

Figure 4. Branch as most frequently used method of accessing an account



Note: Percent of households with a bank account accessed in the past 12 months in each demographic group who reported the branch was their most commonly used way of accessing an account.

Source: 2017 FDIC Survey of Unbanked and Underbanked Households.

with research showing that a majority of mortgage borrowers indicate that the presence of a local branch, and an existing relationship with the financial institution, are important to them when they are selecting their mortgage lender—a preference that is stronger among rural borrowers.[10]

It is also important to consider not just the percentage of banked households that visit a bank branch but also how frequently they do so versus banking in other ways. As figure 3 illustrates, in 2013, the shares of banked households that most frequently relied on branches or online banking were about the same—but subsequently, branch banking declined dramatically, while online banking increased slightly between 2013 and 2015.[11] The share reporting that mobile banking was their most frequent method of accessing an account increased between 2013 and 2017, while the online banking share dropped slightly between 2015 and 2017, suggesting that mobile banking may be substituting for online banking for some households.

However, these behavior shifts have not been uniform across different groups of consumers. Specifically, households that reported that a bank teller is the way they most frequently access an account are more likely to be older, to live in nonmetropolitan areas, or have lower incomes, and are less likely to have attained a college degree than those who most frequently rely on other ways to access their bank accounts (figure 4). Those who only speak Spanish are also more likely to rely on branches.[12] Since 2013,

---

[10] Tim Critchfield, Jaya Dey, Nuno Mota, and Saty Patrabansh, "Mortgage Experiences of Rural Borrowers in the United States Insights from the National Survey of Mortgage Originations," FHFA Staff Working Papers 18–01 (March 14, 2018), https://www.fhfa.gov/PolicyProgramsResearch/Programs/Documents/NMDB-Staff-Working-Paper_18-01.pdf.

[11] In this report, the "most frequently used to access an account" concept is the focal measure of reliance on bank branches. This is one aspect of reliance, but other measures are informative. Households may view branches as important for certain tasks, even if they do not do them frequently. Branches may also be more important to households for some types of accounts relative to others. For example, a sizeable share of households in the Survey of Consumer Finances have said that the location of an institution's office was the most important factor in choosing to establish their main checking account with a particular financial institution. A much lower share indicated that office location was an important factor in their choice of a mortgage lender. See Elliot Anenberg, Andrew C. Chang, Serafin Grundl, Kevin B. Moore, and Richard Windle, "The Branch Puzzle: Why Are There Still Bank Branches?" FEDS Notes (Washington: Board of Governors, August 20, 2018), https://doi.org/10.17016/2380-7172.2206.

[12] For tabulations for the Spanish-language subgroup and other demographic groups, see the appendix of the 2017 FDIC Survey of Unbanked and Underbanked Households, table B.5,

the share for whom branches are the most frequent way of banking has declined among all of these groups yet remains high relative to other population groups. According to the 2017 FDIC survey, there was no significant difference in the share of white and black respondents reporting bank tellers as their most frequent method of accessing a bank account.

Use of Bank Branches by Small Businesses

The presence of a bank branch in the local community, the distance between a small business and its lender, and the degree of bank market concentration appear to have a meaningful impact on credit access among small businesses. In particular, studies find that interest rates increase as the distance between a business and the local branch of its lender grows[13]—a potential reason why the majority of small businesses borrow from institutions with a local presence. Nevertheless, while the majority of small businesses continue to borrow from local lenders within close proximity of their business, there has been a long-term trend toward non-local and more-distant lenders—a trend that may have accelerated in recent years.[14]

However, this trend has not been uniform across borrower type or product. In particular, firms with better credit, older firms, and firms seeking asset-backed loans have been more prone to use a farther-away lender, while those seeking basic account and financial management services are less likely to do so.[15] Recent evidence has also indicated an uptick in the use of online lenders by small businesses (especially those with higher risk profiles), despite lower reported satisfaction with online lenders compared to banks.[16]

Research is mixed on the impact of market concentration on the availability of credit for small businesses. Some research has found that younger firms or those with weaker credit seem to benefit from a more concentrated market, while other research suggests that small research and development firms have seen decreases in the availability of credit.[17] Other research has found that bank branch closings affect access to credit for small businesses even in markets where branch networks are dense, indicating that small business credit challenges due to bank branch closures are not limited to rural areas and likely are not solely related to the physical accessibility of the branch.[18]

---

https://www.economicinclusion.gov/downloads/2017_FDIC_Unbanked_HH_Survey_Appendix.pdf.

13 Hans Degryse and Steven Ongena, "Distance, Lending Relationships, and Competition," *Journal of Finance* 55, no. 1 (February 2005): 231–66.

14 See, for example, Anenberg et al., "Branch Puzzle"; Liz Laderman, "The Geographic Scope of Small Business Lending: Evidence from the San Francisco Market," FRBSF Economic Letter Number 2006-36 (Federal Reserve Bank of San Francisco, December 15, 2006), https://www.frbsf.org/economic-research/publications/economic-letter/2006/december/the-geographic-scope-of-small-business-lending-evidence-from-the-san-francisco-market/; and Kenneth P. Brevoort and John D. Wolken, "Does Distance Matter in Banking?" Finance and Economics Discussion Series 2008-34 (Washington: Board of Governors, July 10, 2008), https://www.federalreserve.gov/pubs/feds/2008/200834/200834pap.pdf.

15 Kenneth P. Brevoort, John A. Holmes, and John D. Wolken, "Distance Still Matters: The Information Revolution in Small Business Lending and the Persistent Role of Location, 1993–2003," Finance and Economics Discussion Series 2010-08 (Washington: Board of Governors, December 17, 2009), https://www.federalreserve.gov/pubs/feds/2010/201008/201008pap.pdf.

16 See for example, Federal Reserve Banks, *Small Business Credit Survey: Report on Employer Firms* (2019), https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf. For a report on small business borrower perceptions of online lenders, see Barbara Lipman and Ann Marie Wiersch, *Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders* (Washington: Board of Governors, 2018), https://www.federalreserve.gov/publications/files/2018-small-business-lending.pdf.

17 See for example, Elizabeth Laderman, "Market Power and Relationships in Small Business Lending," Federal Reserve Bank of San Francisco, Working Paper 2007-07 (Federal Reserve Bank of San Francisco, January 2007), https://www.frbsf.org/economic-research/publications/working-papers/2007/07/; Mitchell A. Peterson and Raghuram G. Rajan, "The Effect of Credit Market Competition on Lending Relationships," *Quarterly Journal of Economics* 110, no. 20 (1995): 407–443; Teng Wang, "To Build or to Buy? The Role of Local Information in Credit Market Development," Finance and Economics Discussion Series 2017-13 (Washington: Board of Governors, 2017), https://www.federalreserve.gov/econresdata/feds/2017/files/2017013pap.pdf; and Andrew C. Chang, "Banking Consolidation and Small Firm Financing for Research and Development," Finance and Economics Discussion Series 2016-29 (Washington: Board of Governors, 2016), https://www.federalreserve.gov/econresdata/feds/2016/files/2016029pap.pdf.

18 Hoai-Luu Q. Nguyen, "Are Credit Markets Still Local? Evidence from Bank Branch Closings," *American Economic Journal: Applied Economics* 11, no. 1 (January 2019): 1–32.

Takeaways from Listening Sessions

To explore the impact of bank branch closures on communities, eight Federal Reserve Banks held listening sessions between July 2018 and January 2019, primarily in rural communities across the country, to learn about those communities' recent experiences with bank branch closures.[19] When possible, staff conducted listening sessions in communities that went from one to zero bank branches during this period.

Of the 12 listening sessions that Federal Reserve Bank staff conducted, 9 were located in counties identified as having been deeply affected by bank branch closures between 2012 and 2017. Eleven of the 12 were held in rural counties. In all cases, the community in which the staff conducted the listening sessions had experienced a substantial decline in the presence of bank branches, and so the discussions with the participants focused on how this change affected the community.

Across all listening session locations, more than 170 participants from area businesses, local governments, and faith-based and nonprofit organizations attended and provided their perspectives on how recent bank branch closures had affected them and their community. While each bank branch closure was unique and therefore had distinctive effects that participants raised during these sessions, many common themes arose. The key takeaways discussed in this section focus primarily on the issues that the participants in multiple listening sessions raised.

The feedback received at the listening sessions indicated that consumers and small business owners in communities experiencing considerable bank branch closures are finding local substitutes for some, but not all, of the services they used to access at the local bank branch. However, they generally report doing so at increased cost and reduced convenience, and these challenges appear to be exacerbated for certain groups, such as those with lower incomes, older individuals, and small business owners. There also appears to be a community-level effect that goes beyond the challenges of particular individuals.

Listening Session Communities: Demographic and Economic Indicators

Rural listening session counties had poverty rates ranging from 11.5 percent to 33.3 percent, with a median rate of 22.0 percent, higher than the median poverty rate for all rural counties deeply affected by bank branch closures and for all rural counties nationwide. Residents of rural listening session counties had more years of formal education than all deeply affected rural counties, but less than all rural counties nationwide.

As was the case for all deeply affected rural counties, a higher share of the population reported being black or African American in rural listening session counties than in rural counties overall. In addition, a higher share of the population in listening session counties reported being an American Indian or Alaska Native than in both rural counties overall and in deeply affected rural counties. The population of rural listening session counties was consistent with the age distribution of rural areas overall (table 4).

[19] A list of the dates, locations, and role in the community of the participants for each of these listening sessions is included in appendix B.

Table 4. Comparison between rural listening session counties, deeply affected rural counties, and all rural counties by demographic and socioeconomic characteristics

Percent, except as noted

Characteristic	Rural listening session counties	Deeply affected rural counties	All rural counties
Median family income (dollars)	52,426	48,853	57,022
Median poverty rate	22	20	15
Level of educational attainment			
Less than high school diploma	17	20	14
High school graduate (includes equivalency)	37	39	36
Some college, no degree	21	21	22
Associate's degree	10	8	9
Bachelor's degree or higher	15	13	19
Race/ethnicity			
White	66	70	84
Black or African American	26	24	8
American Indian and Alaska Native	5	2	2
Asian	0	1	1
Native Hawaiian and other Pacific Islander	0	0	0
Some other race	1	2	2
Two or more races	1	1	2
Hispanic or Latino (of any race)	6	9	8
Age			
Under 18 years	21	21	22
18–64 years	61	60	60
65 years and over	18	19	18

Source: American Community Survey 5-year estimates, 2013–17.

Listening Session Key Takeaways

Key Takeaway 1: Technology Helps Mitigate Potential Harm, but Cannot Meet All Needs and Is Not Currently a Viable Option in All Communities

Participants in the listening sessions said that improvements in technology and remote access had helped members of their communities partially deal with the bank branch closure that occurred. In fact, participants in several listening sessions highlighted that they rarely use in-person banking services anymore, and are meeting most of their needs online via internet and mobile banking.

Technical or Skill Barriers

However, participants also reported several barriers to the use of remote technology to meet all of their needs or the needs of certain populations. Some participants described how the remaining banks available to them do not offer online or mobile services, or have only limited digital offerings, which they felt restricted the types of activities they could carry out. Other participants highlighted the fact that broadband internet and cellular phone service is not sufficient, reliable, or affordable enough in their communities to allow for a substitution to online banking. Lastly, participants noted how certain customers, particularly older adults, lack the digital literacy needed to use online or mobile technologies as a substitute to in-person access.

Cultural or Preference Barriers

Many participants also described a preference for in-person banking even when online or mobile options were available. For example, some participants described how older customers continue to rely disproportionately on paper systems for tracking and managing their finances, find it difficult to read small print on a mobile device or computer screen, or may simply place more value on personal face-to-face interaction with bank personnel.

Other participants expressed concerns that online banking or other technology could increase their exposure to financial scams, fraud, or having their account information hacked. Some participants discussed customers who lack trust in the financial sector and so prefer in-person banking because it gives them more comfort and allows them to overcome their general distrust. In addition, participants described how some customers prefer to conduct certain banking activities in-person, such as asking complex questions, resolving issues with their account, or discussing loan applications.

Functional Barriers

Lastly, participants described how they cannot perform some services through digital channels and, as a result, need to have access to a physical location to meet some of their banking needs. Examples of such services included storing important personal or business documents in safety deposit boxes; making cash deposits or cash withdrawals, especially when they involve large amounts; and cashing checks.

Key Takeaway 2: Not All Insured Depository Institutions Are Direct Substitutes

Community Banks versus Large Banks

Some participants described how the closure of some branches had a greater impact on the community than others. In particular, participants in one community noted how a larger bank had offered a more comprehensive suite of financial services, and so the loss of this larger bank's branch had a more detrimental effect on the community than the loss of a smaller bank that had also occurred recently.

However, not all participants felt this way. Indeed, some participants described their need for bankers who understand homeownership in rural communities, especially as it pertains to zoning and acreage requirements. These participants highlighted their experiences with what they described as "big banks," especially those providing online mortgages. The participants felt that such lenders did not want to loan money on larger parcels of land beyond the home itself and the first acre, which limits the usefulness of these lenders for some rural borrowers. Similar considerations around participants' preferences related to institution type and how they interact with their bank is included in Key Takeaway 5.

Credit Unions

Participants described instances in which credit unions moved into or expanded their operations in the community in response to the closure of the local bank branch. Some participants described using credit unions to fulfill their financial services needs, their feelings that credit unions are helping meet the needs of the community, and their belief that as credit unions grow they are becoming more of a viable source for the community's financial services needs.

However, some participants highlighted areas where they did not feel their local credit union was meeting their needs. Examples raised by participants included a lack of robust small business account and credit products, overly restrictive lending policies, a lack of direct deposit services for employers, and low maximum cash withdrawal limits.[20] It was unclear whether these challenges were related to the fact that the institutions cited were credit unions, or just related to the fact that they were smaller financial institutions with a more limited suite of services.

Key Takeaway 3: Nonbank Financial Service Providers Are Filling Critical Service Gaps, but Are Not Meeting All Needs or Are Doing So at Higher Cost to the Consumer

In addition to using technology to bridge financial services gaps in their local community, many participants reported accessing financial services through nonbank providers. The nonbank financial service providers cited by participants included private ATMs, local businesses, payday lenders and check cashing service providers, prepaid cards, and the local post office.

Private ATMs

Participants in many of the listening sessions cited private ATMs as a key source of cash in the absence of a bank branch. However, those participants were nearly universal in reporting that such ATMs charged what they felt were high fees. Some also described incurring out-of-network charges by their banks when they used these private ATMs that, when combined with the fees charged by the ATM itself, resulted in a meaningful cost burden.

[20] Credit unions have statutory limits on the aggregate amount of member business loans that they may hold. As of the writing of this report, that limit was equal to the lesser of 1.75 times the actual net worth of the credit union, or 1.75 times the minimum net worth required under section 1790d(c)(1)(A) of the Federal Credit Union Act. See USC title 12, chapter VII, subchapter A, part 723 for more information on this limit.

While these private ATMs were important sources of cash, participants noted that they were only useful for withdrawing cash, and that most did not allow for depositing cash—another important need that technology cannot meet. Some business owner participants who host private ATMs in their stores described losing money by doing so, primarily because they needed to drive several hours away to acquire cash to restock the machine because they no longer have a local bank at which to do so.

Local Businesses

Another avenue by which participants reported accessing cash in their communities, and avoiding the fees associated with private ATMs, was by requesting cash back on debit or credit card transactions with local businesses, or asking those businesses to cash their checks.

While this may be convenient and reduce costs for the consumers, small business owners described their concerns with the risk they were taking on by cashing their customers' checks and described instances where they had to refuse this service to their customers, which strained their relationships. Some small business owners described considerably increasing the quantity of cash they keep on hand due to their customers' reliance on them for accessing cash. These same small business owners expressed concerns about the security risks of traveling long distances to replenish this cash and of storing large cash balances.

Payday Lenders and Check Cashers

Participants described using check-cashing services and payday lenders to access cash and small-dollar loans for emergencies. Several participants raised concerns about the higher fees associated with these products, but recognized that sometimes they were needed in the absence of alternatives. Some participants described trying to avoid their use in emergencies, like auto repairs, by paying for repairs in installments, carpooling with others, or fixing their vehicles piecemeal.

Prepaid Cards

Participants described how some community members switched from using banks to using prepaid cards after the closure of the community's bank branch. However, some participants noted that the amount of fees on these cards has limited the number of people willing to make this substitution.

Not all participants believed that prepaid cards carried high fees, and some described being very satisfied with the prepaid card they used, noting the ability to have their paycheck direct deposited to it, the ability to withdraw cash fee-free at certain ATMs, and the ability to make payments online through a convenient mobile app.

In addition, some participants expressed similar fee-related complaints regarding banks, noting their belief that banks are not up front about fees and charge too much for products and services.

Local Post Offices

Participants described how certain limited financial services are available at their local post office, including the ability to receive cash back, make international money transfers, and purchase money orders. One participant described how he purchases money orders at the local post office, which he can then deposit electronically into his account, saving himself from having to travel all the way to the nearest bank to make a cash deposit.

Overall Comments

While participants appeared to be finding creative ways to fulfill their need for certain financial services, primarily access to cash, many reported they simply had not found substitutes for certain services within their local community and therefore had to either decide to go without or drive long distances to access these financial services. The most common examples cited by participants included agriculture and small business loans, business checking accounts, merchant card processing services, and direct deposits.

While many participants reported that access to certain financial services diminished after the bank branch in their community closed, some described how they felt access to certain services was not robust before the branch's closure. A sentiment expressed in several roundtables was that the bank and its lending policies had made it difficult to obtain loans even before they closed the branch, with several participants describing how bank employees had told them directly that the bank did not lend in their community.

Key Takeaway 4: Small Businesses, Seniors, and Those Lacking Consistent and Reliable Transportation Are Most Negatively Affected by Branch Closures

While virtually all participants described experiencing some increase in hardship subsequent to their local bank branch closing, small business owners, seniors, and those lacking consistent access to reliable transportation consistently came up as experiencing especially acute challenges after the closure.

Small Businesses

Small business owners raised a number of challenges they were facing due to the bank branch closure in their community.

Small business participants described the need to maintain larger cash balances on hand to minimize the frequency of their trips to the nearest bank. Participants described needing these larger cash balances to make change as part of their regular business activity, as well as to meet increased customer demand for cash back or check cashing. Participants described how maintaining these larger cash balances reduces their ability to earn interest on those balances in their bank accounts, as well as heightens their security risks.

Small business participants reported incurring higher merchant card processing fees as customers switched from cash to credit or debit cards because of decreased cash availability in town. Some small business owners noted that customers had been increasing their use of credit and debit cards even before the closure of the bank branch and so were unsure whether there was a causal or just a coincidental relationship.

Small business participants highlighted how they now needed to close their business in the middle of the workday in order to travel the long distance to the nearest bank branch to make deposits or withdraw cash, since their hours often coincide with the hours of the bank. Participants lamented how this can cause them to lose business.

Small business participants also expressed concern at the loss of their local lender, who they felt had decisionmaking authority, understood their market, and was more willing to put in extra effort to identify creative ways to fulfill loan requests. Some small business participants felt that it had become harder to gain approval of their loans subsequent to the bank branch closing.

However, this sentiment was not universal. Other small business owners felt that the lenders in neighboring towns understood their market, and described not having experienced any issues obtaining the loans they needed from lenders in those markets. Other participants felt that the bank whose branch closed in their community had been difficult to work with before closing, and felt it had made decisions based entirely on bank policies rather than on individual or unique community needs, which they felt made it harder for them to access credit.

Small business participants reported experiencing decreased foot traffic due to residents conducting their business in other nearby towns when they are there to conduct their banking, rather than spending that money in their community. Participants in several listening sessions described instances where local businesses ceased operations shortly after the local bank branch closed. Participants also described how they felt the loss of the bank decreased the “livability” of their town and feared that it would make investors less inclined to invest in their community and possibly contribute to outmigration.

Another related point made by some participants was the loss of good jobs by local employees of the bank branch upon its closure, which contributed to a decrease in local economic activity.

Seniors

As noted in the sections above, many of the substitutions that customers make to continue accessing the financial services they need after a bank branch closes in a rural community involve one or more of the following: using technology, paying higher fees, or traveling long distances to other communities.

However, as noted earlier, many seniors are less willing and able to use technology to access their financial services. In addition, seniors tend to have lower incomes than the general population, and a greater proportion of seniors live on fixed incomes than the general population, both of which make it difficult for them to absorb the higher costs associated with alternative service providers. Participants in many of the listening sessions expressed concerns about the effect that the bank branch closure was having on older individuals in their communities.

Additionally, a lower percentage of seniors than the general adult population drive, and so traveling long distances to other communities that still have a bank branch is a challenge—increasingly so as an individual gets older. As a result, participants described how older individuals in their community had taken to paying members of the community to travel to the nearest bank branch to deposit and withdraw cash.

Some participants described how this can be particularly challenging for seniors for whom their Social Security or retirement income is direct deposited, as they now need to travel long distances to access those resources. Participants noted that this had led some seniors to keep large cash balances in their homes, which the participants feared opened them up to an increased risk of theft.

Individuals Lacking Consistent Access to Reliable Transportation

Given the realities of rural areas and the long distances that often exist between towns, the group that is perhaps most affected by a local bank branch closure are those without consistent access to reliable transportation.

Many participants described how the nearest bank branch was now in excess of 10 miles away, often with drive times of 20 minutes or more each way. The longest distance to the nearest bank branch reported in the listening sessions was 52 miles. Participants also described how traveling these long distances is especially challenging for certain groups, including low-income residents and the Amish, who eschew the use of cars. Many participants noted that seniors were particularly transportation-challenged.[21]

[21] A review of census data confirms that senior-headed households is the group in rural areas with the least access to a vehicle, with more than 5.8 percent, or nearly 386,000 households, lacking access to a vehicle. Author tabulations of American Community Survey 5-year Estimates for 2013–17, table B25045.

Key Takeaway 5: The Effects of a Bank Branch Closure Are Not Limited to Financial Services Access

Participants reported numerous effects from bank branch closures on the character and strength of their community. The most-often cited effects are discussed below.

Loss of an Important Source of Financial Advice

Participants in numerous listening sessions expressed the need for a financial advisor in town, and the belief that the local bank used to provide important financial and business advice. Participants felt that this advice extended to assisting borrowers with financial literacy and education for home purchases, small dollar loans for emergencies, and small business loans. One participant described how a staff member of the local bank had helped her plan her retirement at night and on the weekends.

Loss of Important Civic Leadership

Participants described how, before closing, the local bank had made important contributions to the town, such as placing ads in small newspapers, having bank employees assume leadership positions in local civic groups (such as the chamber of commerce), and donating money to local nonprofits. There was a belief among participants that the loss of the local branch had diminished activity in each of these areas. One participant noted that community members had seen the owner of a small community bank that closed as a model citizen, and how that individual had been a role model for children growing up in the community.

Loss of a More Personal Touch by Their Financial Service Providers

Participants described appreciating when their banker knew them by name when they walked into their bank, and having a banker they know and trust to whom they could refer family, friends, clients, or others. Participants felt that their personal relationship with their local bank had resulted in the delivery of better customer service.

The overall sentiment among participants who felt this way is summed up by the statement of one participant, who said: "[We] negotiated to have a nearby credit union but it is not the same. They do not know us and we do not know them. They are not part of our community." Other examples that participants provided of the loss of this personal touch included transitioning from a banker relationship to an ATM, as well as the shift of a bank's customer service line from a local banker to a centralized customer service center outside the community.

However, not all participants felt this way, with some describing their belief that bankers in their region are unfriendly to those who do not bank with them and how some banks will not cash a check if the customer does not have an account with them. Other participants described experiencing high levels of employee turnover at their local bank branch, seemingly as soon as the banker began to get to know their customers.

Key Takeaway 6: Adjusting to the Loss of a Local Bank Branch Can Be Frustrating and Disruptive

Participants at several of the listening sessions expressed frustration at the process involved when a bank branch closes, particularly around several issues.

Participants generally felt the bank had provided them with insufficient notice that the branch would be closing. As a result, they felt they had to scramble to restructure their financial lives. This may be particularly relevant for remote rural communities where few alternatives exist.[22]

Participants highlighted the considerable disruption to their financial lives that is entailed in switching financial service providers. Some participants noted how they switched providers following a bank branch closure, only to have their new service provider also close their branch, thus precipitating the need to change providers a second time in short succession. These participants described how this series of events had eroded their trust in financial institutions, and made them feel as though they had a lack of control over their financial lives.

Some participants expressed frustration at the perceived unwillingness of a bank to work with the community to identify ways to keep the branch open through either modifying its operations or by selling or otherwise transferring it to another potential operator. However, in several sessions Reserve Bank staff also heard examples of banks that seemingly took extra efforts to ensure the least amount of negative effect on the community, even when the end result was a branch closure.

[22] Notice requirements related to bank branch closures are governed by a joint policy statement issued on June 29, 1999, by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, https://www.federalreserve.gov/boarddocs/press/boardacts/1999/19990707/r-1036.pdf.

Conclusion

While the majority of rural communities either had more or the same number of branches in 2017 than they did in 2012, just over 40 percent of rural counties lost branches during those five years. A subset of these rural counties experienced substantial declines in the availability of bank branches over that period.

Many of these deeply affected communities are poorer, made up of residents who are less likely to have finished high school or attained a college degree, and have a greater proportion of African American residents relative to their peer communities that have been less affected.

At the same time that these bank branch closures were taking place, changes in consumers' and small businesses' use of technology to access financial services has been altering the ways in which they are engaging with their financial services providers, including how often they access a physical branch location and for what purposes. However, the pace of these shifts in behavior is not consistent among population subsegments or across financial service products, and the data and research appear to indicate that particular consumers and small businesses are likely to be disproportionately harmed by changes in bank branch availability.

The participants in the Federal Reserve's listening sessions appear to confirm that certain groups experience larger negative effects from bank branch closures, and that there are limitations to the extent to which technology or alternative service providers can substitute for bank branches. Thus, some consumer segments appear to have been left without sufficient, convenient, and low-cost access to the financial services they need to manage their financial lives. The groups most affected, at least in rural communities, appear to be older individuals, small business owners, those lacking reliable transportation, and those with lower levels of trust in the financial system.

Access to a robust suite of financial services is critical for families and businesses so they can successfully manage their financial lives, and build a cushion of wealth that can provide stability and support economic opportunity and mobility over the long term. Therefore, it is important for policymakers, researchers, the financial services industry, consumer and community organizations, and other stakeholders to come together to identify potential partnerships, strategies, and policy changes that can strengthen access to financial services in these deeply affected communities.

Appendix A: Banking Data Analysis Methodology

For this report, "urban areas" are defined as counties that were part of a metropolitan statistical area (MSA) in 2017, while "rural areas" are counties that were not part of an MSA in 2017. The 2017 MSA delineations were used because the analysis highlights trends in areas that researchers would currently consider either rural or urban.

This section reviewed bank branching data covering the five-year period from 2012 to 2017, as it was the most recent period for which data were available at the time of the analysis, and therefore would allow for the identification of any communities experiencing recent challenges.

The report also focuses on this period because Federal Reserve Bank staff used trends over that period to identify where to conduct the listening sessions discussed in the "Takeaways from Listening Sessions" section of the report. At the listening sessions, Federal Reserve Bank staff asked participants to discuss recent changes in the financial services available in their communities. Therefore, staff felt it was important to identify communities that had experienced recent changes that would still be fresh in the minds of the area's residents, rather than places that might have had declines in the more distant past.

Trends in bank branches were analyzed at the county level in order to be able to conduct reasonably accurate analyses of the demographic and socioeconomic characteristics of those areas identified as having recently been deeply affected by bank branch closures. There are limitations to this approach, and it is possible that other more granular analysis of bank branch trends may have reached different conclusions or highlighted different areas of the country as having been deeply affected by bank branch closures in recent years.

The figures for bank branches include just brick and mortar branches and retail offices. These are branch types 11 and 12, respectively, in the Federal Deposit Insurance Corporation Summary of Deposits data.

None of the analyses includes data on credit unions.

All analysis excludes Puerto Rico and other U.S. territories.

Appendix B: List of Listening Sessions

Table A. List of listening sessions

Date	County	State	Federal Reserve Bank	Type of participants
July 9, 2018	Franklin	New York	New York	Business owners, local government officials, residents, nonprofit leaders
July 11, 2018	Centre	Pennsylvania	Philadelphia	Business owners, local government officials, bankers, residents
July 31, 2018	Nicholas	Kentucky	Cleveland	Business owners, local government officials, bankers
August 14, 2018	Clark	South Dakota	Minneapolis	Business owners, local government officials, bankers, residents
October 22, 2018	Bertie	North Carolina	Richmond	Business owners, local government officials, bankers, leaders in the faith-based community
November 2, 2018	Emery	Utah	San Francisco	Business owners, local government officials, residents
November 7, 2018	Benson	North Dakota	Minneapolis	Local business leaders and residents
November 15, 2018	Madison	Florida	Atlanta	Business owners, local government officials, residents, nonprofit leaders
November 20, 2018	Greenlee	Arizona	San Francisco	Business owners, local government officials, residents
November 30, 2018	Northampton	North Carolina	Richmond	Local government officials, local business leaders
November 30, 2018	Warren	North Carolina	Richmond	Local government officials, residents, leaders in the faith-based community
January 14, 2019	Reynolds	Missouri	St. Louis	Local government officials, residents, nonprofit leaders

www.federalreserve.gov
1119