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Goodbye, George Bailey: Decline of Rural Lending Crimps Small-Town Business

Banks are closing branches and paring credit in rural America, focusing instead on booming urban markets; it's 'like a death sentence'

By Ruth Simon and Coulter Jones / Photographs by Veasey Conway for The Wall Street Journal

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ROXOBEL, N.C.—Danielle Baker wanted a \$324,000 loan last year to expand the peanut-processing business she ran from the family farm. She had a longstanding relationship with the Roxobel branch of Southern Bank, and she thought Southern would help fund the peanut operation she had spun off, too.

But that branch—the town's only bank—closed in 2014. A Southern banker based in Ahoskie, 19 miles away, said Bakers' Southern Traditions Peanuts Inc. was too small and specialized, she says. A PNC bank branch also turned her down.

"If you are not a big company with tons of assets and a big bank account," Ms. Baker says, "they just overlook you."



Danielle Baker had to travel two hours to secure a business loan. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

She finally got a loan from a nonprofit in Raleigh two hours away that provides financing to small businesses but not other traditional banking services. She must drive 19 miles every afternoon to make cash deposits or get change for her cash register, and expects to make a two-hour trip when she wants to refinance. Without a local branch close to her business, she says, "it's very aggravating on a day-to-day basis."

The financial fabric of rural America is fraying. Even as lending revives around cities, it is drying up in small communities. In-person banking, crucial to many small businesses, is

disappearing as banks consolidate and close rural branches. Bigger banks have been swallowing community banks and gravitating toward the business of making larger loans.

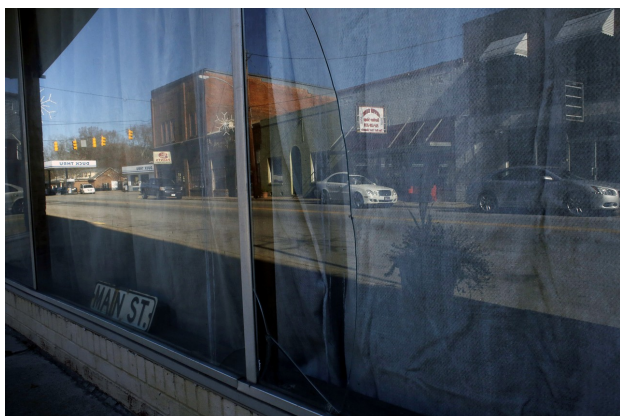
Distant banks with few ties to local communities—which often rely heavily on algorithms to gauge creditworthiness—are also less likely to have the personal relationships that have helped local bankers judge which borrowers were a good bet.

The phenomenon, almost automatically, is getting worse. Bankers say they don't see enough business in small towns. Small towns say bank closings make it harder to do business.

“We'd like to make loans in all the markets we are in,” says R. Lee Burrows Jr., chairman of Union Bank in Greenville, N.C., population 91,495. “But sometimes the demand isn't there,” he says. Banks' “risk tolerance is substantially lower than it was pre-2008,” he says. Union was called “the little bank” until July, when it acquired another bank and moved from Kinston, population 20,923.

Southern Bancshares Inc. and PNC Financial Services Group Inc., the lenders Ms. Baker contacted, say they don't comment on specific customers.

The value of small loans to businesses in rural U.S. communities peaked in 2004 and is less than half what it was then in the same communities, when adjusted for inflation, according to a Wall Street Journal analysis of Community Reinvestment Act data. In big cities, small loans to businesses fell only a quarter during the same period, mainly due to large declines in lending activity during the financial crisis. Adjusted for inflation, rural lending is below 1996 levels.



A shuttered storefront in Rich Square, N.C. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

Of America's 1,980 rural counties, 625 don't have a locally owned community bank—double the number in 1994, federal data show. At least 35 counties have no bank, while about

115 are now served by just one branch.

“There's been a slow seep, a slow letting air out of a balloon over a long period of time,” says Camden Fine, chief executive of Independent Community Bankers of America, a small-bank trade organization. “There's less demand for credit. There's less supply.”

Colorado State University economist Stephan Weiler found that declines in small-business lending in rural areas are linked to declines in the number of new businesses two to three years later—a phenomenon he didn't find in urban areas. The falloff in lending is particularly important, he says, because other types of startup capital are typically scarcer in rural areas.

“To say that I am concerned is an understatement,” says Ray Grace, North Carolina's commissioner of banks. The number of community banks is shrinking, and larger banks are taking deposits gathered in rural areas and deploying them in urban communities, he says. “It sucks the capital out of rural communities.”

Between 2009 and June 2017, North Carolina counties currently considered rural by the Centers for Disease Control and Prevention lost 131 bank branches, banking-regulator data show. That 18% drop compared with a 2% drop in Mecklenburg and Wake counties, home to Charlotte and Raleigh.

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The gap is the more striking because North Carolina is a banking center, home to Bank of America Corp. and BB&T Corp. Bank of America has eight branches in seven rural counties in the state, down from 21 in 17

rural counties three years ago. “As the U.S. population continues to move to larger population centers,” a Bank of America spokesman says, “we want to insure that our branch coverage matches where people are moving.”



Sharon Ramsey, here at her variety store, closed her DeJireh Grill because she couldn't get bank financing. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

The gap's effect

Around Roxobel, population 220, and other parts of rural northeastern North Carolina, the banking gap is hurting business. Three months after PNC closed a bank branch in Colerain, population 187, Tommy Davis closed his Nationwide Insurance office there. Losing the bank branch meant he had to drive 25 minutes each way daily to make deposits. And he lost foot traffic from people who once dropped by on their way to and from the bank.

“It's really like a death sentence for a small town because the bank is the center of all activity,” says Mr. Davis, who owned the Colerain location for 20 years. He moved the business to Windsor, a larger town 25 miles away.

Twelve miles north of Roxobel in Woodland, population 729, Sharon Ramsey closed the DeJireh Grill because, she says, she couldn't get bank financing. At first, she says, the restaurant “was turning a profit, but it was just enough to stay open.”

She was told she didn't have enough credit history to qualify for a loan, Ms. Ramsey says. She closed DeJireh in 2013 after three years to focus on her variety store in nearby Conway, which lost its only bank branch several years ago.

Southern closed its Woodland branch three years ago. Then the local grocery store shut down. The loss of both means “most people drive through here” without stopping, says Joe Lassiter, owner of Lassiter's Used Cars. He keeps no more than 10 cars on his lot, down from about 20 before.

Barbara Outland, owner of Grapevine Cafe down the street, drives 11 miles to Murfreesboro, N.C., to get change and make deposits. Ms. Outland, 71, says that as defense against any thieves



Barbara Outland, owner of the Grapevine Cafe in Woodland, N.C., views photos of when the town was more vibrant. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

eyeing that cash she locks up at night with a .38 Smith & Wesson revolver “in my hand, in plain view for all to see.”

Woodland Mayor Kenneth Manuel says Southern rejected the town’s request for an ATM, saying it needed 4,000 transactions a month to justify one.

Southern Senior Vice President John Heeden declines to comment on Woodland. “It is never easy to make such decisions that impact our friends and neighbors in these close-knit communities,” he says, “and Southern Bank certainly takes these decisions very seriously.”

The bank, with \$2.6 billion in assets, was started by local investors in 1901 as Bank of Mount Olive. It has 61 branches, including the only bank in Woodland’s Northampton County. Southern says that 36 of its branches are in towns with populations under 6,000 and that in most areas where the bank has closed branches, there is another bank fairly close. “Southern Bank embraces its ongoing commitment to serve rural communities that are overlooked by many of our larger competitors,” Mr. Heeden says.

In considering closures, he says, “profitability and market dynamics are primary drivers, along with other factors that can vary over time and by market.”



Downtown Conway, N.C., which lost its bank branch. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

Economic ills

Rural communities in parts of the U.S. have become less attractive to local banks because they are suffering from a variety of economic ills that have taken a toll on business activity and new business formation.

Weak school systems have made many rural communities less attractive to employers, says Peter Skillern, executive director of Reinvestment Partners, a nonprofit based in Durham, N.C., that works with rural communities.

Dollar stores and big-box retailers drained customers from some local shops. The financial crisis left some residents with battered credit and collateral. Populations dropped as youth moved out.

These communities have been hurt by declines in the textile and furniture industries, consolidation in agriculture and decreased government support for tobacco. Average annual employment in North Carolina's 80 rural counties fell 6% between 2007 and 2016, according to the Raleigh-based NC Rural Center, compared with a gain of 11% in its six urban counties.

"It would be great if there were branches and people in all these rural communities," says Kel Landis, former CEO of RBC Centura, which once owned the rural North Carolina bank locations purchased by PNC in 2012. "But I do understand, as a former banker, the economics. If you have a place that used to be thriving, but the downtown has closed up, having a branch there is a money-losing proposition."

Another headache for bankers in rural areas, says Jerry Rexroad, CEO of Carolina Financial Corp., is that "it's very hard to find highly competent commercial loan officers who want to live in these small towns and can produce an adequate amount of production." He said rural businesses often have less sophisticated reporting systems that make their finances tougher to analyze.

Carolina Financial, of Charleston, S.C., in November acquired First South Bank, of Washington, N.C. "The smaller towns are really more for deposit-gathering that gives you funds to lend to larger towns," says Nick Nicholson, chief credit officer First South Bank.

Carolina Financial's Mr. Rexroad says it is "equally committed to growing our market share in rural and urban markets," and recently assigned senior loan officers to help cover rural areas.

Small-town businesses say bank pullbacks weaken local economies further.

PNC installed an ATM 6 miles from Woodland in Rich Square, population 884, when it closed its branch there in 2016, leaving the area without a bank branch for the first time since 1902 (see related article).



Barber Horace Robinson in the Upper Cutz Barber Shop in Rich Square. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

"It's hard to get a business to come in" when there is no bank to cash workers' paychecks, says Rich Square Town Commissioner Reginald White. Rich Square has a barber shop, grocery,

hardware store, pharmacy, post office and three restaurants. But the storefronts on one side of Main Street are vacant.

Horace Robinson, owner of Upper Cutz Barber Shop on Main Street, makes weekly deposits at the ATM. When he needs change, he unlocks his soda machine or one of the shop's arcade games rather than drive to a PNC branch 17 miles away.

A PNC spokeswoman says the bank, "continuously evaluates its branch network to assure we are meeting customer needs in a cost effective way." Customers, she says, "are banking very differently today" with online and mobile channels and ATMs.

After deciding to close the Rich Square branch, PNC "contacted 15 banks, in some cases multiple times," in an unsuccessful effort to find another financial institution to take it over, she says. PNC donated the branch to the community, installed a full-service ATM and made other investments, she says.

Ms. Baker, the peanut-business owner, says 45 years ago, when her mother moved her ceramics classes from home to a storefront, a local banker took a personal interest in the business and gave her a loan.

In Ms. Baker's 15,000-square-foot operation, workers make peanut brittle and water-blanch and fry peanuts, then season them or cover them in chocolate. It employs up to 18 during peak season.

When she sought a loan to expand into a new building, she figured the family's decades-old relationship with Southern would help get her one. Instead, she says, a banker at Southern "told me I should close the business down" or operate it just during the busy Christmas season. PNC, she says, told her there wasn't enough foot traffic to support a store.

She received a loan from Carolina Small Business, a nonprofit lender a two-hours' drive away in Raleigh. It offers financing, education and training to small businesses but doesn't collect deposits or offer checking accounts, wire transfers and other traditional banking services.

Because it takes so long to get to the closest PNC branch, where she does her business, Ms. Baker sometimes makes deposits at a Southern branch about 8 miles down the road. Doing business with two banks, "you end up having double fees."

Simple transactions require more planning. Employees must leave earlier to cash their paychecks, says Ms. Baker, who plans to add automatic deposit next year. When the peanut business runs out of change, Ms. Baker and employees go through their pocketbooks.

Moving to a town with more foot traffic might have made sense, but her business "was like that last thing in our town," she says, and "I didn't want to take it away."

Write to Ruth Simon at ruth.simon@wsj.com and Coulter Jones at Coulter.Jones@wsj.com

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An ATM in Conway, which lost its bank branch. PHOTO: VEASEY CONWAY FOR THE WALL STREET JOURNAL

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