Long-Term Trends in Rural Depopulation and Their Implications for Community Banks

Introduction

This article explores trends in rural depopulation in the United States and the implications of these trends for rural community banks. Although rural depopulation continues to pose significant challenges for rural areas, community banks appear to be coping fairly well—much better, in fact, than one would have expected. Nevertheless, the underlying negative effects of depopulating rural areas have been neither eliminated nor reduced, and to the extent that depopulation accelerates over time, its effects will increasingly create problems for community banks that operate in affected areas.

Depopulation in rural counties can be seen throughout the United States. Between 1980 and 2010, the total number of U.S. residents increased by more than 36 percent to nearly 309 million.[1] During that same 30-year period, more than half of all U.S. rural counties lost population. In fact, the rural counties that experienced outflows lost 14.8 percent of their population on average.

The onset of rural depopulation in the United States antedates 1980, with more than one-third of U.S. rural counties having reached their maximum population before 1930, and the trend appears to be accelerating. Between 1980 and 2010, some 692 rural counties lost population, compared with 529 that lost population between 1970 and 2000.

The United States is not the only country experiencing the gradual depopulation of its rural areas. Several studies have documented similar trends in Canada and Mexico; countries in South America; China, Japan, and other Asian countries; as well as some European countries.[2] Factors cited by these studies to explain rural depopulation include productivity gains that led to agricultural consolidation and a reduction in the number of farm workers required; a lack of opportunities for nonfarm employment in the affected areas; and prospects for higher standards of living in urban centers.

This is not the first time FDIC analysts have addressed the subject of rural depopulation. A 2004 issue of the *FDIC Banking Review* contained an article titled "Rural Depopulation: What Does It Mean for the Future Economic Health of Rural Areas and the Community Banks That Support Them?"[3] That article explored the relationship among agriculture, population density, and depopulation for the period 1970 to 2000, describing the demographic components of the rural depopulation trend as well as the roles played by technological change and organizational innovation. Focusing on the Great Plains region, the article noted the pressures that depopulation can place on both sides of the banking balance sheet and the difficulties it can pose in the recruitment and retention of bank management and staff.

Part I of this article builds on the earlier article by incorporating county-level population data from the 2010 Census to compare the depopulation trends of 1970 to 2000 with those of 1980 to 2010. We highlight the particular affinity between depopulation and the Great Plains, and elaborate on the connection between rural depopulation and age distribution within the depopulating counties. In Part II, we focus on community banks in rural depopulating regions: the particular characteristics of these banks, their striking financial performance between 2000 and 2012, and the degree to which they have been affected by consolidation. Part III describes recent developments that may positively affect depopulation trends in some areas. Our conclusion, in this article as in the earlier one, is that despite the adverse effects of depopulation, rural community banks as a group have tended to perform well, but achieving growth remains a challenge.

Part I

Depopulation Trends

The trends discussed in Part I are: the depopulation trends in rural areas for the period 1980 to 2010 compared with the period 1970 to 2000; depopulation and population density in the Great Plains, the region that has long been affected most strongly by rural depopulation and that has the lowest population density of any of the four regions with high rates of depopulation; and the relationship between rural depopulation

[1] All population figures cited in this article are from the U.S. Census.
[2] See, for example, James P. Robson and Prateep K. Nayak, "Rural Out-Migration and Resource-Dependent Communities in Mexico and India," *Population and Environment* 32.2–3 (Dec. 2010): 263–284; Shim Jae Hoon, Robert Delfs, and Julian Baum, "Rural Exodus: Seeds of Despair," *Far Eastern Economic Review* 156.9 (Mar. 4, 1993): 20; Thomas Feldhoff, "Shrinking Communities in Japan: Community Ownership of Assets as a Development Potential for Rural Japan?" *Urban Design International, suppl. Special Issue: Shrinking Cities* 18.1 (Spring 2013): 99–109; Vladimir Drgona and David Turnock, "Policies for Rural Eastern Europe in Transition: The Case of Slovakia," *GeoJournal* 50.2–3 (2000): 235–247.

[3] John Anderlik and Jeffrey Walser, "Rural Depopulation: What Does It Mean for the Future Economic Health of Rural Areas and the Community Banks That Support Them?" *FDIC Banking Review* 16.3 (2004), http://fdic.gov/bank/analytical/banking/2005jan/article2.html.

Changes to Definitions of County Types Between the 2000 and 2010 Census Periods

The U.S. Office of Management and Budget (OMB) designates clusters of counties as metropolitan statistical areas or micropolitan statistical areas (the latter category was first defined in 2003) to provide nationally consistent definitions for collecting, tabulating, and publishing federal statistics. The OMB bases the designations on the population size of the urban cores and on socioeconomic integration. Under these definitions, metropolitan areas have an urban core of at least 50,000 people. Micropolitan areas, though otherwise similar to metropolitan areas, have an urban core of between 10,000 and 50,000 people. The OMB periodically reviews and revises its designations of metropolitan and micropolitan, adding new metropolitan and micropolitan clusters as well as adding or deleting individual counties from existing clusters of designated metro and micro areas.

The 2004 FDIC study based its system for classifying counties as rural on the OMB 2000 core statistical area definition file, which did not yet include micropolitan statistical area definitions. The 2004 study labeled counties shown to be part of metropolitan statistical areas as metro counties and all other counties as rural counties. The present update uses the OMB 2009 core statistical area definitions, which include micropolitan statistical areas. Thus, this update labels counties belonging to metropolitan areas as "metro counties," counties belonging to micropolitan areas as "micro counties," and all other counties as "rural counties."

In full, in its 2009 definitions the OMB reclassified 401 counties from rural to micropolitan in the four FDIC-defined depopulating areas (see footnote 6): Corn Belt (166), Delta-South (104), Great Plains (84), and Appalachia-East (47). Much like their larger (metro) counterparts, micro counties tend to have growing populations. In the 2004 FDIC study, most of these counties had been classified as "growing" rural counties, and between 1980 and 2010, 70 percent of them added population.

and age distribution (age distribution is an indicator of the vitality that characterizes local communities).

Depopulation Trends in Rural Areas, 1970–2000 and 1980–2010

The 2004 FDIC study focused on population trends at the county level during the 30 years from 1970 to 2000, categorizing all U.S. counties according to the population trends they experienced during this period.[4] Counties that gained population were designated "growing counties," while those that lost population were designated "depopulating counties." Depopulating counties were segmented according to whether their rate of population loss did or did not accelerate during the 1990s (the last of the three decades in the period under study): Depopulating counties whose rates of outflow during the 1990s did not increase were designated "declining counties," while depopulating counties whose rates of outflow during the 1990s did increase were designated "accelerated declining counties."

Using these definitions, the study found that in 2000, one-quarter of all U.S. counties were depopulating counties (either declining or accelerated declining). The study also found that depopulation appeared to be occurring primarily in rural areas. From 1970 to 2000, some 32 percent of rural counties had lost population, compared with just 11 percent of metro counties (for the definitions of rural, metro, and micro counties, see inset box above).[5] Furthermore, the vast majority of depopulating rural counties were identified in 2004 as belonging to one or another of four distinct geographic areas: the Great Plains, the Corn Belt, the Delta-South, and Appalachia-East.[6]

Although the 2004 study focused on the Great Plains, the factors leading to long-term depopulation were basically similar across the four regions. In all four, fewer workers were needed in the dominant economic sector (agriculture in the center of the country, coal mining in Appalachia-East), but jobs in other sectors were scarce.[7] Hence these regions saw an out-migration to urban

[4] In this paper we use the term "county" to refer to counties and other geographies (for example, parishes, municipios, districts, and islands) that are treated as county equivalents by the U.S. Census Bureau.

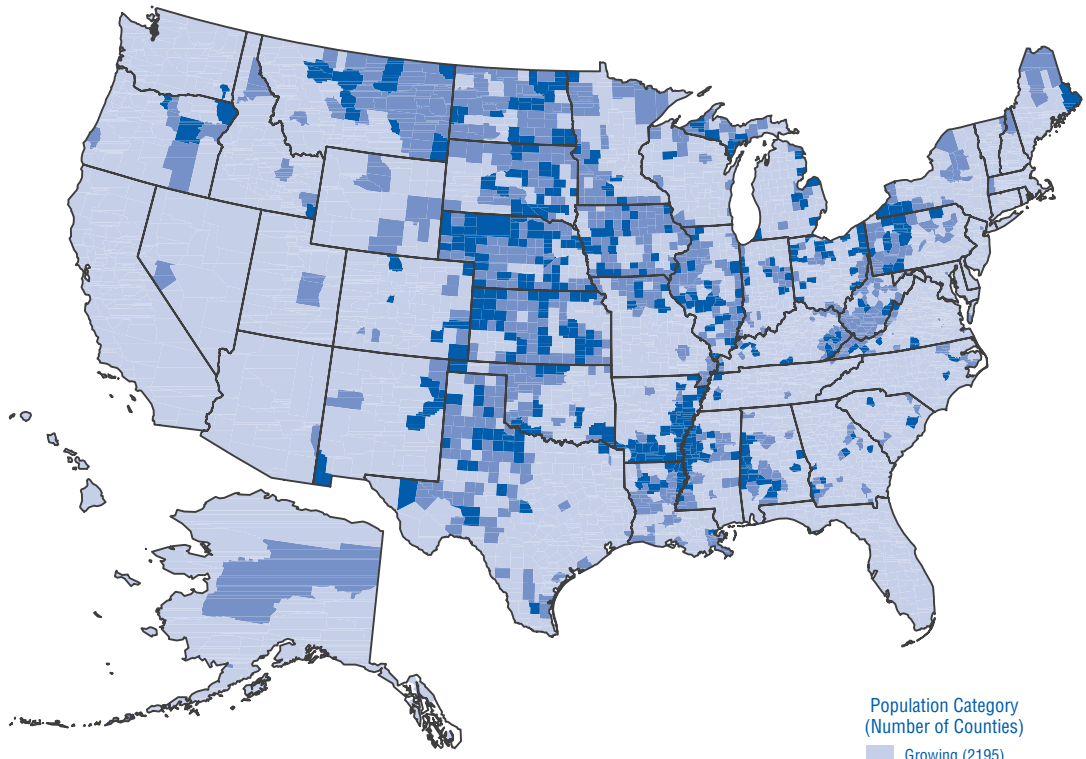
[5] We use the shorthand "metro" to refer to counties belonging to a metropolitan statistical area, and "micro" to refer to counties belonging to a micropolitan statistical area, as defined in the inset box.

[6] These areas are defined in the 2004 FDIC article and are shown on Map 2 of this update.

[7] As noted in the introduction, ongoing consolidation in the agricultural sector was largely the product of technological change and organizational innovation.

Map 1

Approximately One-Third of U.S. Counties Lost Population Between 1980 and 2010



Source: 2010 U.S. Census Population compared with 1980 U.S. Census Population.
Note: *Growing*—population increased between 1980 and 2010; *Declining*—population declined between 1980 and 2010; *Accelerated Declining*—population declined between 1980 and 2010, and the rate of decline between 2000 and 2010 worsened from the previous two decades.

areas or rural counties that offered employment in manufacturing or retail. This out-migration in turn led to a slow disintegration of rural towns, which led to further population outflows. The result has been a long-term cycle of population decline in many rural counties.

More-current data allow us to compare depopulation trends and locations for our two 30-year periods.[8] Map 1 shows the population category of all U.S. counties between 1980 and 2010 without reference to the designation of rural or urban, and we see that the long-term trend of depopulation is accelerating. Between 1980 and 2010, 1,043 U.S. counties (32 percent) lost population, compared with 779 counties (25 percent) between 1970 and 2000. Moreover, the number of counties meeting the definition of "accelerated declining" rose from 188 at the 2000 Census to 393 as of 2010.

Map 1 shows that most depopulation continues to occur in the center of the country, with additional concentrations of depopulating counties among states of the mid-South region and the noncoastal states of the East. Because these geographic concentrations have remained relatively unchanged since our previous study, we continue to group depopulating counties within the four geographic areas of the Great Plains, the Corn Belt, the Delta-South, and Appalachia-East.

Map 2, which uses the same data as Map 1, shows that the four depopulating regions comprise the vast majority of the nation's depopulating rural counties. In 2010,

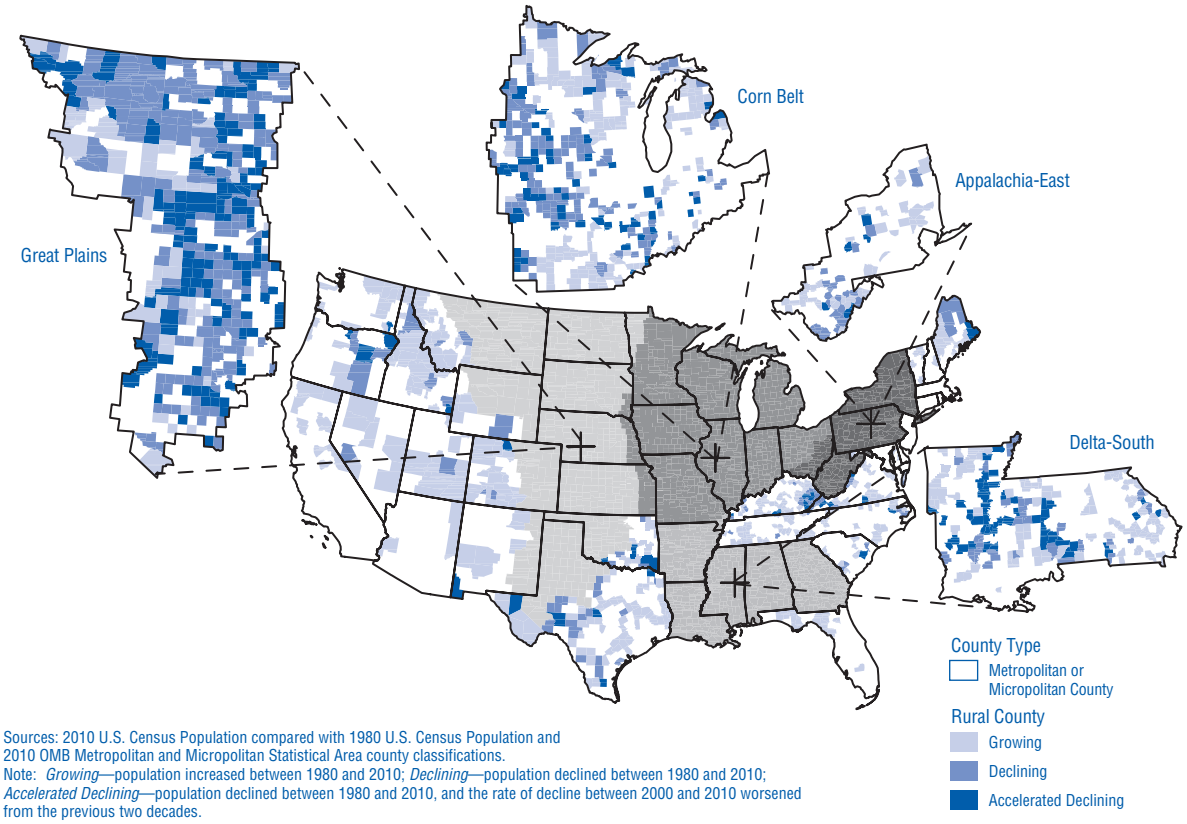
[8] In this update, we applied the current county border definitions (2010) and the Office of Management and Budget statistical area definitions (2009) back to 2000 to make valid comparisons with the previous FDIC study. In addition, we expanded the current analysis to include geographic coverage beyond the 50 states and Washington, D.C., that were used in the 2004 study. These areas include American Samoa, Federated States of Micronesia, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands, although these additions are not shown on Maps 1 and 2. Together, these 6 territories encompass 95 counties, of which 85 are growing, 5 are declining, and 5 are accelerated declining. With the broader geographic scope of this study and with the changes made to county definitions between 2000 and 2010, this update covers 3,238 counties, compared with 3,141 in the 2004 study.

the four depopulating regions contained 530 of the nation's 650 declining counties and 343 of its 393 accelerated declining counties (see Table 1). More than 46 percent of all counties in these regions lost population between 1980 and 2010. Although depopulating counties were also found outside the four depopulating regions—170 of them in 2010—such counties constituted only 13 percent of all the depopulating counties.

Table 1, which breaks down the population trend in number of counties for each of the four regions, shows that depopulation continues to be most prevalent in the Great Plains region, with Corn Belt counties experiencing the second-highest rate of depopulation. Some 71 percent of Great Plains counties (340 of 478), and 41 percent of Corn Belt counties (310 of 749) lost population between 1980 and 2010.

Map 2

U.S. Rural Depopulation Remains Concentrated in Four Distinct Regions



Sources: 2010 U.S. Census Population compared with 1980 U.S. Census Population and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.
Note: *Growing*—population increased between 1980 and 2010; *Declining*—population declined between 1980 and 2010; *Accelerated Declining*—population declined between 1980 and 2010, and the rate of decline between 2000 and 2010 worsened from the previous two decades.

Table 1

Four Broad Geographic Regions Have Most of the Nation's Depopulating Counties

Region	Number of Counties			
	Growing	Declining	Accelerated Declining	Region Total
Great Plains	138	199	141	478
Corn Belt	439	198	112	749
Delta-South	316	65	70	451
Appalachia-East	125	68	20	213
Other	1,177	120	50	1,347
U.S. Total	2,195	650	393	3,238

Source: 2010 U.S. Census Population compared with 1980 U.S. Census Population.
Note: 'Other' category includes American Samoa, Federated States of Micronesia, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands.

Table 2 takes the depopulating counties only, and breaks them down in percentages by type of county for each of the four regions, thus helping to illustrate the extent to which long-term U.S. depopulation is most pronounced in rural counties generally and in rural counties in the Great Plains region specifically. Half of all rural counties in the United States lost population between 1980 and 2010, compared with 30 percent of micro counties and just 12 percent of metro counties. Among rural and micro counties, the greatest concentration of depopulating counties was found in the Great Plains, where 86 percent of rural counties and 51 percent of micro counties lost population. The trends are similar, if less pronounced, in the other three depopulating regions.

Although the Great Plains region has the highest overall share of depopulating counties, the trend toward greater depopulation is accelerating in all four regions. Between 1980 and 2010, 52 percent of Great Plains counties lost population faster than they had between 1970 and 2000, followed by the other three depopulating regions, where 28 to 36 percent of counties lost population faster. In only a few counties in the four regions did the population decline either slow down or reverse itself.

Depopulation and Population Density in the Great Plains

As noted several times above, of the four major regions undergoing rural depopulation, the Great Plains region stands out. It is noteworthy for the intensity and duration of its depopulation trend and for its low population density. Low population density is important because of the difficulties it poses to local governments in maintaining critical infrastructure such as transportation systems and public schools.

Table 2

Half of All U.S. Rural Counties and 86 Percent of Great Plains Rural Counties Lost Population Between 1980 and 2010

	Percent of Counties That Lost Population Between 1980 and 2010		
Region	Rural	Micropolitan	Metropolitan
Great Plains	86	51	11
Corn Belt	59	43	20
Delta-South	44	34	13
Appalachia-East	43	48	36
Other	23	11	4
U.S. Total	50	30	12

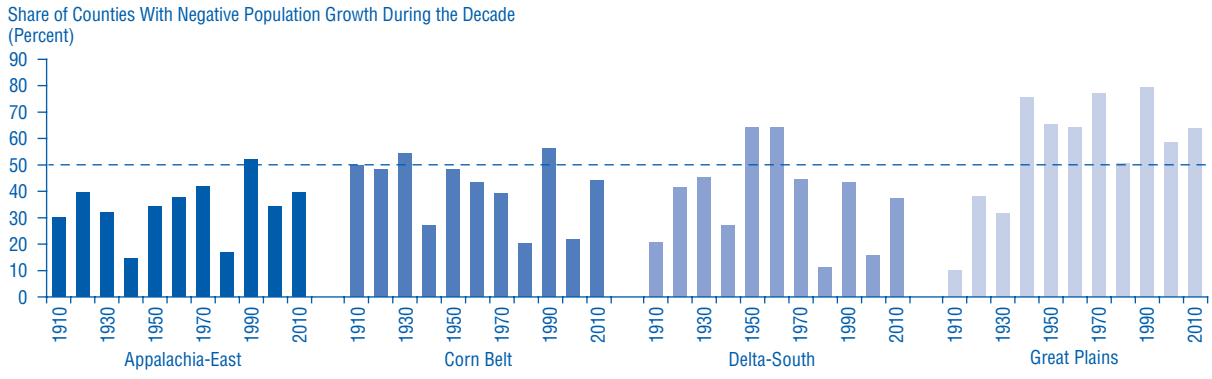
Sources: 2010 U.S. Census Population compared with 1980 U.S. Census Population and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.

Note: 'Other' category includes American Samoa, Federated States of Micronesia, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands

The majority of Great Plains counties—rural, micro, and metro—lost population during the 1930s, when Dust Bowl conditions across the region created overwhelming adversity for agricultural producers and local communities. Although no decade since then has been nearly as challenging to the region, a majority of Great Plains counties have experienced depopulation in *every decade* since 1930 (see Chart 1). Between 1930 and 2010, rural counties in the Great Plains region cumulatively shed more than 40 percent of their population; the rural counties of the Delta-South followed, but there the cumulative loss was just 5 percent.

Chart 1

For Eight Consecutive Decades, a Majority of Great Plains Counties Lost Population



Source: Bureau of U.S. Census, decennial census data.
Note: Counties with zero or unknown population at the beginning or ending of the census period were excluded from the calculations.

Table 3 shows that population densities tend to be lower in the Great Plains counties (rural, micro, and metro) than in the other depopulating regions. Rural counties in the Great Plains average only 4.2 people per square mile, whereas rural counties in the Corn Belt, Delta-South, and Appalachia-East have an average population density six to ten times greater. Micro and metro counties in the Great Plains also have much lower population densities than micro and metro counties in the other depopulating regions.

Table 3

Population Densities Are Low in Rural Counties, Especially Those in the Great Plains

Region	Population Density (people/square mile)		
	Rural	Micropolitan	Metropolitan
Great Plains	4.2	18.8	110.7
Corn Belt	25.9	67.6	336.0
Delta-South	30.1	62.5	205.6
Appalachia-East	41.5	96.3	573.3
Other	7.7	33.6	281.7
U.S. Total	10.6	42.2	285.9

Sources: 2010 U.S. Census Population compared with 1980 U.S. Census Population and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.

Note: 'Other' category includes American Samoa, Federated States of Micronesia, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands.

Rural Depopulation and Age Distribution

One very important aspect of the overall depopulation trend is its close connection to the age distribution in rural areas. Many rural areas have experienced out-migration of young adults beginning after the high school years, as these people move for better employment or educational opportunities.[9] The result is a dearth of residents in their 20s, 30s, and early 40s—age cohorts that represent a substantial portion of child-rearing, working-age adults.

Chart 2 illustrates the effects of these trends in terms of "age pyramids," or population distributions, broken down by five-year age cohorts. The top age pyramid on the left shows the distribution for all metropolitan counties in the United States. Notwithstanding the bulge among the baby boom cohorts now aged between 45 and 59, the age distribution in metropolitan U.S. counties is fairly uniform across age cohorts through age 55, after which the relative share of population gradually declines.

The next pyramid, for the nation's micropolitan counties, starts to show a different shape, with fewer people in the 20 to 45 range than metro counties. In the micropolitan counties, the shape of the pyramid demonstrates what some demographers refer to as a "pinched waist," which indicates that the populations aged 20 to 45 are smaller than the populations younger or older than the 20 to 45 group.

In rural areas the pinched waist becomes more pronounced. The relative absence of people in the 20 to 45 age group reflects the effects of out-migration by young adults. The convex shape of these age pyramids becomes most pronounced in accelerated declining counties, from which many people aged 20 to 45 have departed in search of better opportunities in faster-growing areas.

The age pyramids also indicate a relatively high proportion of elderly people in depopulating rural counties. In 2010, some 13.2 percent of the residents of accelerated declining rural counties were aged 70 or older, compared with 10.6 percent in micro counties and only 8.6 percent in metro counties.

The demographic trends shown in the age pyramids do not represent a new phenomenon for depopulating rural areas. A similar shape, showing a pinched waist for young adults and a relatively high proportion of elderly persons, was shown in age pyramids in the 2004 study.

Part II

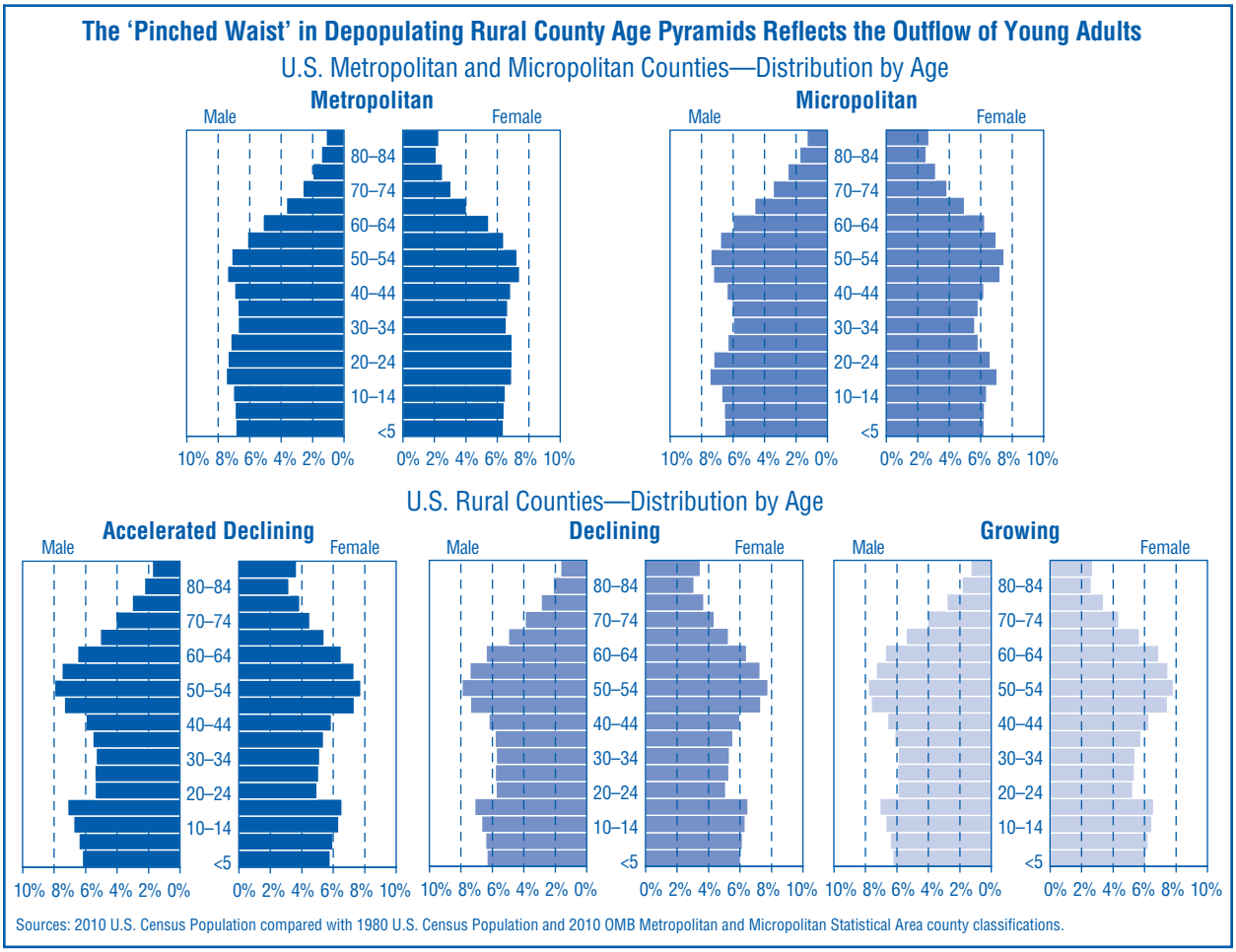
Depopulation and Rural Community Banks

Outflows of young adults have clear implications for rural community banks, but many of the effects have been mitigated by other factors in recent years.[10] This part of the paper compares the characteristics of rural

[9] Although out-migration of young adults is the most significant demographic trend in depopulating rural counties, weak or negative "natural increase" (or births minus deaths) is also a factor affecting population growth in these areas. The role of natural increase in depopulating rural counties is discussed in more depth in the 2004 study.

[10] Population outflows also have clear implications for local governments. The combination of relatively few working young adults and college graduates plus a relatively high proportion of elderly residents can put significant fiscal strains on depopulating rural counties. Local governments subsidize the primary education of young citizens, but if, after graduating from college, these citizens live elsewhere, the governments do not reap the rewards that flow from adding college-educated people to the local labor force and tax base. In addition, the more-elderly populations that are left behind tend to require certain specialized governmental services that add costs to local government budgets.

Chart 2



community banks with those of community banks headquartered in metropolitan and micropolitan counties, and then compares community banks in the three types of counties in terms of their financial performance. The finding is that in recent years, the loan mix of banks in rural depopulating areas has helped to insulate them from the worst effects of the recent financial crisis and recession, and although these banks still find it challenging to grow their balance sheets, community banks in depopulating rural areas have actually fared better, on average, than banks in metro areas. Finally, the comparison is made with community banks in the different types of counties with respect to the consolidation of charters. Here, too, depopulation does not appear to have had the expected negative effect.

Characteristics of Community Banks Headquartered in Depopulating Rural Areas

As of year-end 2012, there were 1,064 community banks headquartered in depopulating rural areas, with total assets of nearly $150 billion (see Table 4).[11] Although the total assets of these institutions represent just 1 percent of the banking industry's total assets, the number of community banks in depopulating rural counties constitutes 15 percent of all insured institutions in the nation, and 16 percent of all community banks.

Like the areas they serve, community banks headquartered in depopulating rural areas tend to be clustered in the Great Plains and the Corn Belt. (The Great Plains contains so many depopulating areas that nearly half of all community banks in the region are located in depopulating rural counties.) Together, the Great

[11] The *FDIC Community Banking Study* (which defines community banks for purposes of the data in Table 4) was built around a custom definition that emphasizes traditional banking activities and a limited geographic scope of operations. This present study uses the same definition. For a complete description of the definition, see http://www.fdic.gov/regulations/resources/cbi/report/CBSI-A.pdf.

Table 4

More Than 1,000 Community Banks Are Headquartered in Depopulating Rural Counties

	Number and Assets of Community Banks by County Type					
	Rural					
Region	Growing	Declining	Accelerated Declining	Micropolitan	Metropolitan	Total
Great Plains						
Number of Institutions	47	227	166	185	211	836
Total Assets ($ billions)	6.4	30.8	17.7	41.2	78.5	174.6
Median Assets ($ millions)	112.8	73.6	62.9	140.9	153.9	99.7
Corn Belt						
Number of Institutions	240	269	173	527	1,135	2,344
Total Assets ($ billions)	38.3	34.2	21.7	112.5	349.9	556.7
Median Assets ($ millions)	113.5	87.9	80.1	130.9	152.2	125.3
Delta-South						
Number of Institutions	122	41	65	175	296	699
Total Assets ($ billions)	22.9	8.8	12.7	51.5	94.7	190.5
Median Assets ($ millions)	139.5	135.6	113.8	186.8	172.4	160.0
Appalachia-East						
Number of Institutions	50	21	4	74	282	431
Total Assets ($ billions)	19.4	4.1	0.8	28.3	186.5	239.1
Median Assets ($ millions)	226.6	124.7	199.3	205.1	305.4	258.3
Other						
Number of Institutions	307	64	34	336	1,493	2,234
Total Assets ($ billions)	58.2	9.8	7.5	101.6	681.1	858.2
Median Assets ($ millions)	127.0	110.3	126.6	196.2	238.8	204.5
U.S. Total						
Number of Institutions	766	622	442	1,297	3,417	6,544
Total Assets ($ billions)	145.3	87.6	60.4	335.2	1,390.5	2,019.1
Median Assets ($ millions)	126.7	88.0	84.0	153.9	199.9	155.2

Sources: FDIC Call Reports (year-end 2012), 2010 U.S. Census Population compared with 1980 U.S. Census Population, and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.

Notes: Table reflects only community banks as defined in the *FDIC Community Banking Study* (2012). 'Other' category includes American Samoa, Federated States of Micronesia, Guam, Commonwealth of the Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands.

Plains and the Corn Belt have 835 community banks headquartered in depopulating rural counties (both declining and accelerated declining), or 78 percent of all such community banks in the nation. In addition, the two regions account for 339 of the nation's 442 community banks that are headquartered in accelerated declining counties.

Table 4 also shows that the asset sizes of community banks headquartered in depopulating rural counties tend to be relatively small. Community banks headquartered in declining or accelerated declining rural counties have median asset sizes of $88 million and $84 million, respectively. Community banks headquartered in growing rural counties have a median asset size of $127 million, and the median metro-based community bank has assets of $200 million.

In addition—and this has proved critical for reasons detailed below—community banks headquartered in depopulating rural counties tend to be focused much more on agriculture than community banks headquartered elsewhere, particularly those headquartered in metro areas. The reason for this agricultural focus is closely linked with depopulating trends. As the agricultural sector has consolidated over the past century, the loss of employment in that sector, together with the absence of other employment possibilities in any other

Table 5

Community Banks in Depopulating Rural Areas Tend To Be Agricultural Lending Specialists

	Number of Community Banks by County Type and Lending Specialty					
	Rural					
Lending Specialty	Growing	Declining	Accelerated Declining	Micropolitan	Metropolitan	Total
Mortgage Lending	134	29	22	218	637	1,040
Other Consumer Lending	3	4	0	6	29	42
Commercial RE Lending	71	18	22	162	1,199	1,472
C&I Lending	10	7	4	24	96	141
Agricultural Lending	86	285	215	198	148	932
Multi Specialty Lending	80	33	28	157	435	733
No Lending Specialty	382	246	151	532	873	2,184
Total	766	622	442	1,297	3,417	6,544

Sources: FDIC Call Reports (year-end 2012), 2010 U.S. Census Population compared with 1980 U.S. Census Population, and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.

Notes: Table reflects only community banks as defined in the *FDIC Community Banking Study* (2012). Lending specialty as defined in the *FDIC Community Banking Study* (2012).

sector, led to out-migration. In turn, the depopulation led to the erosion of main-street businesses and their commercial lending needs. For community banks in depopulating areas, the result has been a continuing shrinkage of lending options in their local markets apart from agricultural loans.

At year-end 2012, agricultural loans held by the median community bank in depopulating rural areas constituted 19.3 percent of total assets, while commercial real estate (CRE) loans constituted 6.6 percent, including 0.6 percent in construction and development (C&D) loans. Metro-based community banks had contrasting portfolios, with a median 0.4 percent in agricultural loans and 26.3 percent in CRE loans, including 3.1 percent in C&D loans. At year-end 2007 (when the recession started), the contrast between the holdings of community banks in the two types of areas had been even more pronounced, when metro-based community banks had medians of 29.8 and 7.6 percent of their assets in total CRE and C&D loans, respectively. At that time, the median community bank in depopulating rural areas had 7.8 percent of its total assets in CRE loans, including 0.9 percent in C&D loans.

Another way to look at the differences in lending between community banks headquartered in different types of areas is to look at the lending specialty of the institutions. Table 5 depicts the lending specialty groups of community banks as defined in the *FDIC Community Banking Study*.[12] At year-end 2012, nearly half of all community banks headquartered in depopulating rural counties specialized in agriculture, followed closely by community banks that had no lending specialty. Less than 4 percent of community banks in depopulating rural areas specialized in CRE lending. Not surprisingly, few community banks in metro areas specialized in agriculture, but a much higher proportion specialized in CRE lending. Even growing rural areas had relatively few community banks that specialized in agricultural lending; instead, half of the community banks in these counties had no lending specialty.

Financial Performance of Community Banks in Depopulating Rural Areas

As has been the case for decades, community banks headquartered in depopulating rural areas face difficulties related to their local market areas. In effect, the eroding size of the local customer base makes it harder at the margin to raise deposits and attract loan customers. This study shows that challenges to balance-sheet growth have continued to exist in depopulating rural areas, and banks that searched for deposit and loan growth by branching into metro areas in the first decade of the 21st century were adversely affected by

[12] Page 5-3 of the *Study* defines the lending specialty groups. Banks are agricultural specialists if their combined agricultural production loans plus loans secured by farm real estate are greater than 20 percent of total assets. CRE specialists hold C&D loans greater than 10 percent of total assets OR total CRE loans (C&D, multifamily, and secured by other commercial properties) greater than 30 percent of total assets.

Unusual Strength in the Agricultural Sector

For many rural community banks, specialization in agricultural lending had unexpectedly beneficial results for the better part of the past decade. Historically the agricultural sector has been relatively volatile, with a downside risk that was clear in the 1980s, when the sector propelled hundreds of rural farm banks to failure. Currently, however, the agricultural sector is in the midst of a prolonged period of unusual strength. Annual U.S. net farm income, perhaps the best measure of the sector's strength, averaged $63.7 billion from 1990 through 2003. From 2004 through 2012, annual U.S. net farm income averaged $84.5 billion per year. This nine-year period includes six of the top ten annual net farm income figures since 1960 (see Chart I.B.1). The 2013 forecast of $123 billion would also be among the top years in the past half century.

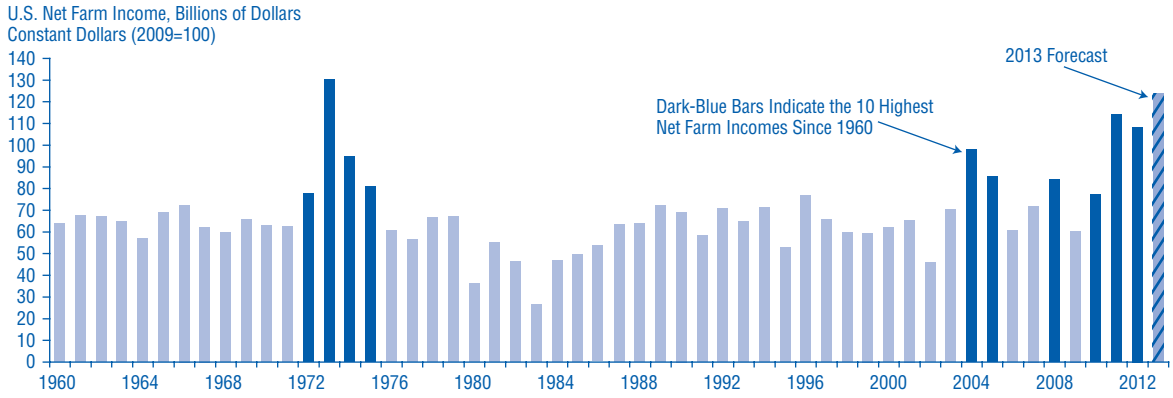
Much of the strength in net farm income is attributable to unusually high prices for corn, soybeans, and wheat—key crops in the Great Plains and Corn Belt. The average price of corn was 59 percent higher from 2007 through 2012 than it had been from 1990 through 2006. Comparable price increases for wheat and soybeans over the same two periods were 53 percent and 45 percent, respectively.

In addition, the U.S. recession in 2008 and 2009 (as noted above) appeared to have little adverse effect on the agricultural sector. In fact, 2008 was among the ten best years for U.S. net farm income since 1960. This success came at a time when many metro and micro areas were being hit hard by job losses, especially in the construction industry.

Source: USDA's Economic Research Service, inflation-adjusted figures using 2009 dollars.

Chart I.B.1

The Decade 2002–2012 Was Marked by Historically Strong Net Farm Incomes



Source: USDA/ERS.

the recession, just as metro-based banks were. Financial performance as measured by earnings and asset quality was actually stronger in depopulating rural areas than in metro areas because the agricultural sector—on which so many rural community banks depended, as described earlier—was strong during and following the overall U.S. recession. For details on the strength in the agricultural sector, see inset box above.

The Challenge of Balance-Sheet Growth

In keeping with the gradual decline in their local customer base, community banks headquartered in depopulating rural areas have historically had challenges in growing their balance sheets. Between 1991 and 2005, community banks in depopulating rural areas generally had much lower rates of growth in total assets, loans, and deposits than their counterparts in metro, micro, or growing rural counties (see Table 6). Starting in 2006, however, asset growth rates increased in depopulating rural areas in keeping with the strength in the agricultural sector, while weakening in other areas. As a result, from 2006 through 2012 community banks in depopulating rural areas posted higher asset growth rates than community banks elsewhere. Asset growth was accompanied by strong deposit growth, since farmers looked to place their high earnings into their local institutions. The downside, though, was that these earnings led farmers to reduce their borrowing

Table 6

Balance-Sheet Growth in Depopulating Rural Counties Has Been Bolstered in Recent Years

Median Annualized Total Asset, Total Loan, and Total Deposit Growth Rates of Community Banks by Type of County, 1991–2012 (Percent)

	Total Assets					Total Loans					Total Deposits*				
County Type	1991–1995	1996–2000	2001–2005	2006–2010	2011–2012	1991–1995	1996–2000	2001–2005	2006–2010	2011–2012	1991–1995	1996–2000	2001–2005	2006–2010	2011–2012
Metropolitan	5.07	7.84	7.44	4.56	2.90	5.68	10.42	8.24	4.17	-0.10	4.38	6.76	7.12	4.94	3.20
Micropolitan	4.33	5.83	5.16	4.32	3.72	6.33	8.57	5.54	3.53	0.33	3.69	4.99	5.00	4.76	4.04
Rural:															
Growing	4.73	6.23	4.97	4.14	3.13	6.59	9.39	5.17	3.44	-0.79	4.27	5.49	4.85	4.47	3.36
Declining	2.60	3.91	3.42	4.61	5.76	6.15	6.75	4.39	4.22	1.86	2.12	3.30	3.24	5.02	6.06
Accelerated Declining	2.86	4.09	3.30	4.67	5.54	6.05	6.70	3.91	3.82	1.46	2.52	3.46	3.11	5.10	5.72

Sources: FDIC Call Reports, 2010 U.S. Census Population compared with 1980 U.S. Census Population, and 2010 OMB Metropolitan and Micropolitan Statistical area county classifications.
Notes: Table reflects only community banks as defined in the *FDIC Community Banking Study* (2012). Growth rates are merger-adjusted.
* Significant changes in FDIC deposit insurance coverage occurred during the 2006–2010 and 2011–2012 periods.

requirements, so that loan growth rates at community banks in depopulating rural areas dropped to under 2 percent in 2011 and 2012.[13]

It is unclear how long community banks in depopulating rural areas will continue to have a growth advantage over community banks elsewhere. It is probably not reasonable to assume that the agricultural sector will continue indefinitely to enjoy the exceptionally strong conditions of recent years. Should farm earnings return to their normal level, most likely the banks that operate in rural areas will see their growth rates revert to levels more in line with historical norms. At the same time, as the overall economy continues to recover from the recession, metro-based community banks should see their growth rates improve.

Branching Strategies

Before the recession, some community banks in depopulating rural areas adopted various strategies to offset the effects of local population declines and to achieve higher rates of balance-sheet growth. One such strategy was to branch into metro areas where population and economic activity were growing faster than in the banks' local areas. But with such a strategy came the associated risks of managing a branch not only in a new geography but also, in many cases, with a corresponding shift in lending focus.

As of year-end 2000, 9.3 percent of community banks headquartered in depopulating rural areas operated branches in metro areas. By year-end 2007, the percentage had risen to 17.5. This branching strategy led to higher growth rates for these institutions. During the seven-year period from year-end 2000 through year-end 2007, community banks headquartered in depopulating rural areas that had at least one metro branch grew total assets by 6.6 percent per year and loans by 8.2 percent per year on a merger-adjusted basis. These growth rates were approximately twice the rates experienced by community banks headquartered in depopulating rural areas that did not have metro branches.

In achieving this growth, however, community banks with metro branches took on many of the lending characteristics of metro banks. From 2000 through 2007, while rural community banks without metro branches maintained high levels of agricultural loans and low levels of CRE and C&D loans, their counterparts with metro bank branches had significantly more exposure to CRE and C&D loans (see Table 7).

As a result, when the U.S. economy went into recession and the quality of many CRE and C&D loans was adversely affected, rural community banks with metro branches reported asset quality and earnings performance that was more in line with that of metro banks than with that of other rural banks (see Chart 3). Past-due loan rates, loan losses, and provision expenses rose sharply, following the trend observed for metro-based community banks. The number of rural community banks with metro branches reporting annual net

[13] There may be other factors that also contributed to lower loan demand at these institutions, but the unusually strong cash positions of farmers was the most common reason cited by bankers at meetings with FDIC regulators and during their examinations.

Table 7

Community Banks in Depopulating Rural Areas That Had Metro Branches Took on More CRE and C&D Loans Between 2000 and 2007

Banks Headquartered in:	(Percent) 2000	2007	2012
Metropolitan Areas			
CRE Loans to Total Assets	16.82	22.30	24.65
C&D Loans to Total Assets	5.08	12.85	4.04
Ag Loans to Total Loans	1.88	2.01	2.02
Depopulating Rural With Branches in Metro Areas			
CRE Loans to Total Assets	11.44	17.25	17.00
C&D Loans to Total Assets	2.57	7.83	3.51
Ag Loans to Total Loans	12.43	14.50	15.99
Depopulating Rural Without Branches in Metro Areas			
CRE Loans to Total Assets	6.23	8.74	7.95
C&D Loans to Total Assets	0.94	2.21	1.03
Ag Loans to Total Loans	21.95	22.94	22.33

Source: FDIC Call Reports.

Notes: Table reflects only community banks as defined in the *FDIC Community Banking Study* (2012). CRE loans are exclusive of C&D loans (which are shown separately). Ag loans are loans for agricultural production and loans secured by farmland. All ratios are weighted averages for the time periods shown.

losses also increased, but not quite to the level seen at community banks in metro areas.

In addition, the operation of metro-area branches had a negative effect on the failure rates of community banks headquartered in depopulating rural areas. Between 2000 and year-end 2012, of all community banks headquartered in such areas, 3.65 percent of those with metro branches failed, compared with 0.98 percent of those without metro branches.

Earnings and Asset Quality

Despite the demographic challenges in their local areas, community banks headquartered in depopulating rural counties reported relatively strong earnings and asset quality between 2001 and 2012, even through the U.S. recession. By contrast, community banks located in areas with increasing populations, such as metro areas, reported substantial deterioration in earnings and asset quality during the recession and had still not recovered fully at year-end 2012. This finding that banking performance has diverged from depopulation trends may be striking, but the explanation is simple.

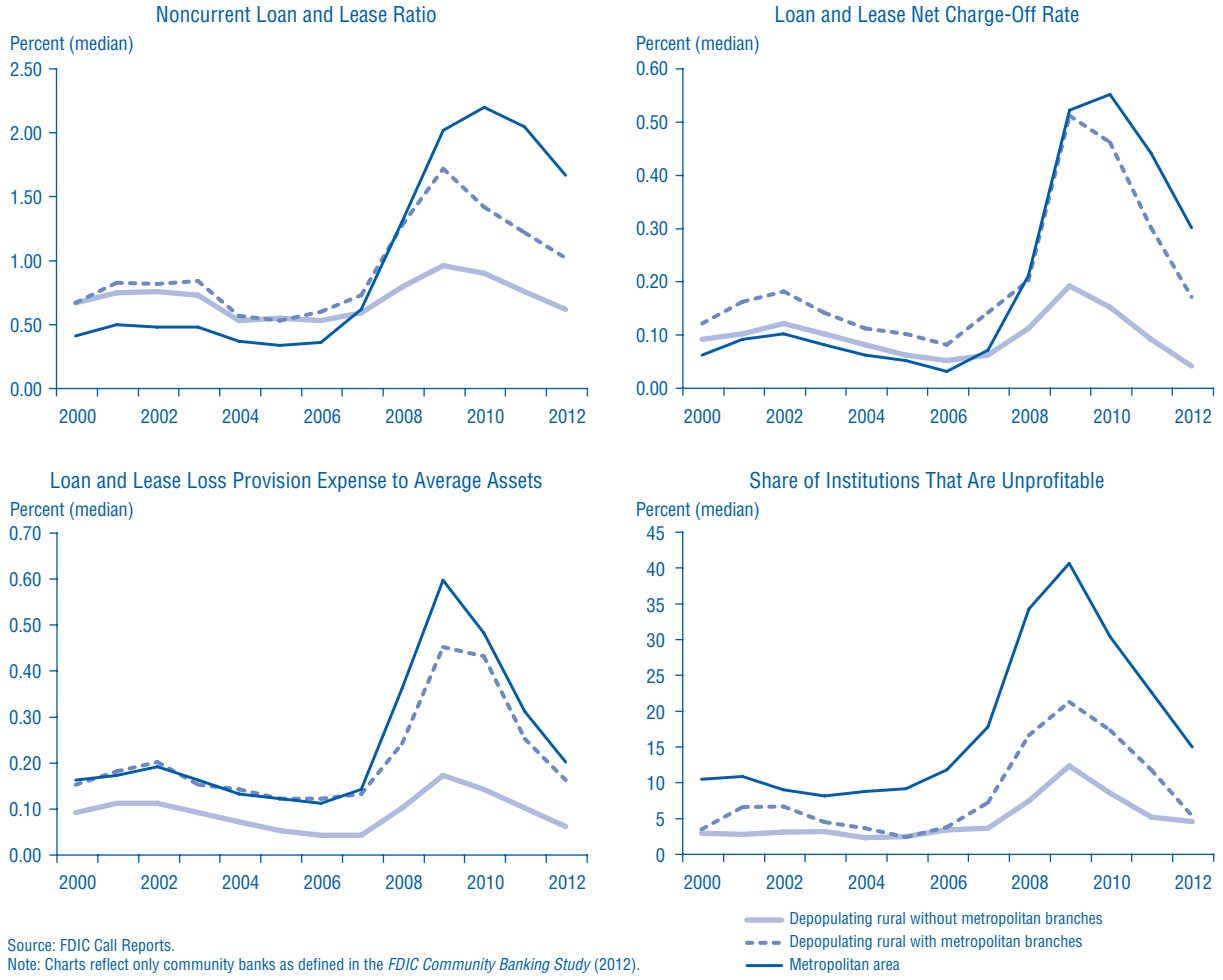
In the early 2000s, community banks in both growing and depopulating areas were solidly profitable and had strong asset quality (see Table 8). Pretax return on assets (ROA) of community banks across geographies was in a tight range of 1.42 percent to 1.56 percent. These earnings were bolstered by low and stable loan loss provision expenses for all groups studied. Levels of noncurrent loans and net loan losses were low in all groups, particularly in community banks headquartered in metro areas.

From 2006 through 2010, the financial performance of community banks began to vary depending on the type of area in which the bank was headquartered. Most noticeable was the deterioration in earnings and asset quality reported by community banks located in metro areas. In the five years between 2006 and 2010, metro-based community banks earned, on average, a full percentage point less per year than they had in the prior five-year period. These institutions also reported large spikes in provision expenses and in levels of noncurrent loans and leases: Between 2006 and 2010, both of these measures were more than three times what they had been between 2001 and 2005.

During the same period, community banks based in micro areas and growing rural areas fared somewhat better than metro banks, but their earnings and asset quality were still weaker than they had been between 2001 and 2005. The institutions based in micro and in growing rural areas reported declines in annual pretax ROA of 62 and 57 basis points, respectively, compared with the 2001 through 2005 period. As in metro-based

Chart 3

Community Banks in Depopulating Rural Areas With Metro Branches Showed Deterioration During the Recession



Source: FDIC Call Reports.
Note: Charts reflect only community banks as defined in the *FDIC Community Banking Study* (2012).

Table 8

The Financial Performance of Community Banks in Depopulating Rural Areas Remained Solid Through the U.S. Recession

	Pretax Return on Assets (Percent)				Provision Expense to Average Assets (Percent)				Total Noncurrent Loans to Total Loans (Percent)			
County Type	2001–2005	2006–2010	2011	2012	2001–2005	2006–2010	2011	2012	2001–2005	2006–2010	2011	2012
Metropolitan	1.49	0.46	0.65	1.01	0.22	0.73	0.61	0.35	0.74	2.55	3.33	2.62
Micropolitan	1.49	0.87	0.89	1.12	0.24	0.55	0.51	0.31	0.87	1.93	2.57	2.05
Rural:												
Growing	1.56	0.99	0.88	1.11	0.24	0.45	0.50	0.32	0.96	1.88	2.76	2.21
Declining	1.45	1.08	1.04	1.17	0.21	0.39	0.35	0.24	1.04	1.64	1.95	1.51
Accelerated Declining	1.42	1.13	1.23	1.41	0.25	0.40	0.32	0.22	1.13	1.45	1.59	1.35

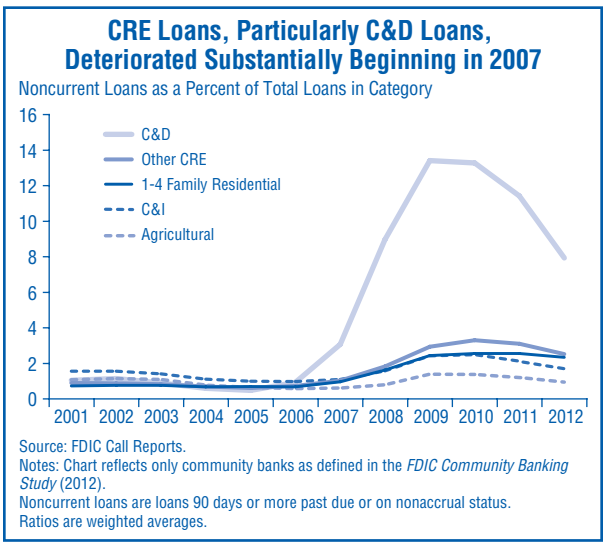
Source: FDIC Call Reports.
Notes: Table reflects only community banks as defined in the *FDIC Community Banking Study* (2012). All ratios are weighted averages for the period shown.

community banks, higher provision expenses drove a large part of this earnings decline. In addition, between 2006 and 2010 noncurrent loan levels in the institutions based in micro and growing rural areas were approximately twice what they had been between 2001 and 2005.

In contrast, community banks headquartered in depopulating rural areas found the latter half of the 2000s to be much less difficult. These institutions reported only modest declines in average ROA—declines of between 29 and 37 basis points annually, when 2006 through 2010 is compared with 2001 through 2005. When the 2006–2010 performance of community banks headquartered in depopulating rural areas is compared not with these banks' own previous performance but with the 2006–2010 performance of metro-based community banks, the comparison is starkly in favor of the banks in the depopulating areas: The average pretax ROA reported by community banks in depopulating rural areas was more than 60 basis points higher than that of their metro-based counterparts. In 2011 and 2012, this gap closed somewhat, though by no means completely, as community banks in depopulating rural areas still reported higher earnings than metro community banks. Of all community banks, between 2006 and 2010 those in depopulating rural areas also reported the lowest increases in provision expenses and in levels of noncurrent loans. This trend continued in 2011 and 2012.

Since 2006, much of the disparity in performance between community banks located in depopulating rural areas and those located in metro areas can be explained by the differences in the loan mix of the two groups (loan mix as of year-end 2012 was surveyed above, at the end of the "Characteristics" section). Community banks operating in depopulating rural counties relied substantially more on agricultural lending and had lower holdings of CRE loans, and this mix translated directly into lower loan losses during the recession. From 2001 through 2006, virtually every type of loan had performed well, but beginning in 2007 several loan types, particularly C&D loans, had begun to show significant deterioration (see Chart 4). The noncurrent rate for C&D loans at community banks overall peaked at 13.4 percent in 2009, and at year-end 2012 was still an elevated 7.9 percent. By 2009, CRE, residential, and commercial and industrial loans also showed substantial increases in noncurrent rates. The noncurrent rate of agricultural loans, however, remained low throughout the recession.

Chart 4



Number of Community Bank Charters in Rural Areas Compared With Metro Areas

Consolidation has been a long-term trend in the U.S. banking industry. The number of federally insured bank and thrift charters has declined steadily for almost three decades, from just under 18,000 in 1984 to fewer than 7,000 in 2012. In concert with this trend, the number of community bank charters in depopulating rural areas has declined steadily since 1984 (see Table 9). At year-end 1984, there were 2,477 total charters in depopulating rural areas, more than 96 percent of which were community banks. By the end of 2012, total charters in these areas had declined to 1,074, and 99 percent (all but 10) were community banks. During the 28 years between 1984 and 2012, the number of community banks in depopulating rural areas had declined by 55 percent.

Though depopulation is likely one of many factors that drove long-term consolidation of charters in rural areas, consolidation rates were even higher in metro and micro areas of the country.[14] In metro areas, the number of community bank charters declined by 60 percent between 1984 and 2012, and in micro areas, it declined by 58 percent. Only growing rural areas showed less consolidation (slightly less) than depopulating rural areas, with a 54 percent reduction in charters between 1984 and 2012.

[14] See page 2-2 of the *Study* for other factors that have influenced consolidation rates among community banks since the mid-1980s.

Table 9

Consolidation of Charters Has Occurred Since 1984, but Has Been Less Pronounced in Rural Counties

County and Bank Type	Number of Charters by Period					Number by Period as Percent of 1984 Total				
	1984	1990	2000	2010	2012	1984	1990	2000	2010	2012
Metropolitan										
Community Banks	8,569	7,175	4,566	3,723	3,417	100%	84%	53%	43%	40%
Noncommunity Banks	1,758	1,580	916	543	453	100%	90%	52%	31%	26%
Total	10,327	8,755	5,482	4,266	3,870	100%	85%	53%	41%	37%
Micropolitan										
Community Banks	3,053	2,498	1,756	1,371	1,297	100%	82%	58%	45%	42%
Noncommunity Banks	271	261	116	63	51	100%	96%	43%	23%	19%
Total	3,324	2,759	1,872	1,434	1,348	100%	83%	56%	43%	41%
Rural										
Growing										
Community Banks	1,651	1,448	1,048	809	766	100%	88%	63%	49%	46%
Noncommunity Banks	122	106	41	22	25	100%	87%	34%	18%	20%
Total	1,773	1,554	1,089	831	791	100%	88%	61%	47%	45%
Declining										
Community Banks	1,423	1,194	856	654	622	100%	84%	60%	46%	44%
Noncommunity Banks	54	42	9	8	5	100%	78%	17%	15%	9%
Total	1,477	1,236	865	662	627	100%	84%	59%	45%	42%
Accelerated Declining										
Community Banks	967	836	590	459	442	100%	86%	61%	47%	46%
Noncommunity Banks	33	18	6	6	5	100%	55%	18%	18%	15%
Total	1,000	854	596	465	447	100%	85%	60%	47%	45%

Sources: FDIC Call Reports, 2010 U.S. Census Population compared with 1980 U.S. Census Population, and 2010 OMB Metropolitan and Micropolitan Statistical Area county classifications.
Note: Community banks as defined in the *FDIC Community Banking Study* (2012).

Continued depopulation raises the possibility that consolidation rates may increase in rural depopulating areas. Depopulation can make it more challenging to staff and manage bank branches and back-office facilities. Moreover, many small banks in rural areas are owned and operated by one or two key people, and the children of these executives, who perhaps would have been the successors to management, often move away to pursue opportunities in larger towns and cities. In such cases, if there are neither clear options within the institution for succession nor viable professional candidates within the community, successorship may become a concern.

The possible solution is to recruit talent from metro areas, but that can be hard to accomplish. At outreach meetings with FDIC staff, rural bankers have noted various challenges in bringing talented individuals into rural areas.

Part III

Looking Ahead: Some Positive Trends but Continued Challenges

When the FDIC conducted the prior study in 2004, continued depopulation of much of America's rural areas seemed to be inevitable, as many of these areas, particularly in the Great Plains, were caught in a slow, self-reinforcing circle of decline. Population trends have, in fact, worsened since 2000: Not only are depopulation trends now covering more of the country than they did in 2000, but also in many areas the depopulation is accelerating.

Despite these adverse trends, as of early 2014 there are a few favorable developments affecting population flows in pockets of rural America. Most significant is the advent of the energy extraction of shale oil and natural gas in parts of the rural depopulating Great Plains and Appalachia-East regions. This exploration activity

requires significant manpower, and some of these areas have seen large increases in population. An example is western North Dakota, a part of the Great Plains that is heavily rural and has long been sparsely populated and depopulating, yet has seen a great deal of energy extraction over the past decade. Exploration for additional suitable oil fields is under way across much of the rest of the western Great Plains, from Montana through Oklahoma. While it remains to be seen how many rural counties ultimately gain population because of these exploration activities, in some rural areas energy drilling represents perhaps the most promising economic development in decades.

On a much smaller scale, positive population trends may be developing in some areas. Two limited-scope studies indicate that a few rural areas may be seeing positive net in-migration of adults of child-rearing age together with their children.[15] However, the inflows were very modest and the causes apparently idiosyncratic. And although positive, they are not sufficiently large or widespread to reverse the "pinched-waist" patterns observed in rural-county age pyramids overall.

The positive trends found in energy extraction and other developments do provide some optimism for rural areas, but the likelihood of a large-scale reversal in rural depopulation trends seems remote. The population outflows are well entrenched and in many areas date back a century or more.

Still, community banks in depopulating rural areas have been resilient in meeting the challenges posed by difficult demographic trends. In the years leading up to the financial crisis and recession, community banks in depopulating rural areas reported earnings and asset quality performance that was relatively similar to the performance of banks located in more economically vibrant areas. Through the recession and its aftermath, the community banks in depopulating rural areas outperformed their peers, thanks to the strong agricultural economy, which kept agricultural loan portfolios from feeling the adverse shocks received by C&D and CRE portfolios. Even the banking structure in depopulating rural areas has been more stable than in metro areas in terms of the number of charters.

The data brought to bear in this study indicate that community bankers in depopulating rural areas will most likely have to continue managing their institutions with the prospect of weak or negative growth from their local communities. Although searching for growth opportunities in other geographies is possible, it has its own set of challenges, as seen by the institutions that branched into metro areas before the recession. All in all, the conclusion of the 2004 FDIC study is equally applicable to this study: Although there may in fact be far fewer rural banks in the future, the rural banking system will most likely remain intact and strong.

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