THE LAST BANK IN TOWN:

BRANCH CLOSURES IN RURAL COMMUNITIES

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Executive Summary

More than 1,600 bank branches have closed across the U.S. in the past year.[1] In North Carolina, banks have closed a net of 304 branches since 2009. Rural areas tend to be hit the hardest by bank branch closures; since 2009, North Carolina's rural counties have lost 14.7% of their bank branches. Banking industry trends suggest that the rate of bank branch closures will not abate in the near future and will likely accelerate. What does this mean for local communities?

Bank branch closures affect individuals, businesses, and communities by limiting access to financial services. When the last bank branch leaves town, especially in rural communities, it hits especially hard because residents and businesses have few options. Rich Square, North Carolina, is losing its last bank branch in 2016, which means residents and businesses will have to travel approximately 45 minutes to access banking services. It also means that the downtown will have a vacant building.

The existing regulatory framework does not take into account the impact of bank branch closures on local communities nor do they provide alternatives for those communities. The changes occurring in the banking industry and the expected acceleration of branch closures challenges us to develop a new vision for the provision of financial services that serve the public good.

We recommend that regulators increase efforts at research, dialogue, and action to better understand and proactively intervene in branch closures. Otherwise, we will find ourselves struggling retroactively to provide financial services for too many individuals and communities left behind.

We propose the following recommendations:

- Increased transparency on branch closure locations and dates through an inter-agency distribution of proposed branch closings.
- Inter-agency analysis of bank branch closures based on geography (rural v. urban, LMI v. upper-income, national v. community banks) and other demographic indicators (median income, race and ethnicity, etc.) to determine risk factors for future closings and an analysis of whether branch closures are disproportionately impacting certain communities or populations.
- An assessment of the local economic impact and a public interest assessment before closing a branch, particularly the last branch in town.
- Consultation with local communities in advance of closure decisions, so that those most affected have the ability to influence the decision or can be engaged in offering alternative solutions.
- A study of smart incentives that might be implemented to keep "the last bank" from leaving town and/or alternative delivery systems for banking services.

[1] Ali, Tahir and Gull, Zuhaib, "Banks Closing Branches in Wealthier and Low-Income Areas Alike", S&P Global Market Intelligence, August 3, 2016, accessed August 10, 2016, http://www.spcapitaliq.com/our-thinking/news/banks-closing-branches-in-wealthier-and-lowincome-areas-alike.

Introduction

Bank branch closures are a global trend, occurring from Australia to Europe to the United States. Britain has lost 53% of its bank branches since 1989, including more than 600 branches between April 2015 and April 2016.[2] In the U.S., banks have cut the number of branches by more than 6% since 2009. Between July 1, 2015 and June 30, 2016, 1,623 bank and thrift branches were cut across the U.S.[3] In North Carolina, the number of bank branches hit a peak in 2009, and since then has fallen more than 10%.

Rural areas tend to be hit the hardest by bank branch closures. Since 2009, North Carolina's rural counties have lost 14.7% of their bank branches.[4]

The numbers, however, tell only one part of the story. Bank branch closures affect individuals, businesses, and communities by limiting access to financial services. In Rich Square, NC, a rural town in the northeastern part of the state, PNC Bank announced in 2016 that it is closing the last bank branch in the town. Northampton County, home to Rich Square, has lost 4 bank branches since 2011 and will have only one branch remaining to serve its 21,000 residents. Residents and businesses in Rich Square will have to drive 15-20 miles away to receive in-person banking services, taking nearly an hour out of the day. For those who do not have reliable transportation or access to online banking, particularly the elderly, access to financial services is another challenge. And, the town itself could have another vacant building on its Main Street, which makes attracting new businesses even more difficult. Fortunately for Rich Square, PNC Bank responded to community concerns by developing a plan to mitigate some of these effects of its branch closure, which will be discussed in detail in a later section.

What happens when a bank branch closes depends on the actions of communities, regulators, and banks. Bank branch closings can offer opportunities for reinvestment in communities or they can leave a legacy of disinvestment and decay. Unfortunately, right now, the impact on the local community, even when the last bank is leaving town, is not typically part of the conversation.

Changes in Banking and Their Impact on Closures

Banks close branches for a number of reasons, including lack of profitability, increased costs of maintaining branches, and redundancy as a result of mergers. In 2015, there were 249 mergers or acquisitions in the U.S. As of June 2016, there were 69 mergers or acquisitions. In most of these cases, regional or national banks are purchasing community banks. As national banks have acquired smaller regional and community banks, they have also closed branches, particularly in rural communities.

For example, in North Carolina, BB&T has purchased Susquehanna, Bank of Kentucky, and National Penn Bancshares. Since 2011, Yadkin Bank has purchased New Bridge Bancorp, American Community Bank, Cardinal State Bank, and VantageSouth Bank. VantageSouth had recently acquired Piedmont Community

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[2] Travers-Smith, F., "Abandoned Communities: The Crisis of UK Bank Branch Closures and Their Impact on Local Economies", Move Your Money, July 2016, accessed August 31, 2016, http://moveyourmoney.org.uk/wp-content/uploads/2016/06/Abandoned-Communities-web.pdf

[3] Ali and Gull, "Banks Closing Branches in Wealthier and Low-Income Areas Alike".

[4] Reinvestment Partners is using the NC Rural Center's definition of rural counties, which includes 80 of 100 counties in North Carolina.

Bank. Piedmont had recently acquired Crescent Financial and Community Bank of Rowan. Crescent had recently merged with East Carolina Bank.

In 2001, RBC bought Centura Bank, which was headquartered in Rocky Mount, North Carolina. In June 2011, RBC Centura had 180 branches in North Carolina, including two in Northampton County. In 2011, PNC Bank bought RBC Centura. By June 2015, PNC had 148 branches in North Carolina and had closed one of its branches in Northampton County (as well as branches in rural low-branch counties of Bertie, Gates, and Anson). In 2016, PNC announced that it would close an additional 6 branches in North Carolina, including the branch in Rich Square, leaving the county with one remaining bank. Northampton County went from 5 branches in 2013 to 1 branch in 2016.

Banking industry analysts predict further consolidation in banking in the future, which means that the trend in bank branch closures will continue or even accelerate.

Consolidation v. Closing

While the industry argues that branch closures are a result of consolidation, in many cases, the closures do not meet the definition of consolidation, particularly in less populated rural communities. According to regulatory standards, branch closings related to consolidation or relocations must fall within specific distance requirements to forego branch closing notifications. Typically, in dense urban areas within Metropolitan Statistical Areas (MSAs), consolidations and relocations apply when the branches are within 1,000 feet of each other. In less urban areas within MSAs, the maximum distance is one mile. In neighborhoods outside of MSAs, the branches must be within two miles of each other for it to be considered a branch consolidation or relocation.[5] Mergers and acquisitions certainly lead to branch closures, but most branch closures occur for other reasons.

The Role of Technology

Banks contend that online and mobile banking and other fintech options are reducing the need for branches. As more customers utilize digital tools, the need for access to bank branches decreases. And, it is true that banking customers are taking advantage of technology for banking, using online and mobile banking options more.

But, mobile and online banking are not replacing the need for bank branches, even for younger people. In fact, 73% of people who opened a checking account in 2013 or 2014 did so in a branch, including younger members of Generation X and millennials.[6] [7] A Bankrate poll in January 2016 found that 45% of Americans had visited a bank branch within the past month.[8] Wells Fargo told the Wall Street Journal

[5] "Branches and Relocations: Comptroller's Licensing Manual", Office of the Comptroller of the Currency, Washington DC, October 2009.

[6] Albertazzi, D., "U.S. Trends in Checking Account Opening", AITE Group, October 2015, accessed August 31, 2016, http://aitegroup.com/report/us-trends-checking-account-opening.

[7] Barba, R., "Bank Branches are Still Good for at Least One Thing", American Banker, February 17, 2016, accessed August 31, 2016, http://www.americanbanker.com/news/bank-technology/bank-branches-are-still-good-for-at-least-one-thing-1079386-1.html

[8] Bell, C., "3 Instances When You Would Rather Go to a Branch than Bank Online", Bankrate.com, January 2016, accessed August 31, 2016, http://www.bankrate.com/finance/banking/when-bank-branch-is-better-than-online.aspx

that 63% of millennials use bank branches, and that they visit banks six times a quarter on average, just slightly less than older customers.[9] Customers still want and use branches. Online and mobile banking complement traditional banking rather than replace it.

Regulatory Framework Allows for Limited Input from the Community

Banks are private companies, and federal regulators have minimal oversight over branch closings. In fact, regulators cannot deny or delay a bank branch closure. If the regulator chooses, during the CRA evaluation it can evaluate the effect of branch openings and closings on the community and consider comments received on branch closings.

Federal regulations require that banks submit a notice of any proposed branch closing to the appropriate federal banking agency no later than 90 days prior to the date of the proposed branch closing. The required notice must include a detailed statement of the reasons for the decision to close the branch and statistical or other information in support of such reasons.

For a branch closing in low- and moderate-income (LMI) areas, regulators will convene a meeting to explore the feasibility of obtaining alternative financial services if a person from that area files written comments that meet all of the following criteria:

- Are related to the branch closing.
- Are not frivolous.
- Discuss the adverse effect of the closing on the availability of banking services in the affected community.
- Contain a request that the OCC convene a meeting.
- Include specific reasons for the request. [10]

Regulators will invite to the meeting community leaders from the affected area including the person submitting the comment, other depository institution regulatory agencies, and other persons, organizations, and depository institutions that the OCC determines appropriate.

However, these regulatory requirements do not provide regulatory authority for intervention. In Rich Square, the community collected surveys to measure potential impact of the PNC branch closing and submitted a comment letter to the regulatory agency to request a meeting to discuss that impact and potential alternatives. The regulators did not agree to visit North Carolina, but joined a call with the bank organized by the community. During that call, the regulators did not contribute to the conversation. This example demonstrates that the regulatory requirements create a process for community input but do not provide a meaningful way to address community impacts.

[9] Back, A., "A Future for Bricks-and-Mortar Banking: Wells Fargo Says Millennials Use Bank Branches Almost as Much as Everyone Else", MoneyBeat blog, The Wall Street Journal, May 30, 2016, accessed August 31, 2016, http://blogs.wsj.com/moneybeat/2016/05/30/a-future-for-bricks-and-mortar-banking/

[10] "Branches and Relocations: Comptroller's Licensing Manual"

Bank Branch Closures Are More Likely in LMI and Rural Areas

Not all branch closures are created equal. Even regulators recognize this since they include the evaluation of branch closings in LMI areas during CRA exams and offer LMI areas the opportunity to comment on branch closures.

LMI neighborhoods have traditionally had less access to branches and they suffer disproportionately from branch closures. People in low-income census tracts are more than twice as likely to live in a banking desert than residents of upper-income tracts.[11]

From July 2015 through July 2016, census tracts at all income levels, including upper-income census tracts, lost net bank branches. However, examining the trends in branch closings and openings since 2006 reveals that upper-income census tracts have gained 786 branches overall.[12] During that same period, low- and moderate-income census tracts experienced a net loss of 1,807 branches. Over the past 10 years, the number of branches in LMI census tracts has declined by nearly 8%. In contrast, the number of branches in upper-income census tracts increased by nearly 3%.[13] Banks are choosing to concentrate their branch networks in upper-income areas.

In terms of closings, Bank of America closed the most branches in LMI tracts over the past 10 years. Wells Fargo and PNC rank second and third. However, as the chart below shows, JPMorgan Chase had the highest proportion of branch closures in LMI census tracts, with more than 80% of its branch closures occurring in LMI census tracts.[14]

Bank	Net branch growth/(decline) across all markets	Net branch growth/(decline) in LMI census tracts	Percentage of closings in LMI census tracts
Bank of America	(1,150)	(383)	33.3%
Wells Fargo	(793)	(260)	32.8%
PNC Bank	(573)	(164)	28.6%
Regions	(434)	(140)	32.3%
SunTrust	(373)	(139)	37.3%
M&T Bank	(273)	(82)	30.0%
JPMorgan Chase	(88)	(72)	81.8%
Citizens Financial	(202)	(61)	30.2%
Popular	(151)	(60)	39.7%
Old National	(171)	(53)	31.0%

[11] Morgan, D., Pinkovsky, M. & Yang, B., "Banking Deserts, Branch Closings, and Soft Information", Liberty Street Economics, March 7, 2016, accessed September 1, 2016, http://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information.html#.V8htIygrKUk
[12] Ali and Gull, "Banks Closing Branches in Wealthier and Low-Income Areas Alike".
[13] Ali and Gull, "Banks Closing Branches in Wealthier and Low-Income Areas Alike".
[14] Ali and Gull, "Banks Closing Branches in Wealthier and Low-Income Areas Alike".

Rural areas tend to be affected disproportionately by bank closings as well. In North Carolina, the number of branches has decreased overall, but rural areas have felt the brunt of those closures, with 14.7% of rural branches closing since 2009, compared to 6.8% for urban and suburban counties.

The creation of banking deserts is real. According to one study of FDIC data, 20% of branch closings since 2010 have been of branches that were the only one in its census tract, with median census tract size of two square miles.[15] When the last bank leaves town, it has negative consequences for individuals and communities.

Bank Branch Closings Hurt Individuals, Businesses, and Local Communities

Bank branch closures affect individuals and families by limiting access to financial services. Although some individuals may migrate to online or mobile banking, others will still want access to bank branches. Particularly in rural areas, where broadband access may be limited, individuals may not have many options. When the last bank leaves town, residents will have to travel farther and spend more time and money (for transportation) to access financial services.

The flight of banks from rural and disadvantaged communities also opens the door for alternative financial service providers, which offer less affordable, less safe services and raise costs for local residents. In addition, if there is no ATM provided as an alternative, access to cash may become increasingly difficult for local residents and become an additional burden.

In rural areas, the closing of a bank branch has an intensified impact since there are fewer options. In Rich Square, the Chamber of Commerce conducted a survey of 21 PNC Bank customers. Of those customers, 71% of them use the branch at least once a week. Once PNC closes the last branch in town in the fall of 2016, residents will have to travel 15-25 miles one-way, or 40 minutes to an hour roundtrip to do their banking. Almost all of those surveyed felt that the branch closure would decrease access to financial services and 29% expressed specific concerns about the elderly residents in the town. Nearly 30% of Rich Square's population is 65 and over, and 15.8% is age 75 and over.

Branch closures also affect businesses and communities. Small businesses value proximity to their bank since they may need to deposit cash frequently or depend on relationships at the local bank for loans. The relational nature of small business lending means less access to capital for small businesses and entrepreneurs when banks close branches. One study of bank branch closings by a Berkley economist found that branch closings lowered small business lending by 8% for several years after a closing.[16] The post-closing decline in lending was more severe in low-income and high-minority census tracts, indicating that they are disproportionately affected by closings.[17]

Access to capital for rural small business owners and entrepreneurs becomes more difficult when bank branches close. Small town or rural lending has traditionally focused on relationship lending, with an

[15] Nguyen, H.Q. "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes", Haas School of Business, University of California at Berkley, October 2015, accessed August 4, 2016, http://faculty.haas.berkeley.edu/hqn/nguyen_branches_20151001.pdf

[16] Nguyen, "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes".

[17] Nguyen, "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes".

emphasis on trust and community reputation.[18] While this type of lending may have historically excluded some groups, it also allowed for greater access to capital from local banks with an understanding of local context and relationships.

The presence of a bank branch in a rural community projects economic vitality and its closure poses a threat to the community and future economic development. In rural areas, the "thriving locally oriented business class composed of entrepreneurs and small businesses creates an environment most conducive to community development".[19] A strong, locally oriented business sector is vital to local civic welfare, but the development of a strong business sector requires access to capital. As banks close in rural areas, rural communities and small towns are at risk of becoming "cash and credit deserts", which will just accelerate their decline.[20]

In addition, bank branch closures result in a vacant building, causing a spatial impact on rural communities in which the bank branch had been an anchor in downtown areas. A vacant building can hurt the local economy and diminish community confidence. In Rich Square, more than three-fourths of the bank customers surveyed stated that there was a low or very low likelihood that the bank building would be sold and all felt that the vacant building would have a negative impact on the community. Fortunately, when the community raised that concern with PNC Bank, the bank agreed to donate the building to the local government so that it does not become a blighted property.

Looking Ahead

Bank branch closures show no signs of abating. As the banking industry continues to move toward consolidation and increases its emphasis on technology, bank branch closures are likely to accelerate. In North Carolina, we believe that bank branch closures in rural areas will increase, putting more communities at risk of becoming "banking deserts".

In looking at bank branches in North Carolina's rural communities, Reinvestment Partners identified potential risk factors for bank branch closures, including population decline, average deposits per branch, median household income, recent branch closures, and total branches. Using those risk factors, we can identify which rural counties are most at risk for losing bank branches.

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[18] Tolbert, C., Mencken, F., Riggs, T., & Jing, L., "Restructuring of the Financial Industry: The Disappearance of Locally Owned Traditional Financial Services in Rural America", Rural Sociology 79(3), 2014, pp355-379. Baylor University. Waco, TX, http://onlinelibrary.wiley.com/doi/10.1111/ruso.12037/abstract.

[19] Tolbert, et al., "Restructuring of the Financial Industry: The Disappearance of Locally Owned Traditional Financial Services in Rural America", p356.

[20] Tolbert, et al., "Restructuring of the Financial Industry: The Disappearance of Locally Owned Traditional Financial Services in Rural America".

County	Existing Branches	Risk Factors
Northampton	1	Population loss, low average deposits, low median HH income, recent branch closures
Tyrrell	2	Population loss, low average deposits, low median HH income
Gates	2	Population loss, low average deposits
Warren	2	Population loss, low median HH income
Caswell	2	Population loss, low average deposits
Jones	2	Low average deposits
Bertie	3	Population loss, low median HH income, recent branch closures, national bank with low deposits
Washington	4	Population loss, low average deposits, low median HH income, recent branch closures
Anson	5	Population loss, low median HH income, recent branch closures, national bank

While these nine counties may be at most risk of becoming "banking deserts" because of their high risk factors and their existing low number of branches, a second tier of rural counties are at high risk of losing bank branches, but have a sufficient number of existing branches so it does not currently reflect a crisis at a county level. However, if there is an acceleration of branch closures, it may reach a crisis level. And, at a more local level, when the last bank leaves town it is a serious matter.

Finding Solutions

The reasons for bank branch closures are complex. Similarly, every community is unique and the impacts of specific branch closures differ from place to place. When a branch closes, particularly the last bank in town, residents, community leaders, banks, and regulators must work together to find the solutions or alternatives that work in that community to ensure that residents have access to financial services.

In Rich Square, community members expressed their concerns to leaders at PNC Bank and federal regulators, engaging the bank in dialogue about potential alternatives. While the branch in Rich Square will still close, PNC responded by looking for solutions to ensure that residents continue to have access to banking services and to address concerns about the physical environment. PNC agreed to:

- Install a full-service ATM that will allow residents to make deposits;
- Provide Choanoke Area Development Association of NC, with computers, internet access, and grant money to provide training for and access to online banking;
- Offer travel vouchers for one year to provide customers with free transportation to the nearest PNC branch in Murfreesboro, 16 miles away;

- Donate the bank building to the Rich Square government so that it does not become blight on the town's main street.

Recommendations

The documented loss of bank branches and its negative impact on rural and LMI communities is clear. The anticipated acceleration of this trend is troubling. Unfortunately, actionable recommendations to address branch closures seem inadequate to address the complex causes and effects. Branch closures are actions by private institutions responding to market conditions and economic forces with limited regulatory authority. It may be the case that there are too many branches to be economically efficient and profitable, that technology is changing banking, and that rural economies and demographics are changing.

Although it is important to acknowledge the complexity of branch closures, the issue still requires leadership from regulatory agencies, banks, and communities to address the challenges created by branch closures on local economies, customer services, and the banking sector. Our primary recommendation is that regulators increase efforts at research, dialogue, and action to better understand and intervene proactively in branch closures before we, as a nation, are left to wrestle retroactively with how to provide financial services for too many individuals and communities left behind.

The changes occurring in the banking industry and the expected acceleration of branch closures challenges us to develop a new vision for the provision of financial services that serve the public good. We propose the following recommendations:

- Increased transparency on branch closure locations and dates through an inter-agency distribution of proposed branch closings. Each federal regulator provides its own separate list of applications for branch closings in different formats. An inter-agency list of bank applications to close branches would provide a more comprehensive picture of branch closures and impacts on local communities.
- Inter-agency analysis of bank branch closures based on geography (rural v. urban, LMI v. upper-income, national v. community banks) and other demographic indicators (median income, race and ethnicity, etc.) to determine risk factors for future closings and an analysis of whether branch closures are disproportionately impacting certain communities or populations. Since the trend in bank branch closures is likely to continue, there needs to be additional study on the impact of those closures and the creation of "banking deserts". The analysis should include a breakdown across regional, state, and local data.
- Regulations should allow for greater scrutiny of branch closures, including an assessment of the local economic impact, as well as a public interest assessment before closing a branch, particularly the last branch in town. Regulators should engage the community affairs team in determining the impact of bank branch closures in LMI communities, rural communities, and when the last bank closes in a specified geography.

- Regulators should consult local communities in advance of closure decisions, so that those most affected have the ability to influence the decision or can be engaged in offering alternative solutions.
- A study of smart incentives that might be implemented to keep the "last bank" from leaving town and/or alternative delivery systems for banking services. For example, if low deposits are a reason for bank branch closures, can government deposits be placed into rural branches?

Conclusion

Bank branch closures are likely to continue for the foreseeable future. The impact of those branch closures will depend on the actions of communities, regulators, and banks, and whether we are proactive about seeking alternatives and mitigating impacts. In Rich Square, the community, the regulators, and the bank successfully cooperated to find solutions to meet the needs of the people and the community. While Rich Square has a relatively happy ending, it is only one example. We need a broader plan to address bank branch closures and access to financial services.