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Rural Bank Branch Closures - FAQs

Aren't bank branches closing everywhere?

Yes and no. Banks have always closed and opened branches. In the past 10 years, more bank branches overall have closed than have opened. But, the effects are not distributed equally across geographies. Banks have actually opened more branches than they have closed in upper-income areas. In fact, upper income census tracts have seen a 3% net increase in bank branches. In contrast, in low- and moderate-income census tracts, banks are closing branches and not opening new ones at an equal rate. LMI census tracts experienced a net decrease in bank branches of 8% during the same time period.ⁱ

Similarly, banks are closing branches in rural and urban parts of North Carolina, but they tend to open new branches primarily in metropolitan regions.

People are moving to mobile and online banking – do we still need branches?

While it is true that the use of online and mobile banking has grown rapidly in the past several years, people continue to use branches. Data from the FDIC and Federal Reserve Board show that people across all income levels, education levels, ages, and geographies (rural and urban) use branches regularly to access their bank accounts. And, consumers still base their decision on where to bank based on convenience, which often means location.

Are bank branches more important to some people?

Branches play a more significant role for certain segments of the population. Residents of rural areas are more likely to use a branch as their primary way of accessing their bank accounts. Older people (ages 65+) are also more likely to use the branch as their primary access point for bank accounts and are less likely to use mobile and online banking.

How do branch closures affect small businesses?

Branches are particularly important for small businesses. The loss of a branch affects small business lending for years – with one study showing that branch closings lowered small business lending by 8% for several years after a closing. And branch closings in lower income census tracts had a more severe impact on small business lending.ⁱⁱ

What can the regulators do?

Not very much. Federal bank regulators do not have the authority to stop a branch closing, but they do have the opportunity to allow communities to provide input on a closing.

Could regulators do more?

They could do more. Regulators can step in and help create an environment in which banks and communities can work together to figure out solutions to help meet community needs for financial services when a bank branch closes.

Regulators could also contribute more by cooperatively providing more inter-agency analysis and research on bank branch closings. More robust analysis would allow everyone to better understand which communities are most affected by closings, how those communities are impacted when a branch closes, and which communities are in danger of becoming banking deserts.

Why are banks closing, particularly in rural areas?

Banks close branches for a number of reasons, including lack of profitability, increased costs of maintaining branches, and redundancy as a result of mergers. Banks are private companies that are in the business of making a profit. The demographic trends in rural areas in NC are challenging: in rural counties employment and incomes have fallen in the past 10 years. Most rural counties are losing population.

Is there any hope for rural communities?

There is hope. New models of branching may offer more cost effective ways of serving consumers. Smaller footprint branches or the incorporation of technology may actually lead to a resurgence of branches in rural areas. For example, branches composed of virtual ATMs may allow banks to open more branches in rural areas since they are staffed remotely at a centralized location.

Are there any alternatives to keep struggling branches open in rural areas?

Banks and banking services are one of the key pieces of economic infrastructure necessary for economic development in rural communities. We need to identify alternatives that may keep branches in town, particularly if a branch is the last branch in town. For example, a program in which the state places subsidized or market rate deposits into rural bank branches may provide needed support to banks in struggling areas having difficulty maintaining a strong deposit base.

How do we ensure that communities continue to have access to financial services if a branch does close?

When banks do close branches, the bank and the community need to talk, identify community needs, and design a plan to address those needs. Whether the solution is an ATM, a building donation, improved access to the internet, or transportation assistance, will depend on the specific community needs. But these can only be addressed if there is dialogue between the bank and the community. When banks intend to close a branch, particularly in an already underserved area, they need to do more than just give the regulatory required notice, they need to reach out to the community proactively and be willing to explore solutions.

In addition to exploring new branch models that may be more cost effective, such as virtual ATMs, there may be additional opportunities for credit unions and minority financial institutions to fill the gaps created when branches close.

Is there anything else we can do?

It is worth continuing the conversation about bank branch closures in rural area, conducting additional research, and continuing to explore solutions.

ⁱ 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>

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