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Recent Branch Closures Not Disproportionately Impacting Rural Lower-Income Communities

The March 2023 edition of *Bancology* presented findings from a study of branch closures in metropolitan markets, questioning whether the consolidations of the past two years disproportionately impacted lower-income communities. To the credit of our industry, the study found no evidence of income bias in recent branch closures. Rather, the study found that the median household income in trade areas where banks closed branches in 2021 and 2022 (referring to the FDIC reporting periods ending on June 30 of the respective years) was equal to, or even greater than, the median household income in the trade areas where those same banks retained branches.

Whether examining individual banks or individual metro areas, the study found similar distributions in the median income levels of closed branches versus retained branches, confirming that lower-income communities did not bear a disproportionate brunt of branch closings.

However, many rural markets face similar challenges to low-income urban markets, in terms of lacking banking options. Accordingly, we returned to study whether closings in rural markets showed bias in terms of the income profiles of the markets where banks closed branches.

The study defined rural markets as those not sitting within the boundaries of any metropolitan or micropolitan statistical area, per the definitions of the U.S. Office of Management and Budget. For each bank branch (the study did not include credit union branches) in a rural market, the study defined a primary trade area as an inverse function of the surrounding population density – this impounds previous Bancography research that quantifies such a relationship wherein branch drawing areas increase as population density declines. Because of the lower density levels inherent in rural markets, most trade areas fell into the five-to-eight-mile range[1]. The study then calculated the median income within each branch's trade area, and compared the median income within the trade areas of the closed rural branches to the median income in the trade areas where the banks retained branches.

> *There is little evidence of banks disproportionately targeting rural markets for branch closures*

Before considering the possibility of income bias, note first that rural markets overall were less impacted by branch closures in 2021 and 2022 than urban areas, in terms of percentage of branch closures. Nationwide, 9% of all bank branches in metropolitan areas that were open in 2020 would be closed in 2021 or 2022. (This does not equate to a 9% reduction in branch counts, as there were about 2,000 branch openings nationwide in those years, offsetting some of those closures.) However, only 5% of branches in non-metropolitan markets that were open in 2020 would close within the next two years.

The lesser pace of closures in rural areas likely reflects the challenges of retaining balances absent a nearby 'receiving branch.' In many urban-market closures, the bank will *(continued on page 2)*

[1] *That noted, the exact breadth of the trade area is actually less important in examining rural versus urban branches. In rural markets, population tends to dissipate quickly beyond the town center, so the impact of extending from say, an eight-mile to a ten-mile trade, is typically minimal in terms of household count.*

maintain a surviving branch within two or three miles, a distance bankers deem sufficiently close to keep likely attrition within minimal levels.

Moving to the question of income bias (as with the urban-market study), there is no evidence banks are concentrating rural-market closures in the lower-income markets of that geographic type. Of all the bank branch closures that occurred in rural markets in 2021 and 2022, the median median income (or m2i[2]) within those trade areas was $54,100.

Comparing that to the rural market trade areas where branches stayed open, the m2i for that control group was $52,600. Thus, on an overall basis, the income profile of rural trade areas where banks closed branches in 2021 and 2022 was slightly more affluent than the profile of trade areas where branches were retained.

The urban-market study proceeded to compare m2i levels in closed versus retained branch trade areas on a market-by-market and bank-by-bank basis. Because of the lesser count of rural branches overall, there is not a large enough sample for market-level comparisons, but there were ten individual banks that closed five or more rural-market branches in 2021 and 2022.

Of these ten institutions, in four cases the m2i of closed rural branches was greater than that of the same bank's retained rural markets; and at two others, the closed-branch m2i was within 2% of the retained branch m2i – so no evidence of bias against lower-income communities. For the remaining four banks, the closed-branch m2i was 9% to 18% less than the m2i in the portfolio of rural-market branches the banks retained. And though the sample sizes are small at all but one of these cases, bankers in general should be evaluating closure decisions through a methodology similar to that described herein.

Rural Market Branch Closures

	Branch Closures, 2021 and 2022	Median Median Income of Closed Branch Trade Areas	Median Median Income of Retained Branch Trade Areas	Ratio: Closed Branch to Retained Branch Median
US Bank	32	59,905	53,254	112%
Wells Fargo	29	54,858	56,176	98%
Truist	15	44,206	48,471	91%
Huntington	12	53,434	51,505	104%
Regions	7	46,706	46,945	99%
Community Bank	6	55,702	61,231	91%
First-Citizens	6	50,150	44,833	112%
Bank of the West	5	65,736	58,442	112%
Capital One	5	31,579	38,679	82%
Northwest Bank	5	42,347	48,914	87%

That is, within the same geographic market type (i.e., urban versus rural), is the income profile of the markets the bank has chosen to exit substantially lesser than in the markets the bank has opted to remain? If so, that may indicate an unacceptable level of bias for any institution with an objective of equitably serving communities of all socioeconomic strata.

However, overall, the study results are encouraging; as in the aggregate, there is little evidence of banks disproportionately targeting rural markets in general (or lower-income rural markets in specific) for branch closures. Whether this reflects efforts to comply with obligations under the Community Reinvestment Act, or unrelated efforts to maintain service delivery across the income spectrum, or some combination of both, the outcomes remain favorable for residents of rural communities.

[2] *The somewhat confusing "median median income" term was introduced in the urban-market study, and refers to the median level – within the universe of closed or retained branches – of the median household income within the impacted trade areas. For example, if a bank closed five branches in trade areas with median income levels of $35,000, $38,000, $41,000, $45,000 and $50,000, the "median median income" of its closed branches would be $41,000. This value is abbreviated as m2i, to avoid the awkward double-median grammatical construction.*

Oases of Growth: Finding Opportunity in Slow-Growth States

Market household growth is critical to branch balance growth. It is considerably less difficult to gain a relationship from a household newly arrived into a market than to pry loose a long-established relationship from an incumbent provider.

Further, the act of relocation is often accompanied by financial needs. Few people wake up one morning and simply decide to move; in fact, moving is one of the most onerous tasks people face. Rather, we tend to move only for major life events: got married, got divorced, had another child, graduated college, retired, new job. And most of these major life changes bring with them evolving financial needs that cause people to seek out financial providers.

Thus, any plans of market expansion almost always consider household growth rates within the potential new markets. In some regions, high-growth markets are easy to find: a banker in Colorado can find growth from one end of the state to the other; including in Denver, Durango, Colorado Springs, Fort Collins or Greeley.

But Colorado overall showed 9% household growth over the past five years, the fifth-fastest pace in the nation. What about those in slower-growing states – what recourse can they find? Notably, every U.S. census since 1910 has shown a greater proportion of households living in urban areas than the prior census iteration; and as this rural-to-urban migration persists, the phenomenon is creating oases of growth – even in slower-growing states.

Often underpinned by a major university or other amenities, these growth oases serve as sponges, absorbing young households from surrounding rural markets; so that even as the state's overall household growth rate lags, the specific market thrives. To the positive, the phenomenon creates opportunity for bankers. To the negative, the phenomenon also entices community banks from across the state to converge in the growth oasis, yielding untenable concentration levels.

Consider one of the most acute examples: in the state of Arkansas, the household base expanded by only 2.7% over the past five years; and 41 of the state's 75 counties suffered population declines in that time frame. Yet in the Fayetteville metropolitan statistical area, the household base increased by 12.9% from 2017 to 2022. The state of Arkansas overall added 32,000 households from 2017 to 2022; the Fayetteville metro added 25,000 households. Banks from across the state, and from slow-growth regions in neighboring Missouri, Oklahoma and Kansas have flocked to the market, leaving the Fayetteville MSA with one branch for every 1,050 households – the tenth-most concentrated market among the 114 U.S. metros with at least 500,000 residents. For context, the U.S. overall contains one branch for every 1,250 households.

The table below lists other examples where a state contains a high proportion of declining-growth counties, and yet offers an oasis of growth, too. Keep in mind, that although the indicated markets added a significant number of households relative to their states' overall household gains, it is not quite accurate to describe that in strict proportionate terms.

State	Statewide Household Growth, 2017 - 2022	% Counties with Declining Household Bases	Growth Oasis	Oasis Household Growth, 2017 - 2022	Statewide Household Change, 2017 - 2022	Oasis Household Change, 2017 - 2022
Alabama	2.5%	48%	Huntsville	10.4%	48,963	19,526
Arkansas	2.7%	55%	Fayetteville	12.9%	32,391	24,660
Indiana	2.6%	26%	Indianapolis	5.0%	68,996	39,717
Kansas	2.5%	43%	Kansas City (KS portion only)	5.5%	28,843	18,415
Kentucky	3.0%	27%	Lexington	6.2%	53,240	12,540
Ohio	1.2%	47%	Columbus	6.8%	55,458	55,711
West Virginia	0.8%	51%	Morgantown	9.2%	6,358	5,156
Wisconsin	2.5%	25%	Madison	5.8%	59,912	13,802

For example, in the Arkansas case, it is deceptive to assert that "Fayetteville accounted for 76% of Arkansas' household growth from 2017 to 2022," as that could leave the reader thinking that no other combination of counties accounted for more than 24% of the state's household growth. But that ignores that the state's overall total reflects an amalgam of positive and negative growth markets. Thus, the state's other growing markets accounted for more than 24% of the state's total growth; and Fayetteville plus those markets accounted for more than 100% of the state's growth, as declining-growth counties offset that.

Some states contain multiple oases. For example, both the Morgantown and Hagerstown MSAs each added more than 4,000 households over the past five years, even as West Virginia overall added only *(continued on page 4)*

6,400 households overall and half of the state's 55 counties experienced declines in their household bases. And the growth oasis phenomenon is present even in some high-growth states. South Carolina showed 7.2% household growth from 2017 to 2022 – even as half its counties saw household base declines – as those declines were more than offset by rampant growth in urban centers such as Charleston, Greenville and Myrtle Beach.

In Georgia, 33% of all counties experienced declining household bases over the past five years, even as Atlanta continued to thrive. And in Texas, 25% of counties suffered household declines, yet the major urban centers of Dallas, Houston, Austin and San Antonio all ranked among the fastest-growing metros in the nation.

For institutions centered in slow-growth communities, long-term viability may depend on finding higher-growth markets to fuel the next generation of client growth. But if considering migration from slow-growing rural or small-city markets into these larger and more dynamic growth oases, bankers must consider several factors.

Most notably, competition will be severe, with multiple similarly positioned institutions – e.g., other small-market community banks entering the larger market in pursuit of growth unavailable in their home markets. Accordingly, it may be beneficial to enter via merger, either with an incumbent provider based in the target market or even with a fellow growth-chaser – i.e., another small-market community bank that has already assembled staff and offices in the larger target market.

Further, just as it can be quicker to buy versus build from a branch standpoint, that holds for personnel, too, and it can be well worth a salary premium to hire an experienced group of bankers from local competitors.

> ***As rural-to-urban migration persists, the phenomenon is creating oases of growth – even in slower-growing states***

Because consumers place a premium on network convenience and it can be difficult to build retail awareness without a broad branch network, it can be beneficial initially to focus on non-retail business lines – such as mortgage banking, commercial banking, indirect lending or wealth management – when entering a larger market, as these can be pursued from a limited branch footprint.

Still, a retail branch network remains imperative to ensure a source of low-cost deposits and to diversify the loan portfolio. Toward that end, rural-market banks considering entry into their states' primary urban centers must understand that their own communities are a source of the rural-to-urban migration patterns; that the younger members of its community are moving to the growth oasis for educational and/or career opportunities.

Accordingly, marketing strategies should focus on building relationships with likely migrators and establishing means to retain those post-migration. This may include hosting a financial preparedness event for graduating students at the local high school, considering student loans or other work-entry-oriented products, and networking through parent relationships to keep the next generation of banking needs within the organization.

Finally, given the competitive density inherent in these growth oases, any entry strategy must allocate a sizable marketing budget; not just for traditional advertising, but for an array of awareness-building campaigns. These can include event sponsorships, community philanthropy, direct mail, rate premiums, and any other tools within the marketing department's reach.

But as America's rural-to-urban migration continues, it will become imperative for institutions based in smaller and/or slower growth markets to identify the growth oases in their regions, and develop strategies to enter those markets.

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Understanding Demographic Segments with Bancography Plan

Bancography Plan includes an array of tools to evaluate the demographic and competitive environment for any current or proposed branch, and to forecast balance potential for all product types. You can view a *Segment Profile* for any current or proposed branch site to ensure your product and value proposition align with the needs of the predominant segments in the trade area. In this example, the Entry and Mass are the dominant market segments in the trade area, representing 50% of all households in the submarket; though Upper-Affluent households are prevalent too. However, financial holdings are highly skewed, so the Upper-Affluent segment – representing one-fifth of market households – own 86% of all consumer deposits. The Affluent segment supplies the greatest proportion of loan demand, at 33%.

Income Ranges	Age Ranges					
	18-24	25-34	35-44	45-54	55-64	65+
< 35,000	College	Entry	Entry	Entry	Entry	Seniors
$35,000-$50,000	Entry	Entry	Mass	Mass	Mass	Seniors
$50,000-$125,000	Entry	Mass	Mass	Mass	Mass	Seniors
$125,000-$200,000	Affluent	Affluent	Affluent	Affluent	Affluent	Affluent
> $200,000	Affluent	Upper Affluent	Upper Affluent	Upper Affluent	Upper Affluent	Upper Affluent

The prevalence of Entry- and Mass-segment households indicates a need for basic transactional services as well as installment loans. However, the concentration of deposits in the Upper-Affluent segment mandates a competitive money market offering, too. From a lending standpoint, the Affluent and Upper-Affluent segments that combine to account for 63% of the market's loan holdings will prefer tax-advantaged home equity products. The near absence of deposit-laden Seniors households in the market reduces the need to present top-of-market CD promotions in this trade area. ■ ■ ■ ■

					Deposit Demand			Loan Demand		
	Households	% Households	Index vs. State	Index vs. Nation	$000s	% of total	Deposits per Household	$000s	% of total	Loans per Household
Entry	6,930	26%	1.13	1.28	42,340	1%	6,110	72,717	12%	10,493
Mass	6,453	24%	0.84	0.91	112,971	3%	17,507	151,320	24%	23,450
Affluent	6,185	23%	1.12	1.12	287,022	8%	46,407	209,581	33%	33,886
Seniors	1,620	6%	0.38	0.32	56,167	2%	34,660	7,932	1%	4,895
Upper Affluent	5,631	21%	1.73	1.49	3,134,512	86%	556,618	184,993	30%	32,840
Total	26,820	100%			3,633,011	100%	135,461	626,483	100%	23,359
Index vs. State							1.36			1.29
Index vs. Nation							2.41			1.76

Digital Channel Boom

For its Service, Satisfaction & Loyalty research tracking program, Bancography conducts thousands of telephone interviews of bank and credit union clients. Data from those interviews yields valuable insights on the impact of the pandemic on routine transactional banking behaviors. One of the interview questions asks whether the client has used each channel in the past three months.

Usage of the digital channels skyrocketed during the pandemic. Consumers and businesses were forced to embrace technological banking, as visiting the branch was not an option or making an appointment was a nuisance.

Prior to the pandemic, usage of digital channels was steadily increasing by a single percentage point annually. Data from 2019 showed that one-quarter of consumers were actively using Bill Pay/Online banking. That usage jumped seven percentage points in just three years. Mobile Banking and Mobile Deposit also experienced significant jumps in usage during that time frame.

The increase in digital usage will not diminish the importance of the branches, as that is where relationships are built and maintained. Consumers have embraced electronic channels as another mode for transacting, like the adoption of the ATM in the 1980s. ■ ■ ■ ■