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Dreams and Livelihoods in Rural Areas Require Capital, too: An Investigation into the Role of Diminishing Community Banks, Financial Education, and Access to Capital in Rural Areas

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Dreams and Livelihoods in Rural Areas Require Capital, too: An Investigation into the Role of Diminishing Community Banks, Financial Education, and Access to Capital in Rural Areas

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Prologue

President Bill Clinton once noted: “Big banks are abandoning rural America for more profitable urban markets, leaving many communities without adequate access to capital” (GABV, 2021). The University of Arkansas mission statement says, in part, “The University of Arkansas is determined to build a better world by….. solving problems through research and discovery, all in service to Arkansas” (uark.edu). That is exactly what I am seeking to do with the findings of this undergraduate thesis that has been made possible with the help of a University of Arkansas Honors College Research Grant.

Individuals in rural communities face unprecedented economic challenges due to a lack of financial education and a decline in the prevalence of community banks. The problem has continuously grown exponentially without successful attempt at remedy. Without proper research, guided action, and more robust analyzation, the rural population will continue to face the consequences of these two forces.

At the same time, many in these areas suffer from a severe lack of financial literacy. It is known that a lack of financial literacy can have consequential impact on individuals, their communities, and their families for generations. There are many statistical indicators that financial education at a young age can help individuals make smarter and more financially wise decisions throughout their lives.

Rural populations are facing economic hardship because of these two economic factors. Continued financial illiteracy coupled with a continued decline in the number of community banks in these areas can mean that these populations will likely never see a chance at overcoming their existing economic struggles. This work is important, necessary, and needed to help our rural and economically challenged communities.

To the researcher’s knowledge there exists no sort of compiled knowledge and expertise on this topic. Further, it is the researcher’s belief that a compilation of research and industry expertise can prove invaluable to community banks looking to better serve their communities and to policy leaders looking to bolster these institutions. Therefore, the project will begin with an in depth look at literature that already exists, it will then look at in-depth interview responses conducted by the researcher with various stakeholders in the community banking network and will use the findings from these two to make recommendations to community banking leaders. There are both short and long-term implications at stake.

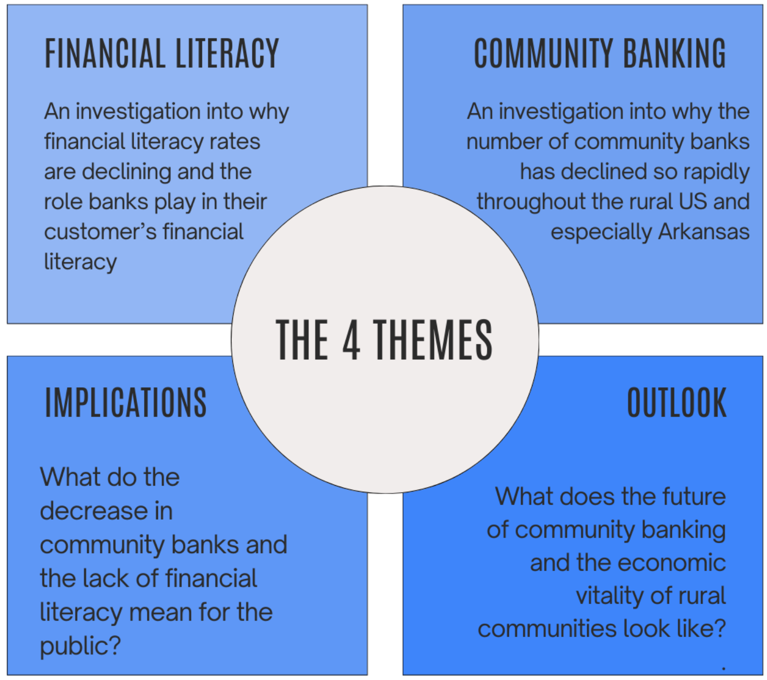
Background

The Federal Reserve (Fed) had broadly defined a community bank as one that maintains $10 billion or less in assets (Federal Deposit Insurance Corporation, 2021). These banks receive most of their core deposits locally, tend to make their loans to local businesses, and are often referred to as "relationship bankers" (FDIC Community Banking Study, 2012). Historically, these institutions have served as powerful financial centers in small and rural communities and through relationship building and personal relationship management have been a stronghold in areas where large, national banks do not see it profitable to conduct business. The loans from these banks were pivotal for small business success, home buying, and for the economic vitality of communities. However, these institutions that offer financial stability and capital to the already underserved populations are dwindling away- often closing all together or being acquired by larger national banks that have little interest in continuing to serve these communities in the same manner.

In rural communities across the nation, smaller and more localized banks are being swallowed by much larger banks or dissolving altogether. Federal regulation and economically trying times (especially the 2008 financial crisis and the Covid-19 Pandemic) have proven incredibly burdensome to these institutions that are more sensitive to economic blows (Wilmarth, 2014). The institutions that have historically been amongst a faction of banks who are willing to lend in these rural areas, form important banking relationships with citizens in rural areas, and provide financial resources for them are facing increasingly strong threats. As these banks are weakened by economic instability, regulation, and competition it becomes obvious that smaller, rural communities are losing powerful banking partnerships. Small businesses and average families have lost much of their access to capital as a result (Lux and Shackelford, 2021). Loans from a bank are often the lifeline for economic opportunity and growth.

The lack of capital discussed above coupled with a lack of financial literacy among rural citizens has culminated into a real problem for individuals in these areas. A double-edged sword of sorts. A lack of financial knowledge can be detrimental to savings and retirement preparation rates (Wagner, 2019) and as the number of financial options has grown exponentially in recent years, the current system of financial education seems to have lagged (Van Rooij, et al., 2012). Essentially, as people are losing banking relationships and access to capital, they face a larger financial playing field with decreasing levels of financial knowledge. The outcome of such a situation can only be presumed to be hurtful.

Four separate themes can adequately provide background for this project. The four themes used in guiding research are financial literacy (and lack thereof) in rural areas, the importance and decline of the community bank, implications of the first two, and an outward facing view of what the financial state of these communities might look like into the future. These four themes will act as a guide for the organization and structure of both the literature review and the in-depth interviews discussed later in the paper.



Theme 1: Financial Literacy and Education

There is no doubt that an immense number of Americans suffer from a lack of financial literacy. In fact, only 30% of Americans can answer three basic financial literacy questions correctly. African Americans, Hispanics, and those living in rural regions display the lowest level of financial knowledge (Lusardi and Mitchell, 2014). These individuals with inadequate levels of financial knowledge are left to fend for themselves in what is an obviously difficult field to navigate. Poor decision making and financial judgement can mean that these individuals never see the opportunity to lift themselves out of their current states. This, then, contributes to the cycle of poverty, hardship, and lack of wealth building. Essentially, financial knowledge is key to making informed financial decisions and without informed financial decisions, it can be very difficult to ever build wealth. Ideally and historically, this void of knowledge has been somewhat filled by a relationship with a banker or banking institution itself within the community. However, as will be investigated later in the paper, these relationships are becoming much less common (National Community Reinvestment Coalition, 2021).

With these staggering numbers also comes the addition of new and more sophisticated financial options in a growing and more technologically diverse world – many more than could have even been imagined just a generation ago (Fernandes, Lynch, & Netemeyer, 2014). Today, with a simple access to the internet, American's have much easier access to quick and simple loans without ever speaking with another person, predatory "payday" loans, cryptocurrencies, the ability to self-invest, and even just the ability to spend more money in general online. These options are largely marketed for their convenience- and they are convenient. However, this convenience comes at a cost to the consumer that makes an ill-informed decision because of the readily available tools. As the average American household faces more financial options than ever, they are also faced with much more personal financial responsibility than ever before. This comes at the same time that Americans are forced to prepare for the highest education and healthcare costs in history and are increasingly left to fend for their own retirement savings because of the decrease in employer-based pension systems (van Rooij, Lusardi, & Alessie, 2012).

Further, it is important to note just how large the lifelong implications are from financial decisions made at a young age. As young adults throughout the US decide where to or if they will attend college, if they will purchase a home, what type of car they will purchase, or how much they will save (if any) they are making pivotal life decisions. Even small decisions, made without proper financial knowledge and background, can very easily snowball into lifelong detriment. For example, missing a credit card payment and injuring your credit score, neglecting to prepare for retirement, or failing to set aside some sort of emergency savings can all create a risky and difficult financial environment (Breitbach and Walstad, 2016).

The bottom line here is clear: increasing financial knowledge and literacy is a key to bettering the financial outcomes of the populous; including increasing savings and retirement planning rates. With increased savings and retirement rates among the individuals that exhibit the lowest of financial literacy, these individuals would have opportunity to defy odds and overcome historical and deeply rooted barriers. The logical issue here then is simply working to find out how to increase financial literacy rates. This has proven to be a very difficult assignment without a one-size fits all solution.

There exist various proposed methods of remedying this issue. One of the most obvious of these is simply increasing the exposure and access to financial literacy education from a young age- especially in areas where students are unlikely to receive such knowledge from their family members. Even just a single personal finance course improves financial literacy (especially among high schoolers) (Wagner, 2019). Currently, Arkansas does not require a standalone personal finance course for its graduating high school seniors, but instead allows school districts to “embed(ed) the new standards in existing courses to assist districts with implementation” (Arkansas Department of Education). States economically similar to Arkansas like Alabama, Mississippi, Missouri and Tennessee have all created requirements for standalone, non-substitutable courses (Ranzetta, 2020). While unsure about the fate of the financial future of these states, it can reasonably be expected that states like Arkansas will likely see inferior financial literacy outcomes than them.

Other proposals have been found to better the financial outcomes for consumers- many of which have signaled greater success at doing so than education alone. These include calls for stricter regulation around financial offerings, intermediate decision-making assistance, and simplified disclosures about fees; terms; and characteristics (Hastings, Madrian, and Skimmyhorn, 2013). These methods are most definitely important for helping the population make better more sound financial decisions. However, these tend to treat the symptoms of the financial literacy crisis rather than fight the root causes of it. Accordingly, there is more work to be done to better understand the potential remedies to this problem.

Theme 2: Importance and Decline of Community Banks

The United States economy is ever reliant on the estimated 33.2 million small businesses throughout the nation. These businesses that employ roughly half of all Americans often face struggles when working to access capital. These small businesses are typically riskier and have higher rates of failure than more established ones. Moreover, these small businesses are often younger or lack necessary collateral. This can make it more difficult to establish the creditworthiness of the business or to justify lending it money (Beiseitov, 2023). These same can be applied to individuals as well. Traditionally, these community banks that have the unique ability to monitor local economic conditions and opportunities and the incentive to form relationships with these individuals and businesses have been able to "overcome" the issues previously mentioned that act as obstacles in the way of receiving capital (Beiseitov, 2023). These small banks have, historically, been able to look at the person or business as a whole instead of simply relying on cut-and-dry financial indicators. Essentially, relationships, involvement in the community, and a more localized approach to lending have allowed community banks the ability to lend to riskier businesses and individuals who might have never received capital from anywhere else. This is truly what makes these banks so unique, special, and important for small communities.

During the international financial crisis in the late 2000s a staggering number of community banks (around 13%) saw an increase in their amounts of illiquid loans. These numbers were unprecedented for their time but were crucial in keeping many small businesses afloat during such trivial national financial strain. Statistics like this exemplify exactly what these banks are at their core: relationship-based and typically willing to meet their customers (whom they know) where they are most needed (Deyoung, et al., 2019). In fact, it has been found that individuals are less likely to participate in a banking run if their bank has a strong relationship with them as many community banks typically do (Iyer & Puri, 2012). The banks that operate in this manner obviously play a large role in communities that centralized conglomerate banks typically avoid. Access to capital for people in these regions (especially in trying times like the Covid-19 Pandemic) often only comes from this category of bank (Lux and Shackelford, 2021).

As explained above, community banks are the base for so many that need capital to build and grow their businesses or personal dreams. Concurrently, though, these decentralized and locally controlled banks, touted as a "characteristically American enterprise", have seen a massive drop in prevalence over the last 40 years with each financial crises and legislation piece aiming for deregulation on bank consolidations (Lux & Green, 2019). In Arkansas, as recently as 1995, there were a total of 269 FDIC insured institutions with only four having an asset size greater than $1 billion. At the end of 2023, there existed only 82 institutions with 19 of them having an asset size greater than $1 billion (Federal Deposit Insurance Corporation, 2022).

We are sure of two things here: community banks are important for businesses and individuals alike and that community banks are decreasing in number at a rapid rate. It can logically be assumed then that it is much harder to obtain capital for businesses or individuals in the communities that see their banks closing or replaced.

One common explanation for the extraordinarily quick decline in number is the Great Recession as it has been argued that the Great Recession accelerated the trend of bank consolidation. During this time of economic and banking system distress, legislation seemed to be aimed at helping the largest banking institutions more so than the smallest. During this time, while only one large institution failed (Washington Mutual), more than 450 community banks would be allowed to fail (Wilmarth, 2014). Further, the Dodd-Frank Act that was enacted after the 2008 financial crisis added huge amounts compliance and regulation mandates onto these banks that might not have the room in their margins to take on or the scale to meet demands. This has, in turn, forced these banks into sales and mergers with larger conglomerate organizations (Wilmarth, 2014).

Another possible explanation is population loss and a lag in economic growth since the Great Recession within rural areas. From 2010 to 2018, rural counties in the United States would experience GDP growth of 14.8% while urban areas would see 19.2% growth (Kopparam, 2020). Concurrently, the net migration rates for rural areas were negative or near zero between 2010 to 2020 (though, there has been a recent uptick) (Cromartie, 2024). These numbers are damaging to the rural populations and could possibly explain why banks quickly left these markets. Without people or economic growth there exists little bottom-line incentive for a bank to remain in these areas. Alternatively, this argument could be flipped to say that the decrease in banks has attributed to population and GDP loss. Either way, the current state of disarray within the rural banking system remains.

Theme 3: Implications

We sort of see a double-edged sword here. It has been explained that both the lack of financial literacy and the decline in number of community banks have negative repercussions for rural communities and regions. When these two work together, it can create a powerful storm that works against the economic success in rural areas.

The long-term effects of this can only be guessed. What we can say, though, is that the GDP of rural America has risen at slower rates than in urban areas. In fact, from 2012-2015, the median GDP growth of urban areas (counties within metropolitan statistical areas) exceeded median GDP growth of those counties not inside of one of the statistical areas by .52%. GDP rates of these rural counties were much more dispersed in nature (Gascon and Reinbold, 2019). This indicates a higher volatility of GDP within rural regions. It should be noted that correlation does not equal causation, but the numbers are worthy of attention and are relevant to presenting the case that the rural areas in the United States are economically growing slower than their urban counterparts.

The previous two themes discussed great problems that offer enormous implications for rural populations of people. Both the lack of financial literacy and the decrease in the number of community banks do not just have a negative impact on the lives of individuals. In a community largely affected by these two, the impact falls onto businesses, schools, and families as well (Lusardi, 2019). As large commercial banks are continuing to grow, their need for riskier and smaller community loans has diminished until there exists no need to effectively focus on relationship building like community banks must. Relationships that community banks are typically able to handle while remaining well positioned in terms of profitability and credit risk (Hein, et al., 2005). To bridge the gaps between large commercial banks and rural areas, these banks (specifically those with under $10 billion in assets) originate nearly one in three mortgages in rural counties (Calhoun, et al., 2018).

A lack of financial literacy can prove very costly for individuals. One study found that, in 2020, the average amount of money lost because of a lack of "money management knowledge" was $1,634 per adult (National Financial Educators Council, 2020). Number like this compound annually for those without proper financial literacy and can create a lifetime of financial burden on those individuals.

There is no question that many new financial options are convenient and becoming more and more necessary to achieving financial goals, but if the population is not sufficiently financially literate enough, these new financial options will continue to be reserved for high-income individuals and families that are more likely to be financially literate. A great example of this is online banking- considered by many to be a great tool for financial success. However, if our impoverished and rural citizens are never properly trained on the benefits and features or lack access altogether, how can we ever expect them to utilize them as a tool to escape poverty (Servon & Kaestner, 2005)? We do know, though, that many statistics point to a way out of this cycle. Financial education, especially at a young age, has been proven to increase savings rates, decrease late credit card payments, and increase the correct approach to financial risk (Impact of Financial Literacy, 2023).

Theme 4: Going Forward and Recommendations of Methodologies

Speaking on what the future is certain to look like is a difficult task. There is no avenue for modeling or predicting what policies will be implemented, what financial literacy looks like decades from now, or how many community banks will exist in a certain number of years. Nonetheless, it is logical to say that both banks and communities are currently facing and will likely continue to face the damaging ramifications mentioned above.

The future viability of the industry will rely on the community bank's ability to maneuver a changing landscape and absorb rising costs and decreased margin. It will also rely on a client-base that continues to find value in their competitive advantage, relationships, and personalization of banking. Based on the findings above, it will also rely heavily on their ability to take decreases in the bottom line and the ability and motivation to scale so that cost centers (underwriting, administrative, compliance, etc.) still allow for room in the margin.

At this point, it has been explained just how important community banks are to the financial literacy and viability of rural areas, so now the question exists: where do they go from here? Due to the fact that predicting the future is not a possibility of the researcher, a study working to provide insight about the potential future of community banking was found to be necessary. Thus, the next portion of this project seeks to answer just that. It first seeks to understand the state and the importance of the industry and will then work to craft recommendations for the community bank going forward. It is the ultimate hope that real remedies, obtainable goals, and helpful recommendations are a result of this research and that these are implemented by communities, schools, governments, and community banks working to fight this crisis. If the research here is beneficial to just one single soul, it will be considered a success.

Methodology

This project includes two approaches to gathering necessary data. All responses were gathered from various stakeholders involved in the community banking process. Various participants included those in positions such as President and Chief Executive Officer, Teller, Loan Assistant, Market President, Chief Brand Officer, Senior Vice President, and Director of Lending. Their names, organizations, and other identifiers have been kept confidential.

Interviews included both qualitative and quantitative answers. As this issue is a complex one, allowing respondents freedom to speak rather than only being guided by structured, quantitative questions proved crucial in gathering substantive and relevant answers. Qualitative answers will be summarized, grouped, and analyzed in later sections to better present and evaluate findings.

Quantitative responses will be important for creating statistical evidence for any argument formed. Therefore, in interviews, respondents will end with nine quantitative questions. These questions will allow the research numerical data that will work to concur or disagree with findings. For these nine questions, respondents were asked to rank how much the agree with the statement – five being a completely agree and one being a completely disagree.

Further, because those at the front line tend to have more of a first-hand view of client and community needs, the study includes two individuals that work in customer-facing roles within a community bank. These individuals have more primary facing roles within their financial institutions, and it is pertinent to thoroughness to have their views and experiences included in the study as well. These primary-facing individuals were asked a separate set of seven qualitative questions only.

For the sake of this study, a community bank must meet:

1. ≤ $8 billion in assets
2. Operations in ≤ 2 states.

Institutional Participants

Relevant Bank/Institution Information					
Participant	**Asset Amount ($ thousands)[1]**	**# Full Service – Brick and Mortar Branches[1]**	**# Employees[1]**	**Home Office Regional Location[1]**	**# States Operated In[1]**
1	1,132,908	10	202	Northwest Arkansas	1
2	2,606,845	57	475	Central Arkansas	2
3	7,633,791	80	861	Northeast Arkansas	1
4	984,547	11	134	Northwest Arkansas	1
5	262,778	6	63	MO, AR	2
6	Non-profit loan fund that lent $7,163,141 in 2023[2]			Loans in: AL, AR, LA, MS, OK, TN, TX[2]	

1. BankFind Suite, FDIC.gov
2. Annual Report 2023, communitiesu.org

Surveys

Surveys for Management

Management – Qualitative				
Theme	*Financial Literacy*	*What happened to the community bank?*	*Implications*	*Outlook*
Q1	Does your bank offer any services that work to increase the financial literacy of your customers?	Studies show that the number of community banks has decreased over time. Why do you think that is? Ex: technology, larger banks, policies?	How can banks help the economic viability of the areas they serve?	How can community banks work to increase financial literacy rates? Should they do this?
Q2	Do you believe relationship banking can help individuals make better financial decisions?	Could you discuss the idea of "too big to fail" – do you see a double standard from the Fed?	How important are community banks to small businesses?	What do you see as the largest threat to community banks?

Q3	Do you feel that banks play a large role in helping their customers become financially literate?	Can you talk about the effects of the 2008 Great Recession on community banking?	Do you believe a person benefits from getting a loan from a local bank as opposed to a larger one?	What policies can be passed to help community banks?
Q4	How can banks better ensure that customers fully understand their financial decisions?	What are some of the biggest challenges today that your bank faces?	Do you know of any policies or regulations that most negatively impact your bank?	What is your outlook on the state of community banking?
Q5			Do you believe that relationship banking helps individuals obtain capital who might have otherwise not had it?	

Management – Quantitative Statements	
1	The government is doing enough to support community banks.
2	Financial literacy is important to the lives and wellbeings of your customers.
3	I feel the general population is adequately financially literate.
4	Your institution can compete with larger national banks.
5	The future of community banking is bright.
6	Community banks are important for small communities.
7	Regulations, in general, burden community banks.
8	Customers have more trust in a local community bank than they do a larger, national one.
9	My bank is prepared to adapt in unusual circumstances (e.g., the Covid-19 crisis).

Scale for quantitative statements				
1 – Completely Disagree	2	3	4	5 – Completely Agree

Survey for Front-Line

Front-Line - Questions				
Theme	*Financial Literacy*	*What happened to the community bank?*	*Implications*	*Outlook*
Q1	Do the people you help daily have an adequate amount of financial literacy knowledge to make proper financial decisions?	What are some challenges that your community bank faces?	How important is your bank in the community that you are in?	What do you feel your bank can do to ensure that its success into the future?
Q2	What have you done in your role to make sure that your customers fully understand their financial decisions?	Does having a relationship with your clients help them to make better decisions?	What do you think your customers would do if they had no bank in town?	

Limitations

As with any study, there exist limitation to the data, findings, scope, and depth of research. This study is not exempt from that fact. Therefore, it is necessary to provide a summary of challenges, issues, and limitations from the data.

Research is localized

Arkansas's needs are different than those of Mississippi or Nevada. This work seeks to explain the current state of community banking and financial literacy within the state of Arkansas and geographically close regions. Therefore, participants were limited to those whose scope of work is entirely or largely within the state. This means that, while this study could be beneficial or applicable to those in other areas (especially rural areas), caution should be taken when applying findings and statistics to differing states or regions. Arkansas's needs, financial literacy tendencies, and socio-economic background differ greatly from other regions within the United States, as other states have differing regulations, public sentiment, and banking structures.

Numerical responses could be affected by opinion

The responses of individuals come from their personal experiences within the industry. This research does seek to gain understanding of their personal experiences and background. In doing so, their underlying opinions, beliefs, or experiences could impact their responses and, therefore, the findings. This fact is inescapable when conducting in-depth interviews.

Further, this is especially true for the quantitative statements that are subject to the personal environment. For instance, a "4" response from one participant may not be the same as a "4" from another. These answer choices, while qualitative, are subjective in nature. The research hopes that this limitation is remedied by the allowance of participants to speak freely.

Assumption of participant knowledge

Some questions, especially those about previous legislation, policies, or financial education infer that the participant is knowledgeable enough in the field to provide a substantive and well-informed answer. It is assumed by the study that the work experience of the individuals affords them sufficient ability to speak deeply on related topics. The research process sought to find individuals with proper background and knowledge. However, there is no way to guarantee that they have required experience or knowledge to provide sound answers.

Small Sample Size

The participants make up only a small percentage of stakeholders within the community banking system. Research could potentially be limited to their experiences alone and could neglect to take into account other considerations. While the project worked to attract an array of individuals from different regions and positions, the research sample size is limited. The front-line perspective in included to help remedy this limitation. It was important to get optics from every side of the situation to ensure that the research was thorough and to bolster the small sample size.

The Qualitative Findings

“Banks are the cornerstones of communities”

“Without that access to capital it will always be a dream”

“In smaller towns those banks are pretty much the only support for a lot of causes”

There was a constant sentiment from each participant and that was the importance of their institutions. These individuals were, in the eyes of the researcher, passionate about their mission to serve their communities and believed in the power of community banking to uplift and bridge the capital gap that exists. Many offered stories of success, individuals defying statistical odds, and methods they have found to better serve their clients. The following is a compilation and summarization of responses from the six management and two front-line participants.

While these individuals were largely positive about their work, they also shared about the struggles that their institutions currently face, both internal and external.

The following is a summary of responses from the in-depth interviews conducted and has been formulated by aggregation and analyzation of responses from participants by the primary researcher. While not directly quoted, it serves to give insight and as a summary of responses. Not everything mentioned was said or agreed to by every participant and, thus, the findings should be read with that understanding. However, the researcher worked to ensure that all positions and major opinions were considered and included.

Financial Literacy

There seemed to be an agreement among all management participants that financial literacy is an important tool for making better financial decisions. It acts as a fundamental support for those making financial decisions with large implications on their wellbeing. Having sound and deep financial knowledge from a young age has proven to be one of the most important tools for the lives of community bank customers.

Throughout interviews there was also a heavy emphasis on the fact that community banks act as a bridge whenever there may be a lack of financial literacy. In fact, it was said that banks have a “responsibility” to ensure their customers are financially literate enough to be able to understand terms and conditions. It was often said that banks can be of much benefit to a person who lacks the proper financial literacy to understand the terms of a financial agreement when they can, one-on-one, discuss, coach, guide, and mentor these individuals. Bank branches are the places that give individuals in rural communities a place to go and “think about money responsibly”. The participants spoke often about their ability to help position individuals to obtain capital, manage their businesses, explain terms/conditions, answer questions, or to simply teach individuals about the terms on the papers that many sign blindly.

The most often mentioned method of increasing financial literacy was remaining active in local schools. In fact, every single participant mentioned some sort of involvement with local educational institutions. Starting out with local schools is an “easy win” for these banks that would benefit from a more financially literate client base. It was noted that the need to be in the schools is great because the children that these banks can have an impact on may never learn financial curricula from any other source, especially in certain census-tracts where parents are likely to be financially illiterate or in places where the local schools do not place emphasis on this education.

These types of things are what the “big” banks just do not do because it is not necessarily profitable for them to spend the necessary amount of time doing so. These banks often “cherry-pick” loans that are profitable for them and do not stay around for long to act as a support or guide during the rest of the process or during the repayment period. This often leaves entrepreneurs or individuals with loans from these large institutions, that were likely quicker and easier to get because of technology, with loans that are “grey” or without a relationship with the person or institution maintaining the loan.

Financial Literacy from a Front-Line Perspective

Though it was noted that those with previous business experience, more specifically in the field of agriculture, did have a sufficient level of financial knowledge, front-line participants agree that many of their clients do not have the proper amount of financial acumen to be able to make proper financial decisions.

These participants noted that they often work to explain terms or fees, answer questions, or to actively listen to the concerns of their clients so that those clients can make more informed and sound financial decisions. By working to fully understand the needs and wants of customers, these experienced front-line employees can better bridge the financial literacy gap and offer recommendations or options to their clients.

The Community Bank

Discussion surrounding the decline in community bank number and prevalence were exhaustive. Participants offered many different explanations as to why this drastic drop has occurred, of these succession planning, technology, population decreases, and regulations were the most prominent.

Regulations on banks were called “cumbersome” and “a burden” by participants. Regulations, when handed to these community banks, place a strain on their regulatory and compliance organizations that are likely already small or strained. These regulations and associated costs can often place banks in a position that is just not profitable, leading to the ultimatum of growing to scale to the requirements of the regulations or to sell or merge with another institution altogether. It can be very difficult for these smaller banks, that tend to operate with smaller margins than their larger counterparts, to absorb regulatory costs. Specifically, one participant mentioned regulations put into place by the Consumer Financial Protection Bureau that made it more difficult for their bank to “do business”. It should also be noted, too, that participants stressed that sometimes regulations have proven to be beneficial to their institutions and clients. Some regulations were noted as having created a safer banking system for the general consumer and as having been helpful for the institutions themselves.

Succession planning was a consistent theme in responses as well and was not a topic that was found in literature review. Banks that exist in small communities need individuals who can manage, maintain, and run them into the future. This is especially true for local banks that are family-owned and operated. If the young family members decide to mobilize and leave the rural area, often these banks are left only with the options to sell or shut down- even if they are financially healthy. Further, it was stressed by one participant that it has become more difficult to attract individuals with financial experience or education to come to or back to these rural areas to lead and manage these institutions. Especially since larger cities tend to provide more financial earning opportunities or amenities for those individuals. These factors mean that it is becoming ever-so difficult for community banks to identify and attract those that have the expertise to lead them.

Participants also alluded to the fact that technology has proven to be a barrier for many community banks. It becomes incredibly expensive for a community bank, without much ability to scale and absorb costs, to be able to maintain the same technology offerings that larger banks can. As technology develops within the financial industry, these banks must compete in the same arena as the national banks. At the same time, they must also ensure that data maintains a level of security for the safety of their clients. As the amount of “fintech” companies like PayPal, Robinhood, Venmo, Chime, etc. continue to offer increased ease of transaction and better deposit interest rates, there is a chance that community banks will likely continue to lose ground and market share, especially with younger populations.

Population decreases and economic decline were also discussed at length. It makes logical sense for a bank to naturally go to where deposits are available. Remaining active in small communities (especially those that are declining in population) does not always make sense for the bottom-line nor do these communities offer the most obvious position for growth and long-term economic viability of a bank. As population decreases and economic decline burden rural communities, these areas are slowly losing their power as deposit providers for these institutions. One participant noted that unless you are “passionate about it”, these once bustling communities just do not make sense to operate in. Capital is in much more demand in high growth areas that are seeing increased levels of investments, like more urban and suburban areas. These places have much more potential for profit. As board members and owners alike naturally demand growth and profitability, these banks have less incentive to operate in rural areas.

The Community Bank from a Front-Line Perspective

Front-line participants noted that financial illiteracy and serving the underserved are challenges that their community banks face. One noted that there is a significant portion of their customer base that might not know how to write a check, fill out a deposit slip, or the advantages of paying extra towards the principal balance of a loan.

They were also adamant in their beliefs that their banks are incredibly important to the communities in which they operate in. Their banks are community facing and mission minded and have much to offer their clients. The respondents believe that human connection that they offer is crucial to understanding their client's needs and that there is simply no adequate substitution for what their banks offer.

The Implications

As stated above, these participants generally feel that their institutions are important and beneficial to their communities. As such, it was evident that it was important to obtain a scope of just what these banks do and what the absence of these banks might mean for rural communities and financial literacy.

As these banks decrease in prevalence and number, these bankers stressed just how important relationships were to their communities. Knowing a banker, literally describing your hopes or dreams to them, and obtaining advice from them can be incredibly important to those seeking funds to start a business, buy a home, or even attend college. These institutions have proven to be learning centers for those who might lack in financial literacy and this type of learning is not being matched by the new and upcoming alternatives to community banks. One participant notes that "PayPal" is not going to teach their clients to balance a checkbook or manage a budget.

This lack of relationship building could also hurt smaller businesses or individuals more than larger businesses that are more likely to have financial acumen or experience. Participants were clear that at a local bank you can often become more than words on a piece of paper or a credit score alone, whereas at larger banks character and relationship play little part in capital decision making. As these community banks dwindle in number, so do their longstanding relationship and trust elements of decision making. This has the potential to be detrimental to many who might not fit into the perfect box expected of them by a large bank.

Participants also often noted the importance of their community banks to the local economies. Community banks typically take in deposits from the local community and lend dollars back into the same local community. This means that the capital within a community can work within the same community. These deposits are used to grow the economy, start local businesses, or build houses within their respective areas. These banks serve as an economic "lifeline" to the communities that they operate in. The deposits made in local communities are lent out to those with dreams within those same communities while dollars deposited into larger banks are often lent outside of the respective community or region, taking capital from rural areas and allocating it to larger "investment worthy" communities. These dreams of home ownership or of starting a business do not just exist in large, urban areas. One participant noted that without community banks these local communities will not get the seed to keep the American Dream alive.

These community banks also back charities, schools, athletics, and other initiatives within small communities that lack funding or support. Often these banks act as the only support for many of the local organizations or events. Banks support festivals, philanthropic drives, and can often be found with their logos on the scoreboards at local schools or athletic complexes. Of course, philanthropy is not the primary mission of these banks, but this implication cannot be ignored.

Without the banks the fear is that many of these causes would go without crucial development and support funding.

Lastly, as banks have declined in number (and, especially, if they continue at the current rate) other financial options have entered the market. If these banks are not present, the vacuum will be filled by things like payday loans or sophisticated online options that might be easier for the public but detrimental for their long-term financial health. This leaves rural populations to rely heavily on banking system alternatives that can often be predatory or grey in their terms and requirements. These alternatives often lack relationship banking, financial coaching, or community relevance. They do not match the ability of community banks to drive the economies and help the populations of rural communities.

The Implications from a Front-Line Perspective

Those on the front-line stressed just how important their banks are to their local populations. They believe that the tools that they offer help their clients. Their lobbies are busy with people conducting banking business or just speaking with employees. They mention that in the absence of their banks, several of their clients would struggle with access to banking at all. This is especially true of the "more mature" generations who might not be savvy with technological offerings. One participant also mentioned that without the presence of their bank many charitable causes would go unfunded within the local community.

In summary, the in-depth interviews found that as these banks decrease in number their clients will lose important relationships with their banks, local economies are likely to lose capital and investment, initiatives supported by the banks will lose what is often their only supporter, and predatory or less honest options will have room to take their place. This creates, quite obviously, a grim outlook for the state of rural populations and economies.

The Outlook

In general, the participants held mixed views on what the future of community banking looked like. They did all agree, though, that community banks have an important place in the future of rural communities. They differed on their views of how well the community banks will do as time passes and what role they will play in the lives of their clients going forward.

Most agreed, logically, that it was hard to point to exactly where the community bank will be in five, 10, 15, or even 20 years. They also agreed that these banks will remain in demand in rural regions. This is especially true for the business side of lending that requires much more analysis and coaching than the consumer side of lending where individuals are now able to get loans quickly on a phone or computer. They note that they community bank of the future looks very different than that of today and mentioned that brick-and-mortar branches can work hand in hand with new technological developments to better meet the needs of their clients.

It was also mentioned that there is room for both community banks and larger banks. Bluntly, larger banks can do things that community banks cannot, and community banks can do things that larger banks cannot. "We need both". Concerns were also risen about the continued consolidation of banks, especially those below the $100 million asset mark that potentially lack the advantages of scale and margin. If regulations are to continue to increase it could very likely speed up the process of “killing” the community bank.

Concerns were risen about the rise in technology as well. This element could act as a positive or a negative for community banks. It could attract customers and deposits elsewhere, but it could also provide new avenues for community banks to reach and meet with the consumer. The rise in technology will likely attract more young people and will hurt the “ground level impact” that community banks currently have in their respective regions.

Largely, the participants noted that it would continue to become more cumbersome for these banks. Keeping up with the modernization of banking requires investment, time, and resources. Things that are already scarce for these banks. Most were positive about the community bank existing well into the future but questioned the number of those banks and how those banks will develop to meet the demands of the world.

The Outlook from a Front-Line Perspective

Front-line participants generally agree that their banks have a competitive edge that is relationships with their customers. They mention that providing quality customer service and personal connections are how they remain competitive in their communities. They strongly feel that they will have to continue to rely on these elements of service to remain competitive and to meet the needs of their communities and even hint that these are foundational reason for their institution’s continued growth.

Quantitative Findings

Scale for quantitative statements				
1 – Completely Disagree	2	3	4	5 – Completely Agree

Statement	**Average Response**
I feel that the general population is adequately financially literate.	**1.8**
The government is doing enough to support community banks.	**3**
The future of community banking is bright.	**3.4**
Regulations, in general, burden community banks.	**3.4**
My institution can compete with larger national banks on the basis of technology, lobbying, etc.	**4.2**
Financial literacy is important to the lives and wellbeings of your customers.	**4.8**
My bank is prepared to adapt in unusual circumstances like Covid-19.	**4.8**
Community banks are important for small communities.	**5**

In general, participants seemed adamant that financial literacy is important to the lives of customers of community banks, that their institutions can compete with larger national banks, that community banks are important for small communities, and that their banks are prepared to adapt in the case of unusual circumstances like the Covid-19 pandemic. These are, in general, good signs for the community bank. These leaders understand the importance of financial literacy and their involvement in local communities, tend to believe that they can remain a viable competitor to larger banks, and feel prepared to adapt during difficult times. It seems that they recognize their importance and feel comfortable in the coming competitive and unpredictable economy.

However, there exists sort of a “mixed-bag” of reviews on governmental support, regulations, and the future of community banking. Participants shared about their struggle with some governmental regulations but positives from others. Further, while feeling confident about heir own institutions, many fear what challenges will continue to face the community bank. As such, their reviews on the future of the community bank as a whole lie closer to the middle of the scale.

It should also be noted here that these community banking leaders do not tend to feel that the general population is adequately financially literate. The participants interact with their clients each day and know first-hand the capabilities and knowledge of their client bases. This data is telling about the current state of financial literacy in the areas that these banks serve.

These numbers help to, in a broad sense, encapsulate the community banking leader’s sentiments towards the current state of affairs in their communities and in the community banking industry as whole.

The Recommendations

Based on findings from analyzation of the literature review and the in-depth interview responses, banks have work to do in order to remain viable into the coming decades. Specifically, four things are pertinent to the success and continued viability of these institutions.

Partnerships and collaboration among community banks will prove crucial in the ongoing fight of keeping community banks viable and open. In discussions with the stakeholders within the industry, the word collaboration was mentioned often. This might mean putting aside some of the competitive spirit and being willing to refer someone to another community bank that has the capabilities or resources better suited to meet the needs of a certain client. For instance, if one bank offered credit counseling and another did not, it could be beneficial for the banks to consider creating a partnership with each other to create cost efficiencies. This would mean that the client gets services molded to fit their needs and the first bank need not incur the costs associated with adding such a service. Banks could also potentially partner on education and financial literacy initiatives within their respective communities. These already powerful educational initiatives could be bolstered with additional banks joining forces. This could possibly lead to a more financially literate customer base in the long run, an almost direct benefit to the banks. This is especially true if regulation and technology continue to place scale and margin barriers in front of community banks. Partnerships can create efficiencies and remove some costs.

It is the researcher's opinion, based on the findings above, that increasing financial literacy rates is a net gain for these institutions in the long run. As such, it should remain at the forefront of the missions of local banks. Ensuring financial literacy in rural regions will be key in maintaining a rural populous that can make sound financial decisions. This, in turn, benefits the local banks that do business with these individuals. Financial decisions, often made early in life, have immense impact on the financial condition of individuals and the economies as a whole. Banks should continue their efforts to educate within school districts and seek out other ways to educate the client base. Further, policy leaders should note the importance that financial literacy plays in the economic viability of rural areas. The bolstering of financial education curricula and requirements or providing incentives for banks to remain active in financial education are two potential policy actions. Community banks should also continue what they have done for decade in offering personal guidance, coaching, and relationships that have proven beneficial to small businesses, rural citizens, and the rural economy.

Preparing to do business in a world that is rapidly evolving and changing will remain an imperative for community banks. As technology develops and competition from national banks grows even more fierce, banks must be prepared to develop and modernize. This, of course, could be harmful to the bottom-line in the short term. However, it will be imperative to do so to ensure long-term success. Based on the findings, consumers will continue demand for a brick-and-mortar banking experience in some capacity. This is good news for community banks that already have branches in rural areas. This banking experience, though, will likely need to include a complex mixture of physical and technological amenities at these locations. Especially if community banks seek to attract and retain the younger and more technologically savvy population.

Lastly, to better hedge against this competition and to retain clients, it will remain imperative that community banks remain true to their missions and competitive advantages that are not substitutable by technologies or national banks. Creating comfortable places for individuals to go and work through their financial journeys and dreams in real-time with trusted individuals is important going forward. This means that banks will need to stand firm on mission and values while offering unmatched relationships, coaching, and guidance, as this is where these banks have a natural edge against competition.

There seems to be a consensus that the community bank, in some form, can remain a viable economic force during the coming decades. This does not mean that they will not continue to face population, regulatory, technology, or succession challenges. These challenges simply mean that banks will need to work even harder to create efficiencies, lean on their competitive advantages, partner with one another, and to educate their populations.

The Fate and Future of Community Banks and Rural Communities – Further Research

There is much to be done in this field of research. While literature currently exists, it is not plentiful. Sound academic research on community banking will offer more insight, data, and environmental information on the state of the industry. Research is even more limited when considering strictly rural areas, as much of it pertains to the broad, national industry.

Possible ideas for studies or research that could be helpful to the community banking industry found during this project included research that surrounds the topics of succession planning, state law comparisons, and what exactly the community bank of the future looks like.

Potential Studies

To better localize and to create a more relevant financial literacy assumption, it would be beneficial to have financial literacy data separated by rural and urban areas. These areas are vastly different than one another- economically, socially, and fiscally. Since the rural regions have a much larger reliance on the Community Bank, this data would be helpful to create correlations and to form assumptions on the state of financial literacy within rural regions. This is especially true when working to find methodologies for increasing financial literacy rates within rural areas as their educational needs and outcomes are different that urban areas. Financial literacy proficiency rates, financial education tactic outcomes, and measures of wealth building localized to rural communities could prove beneficial to future research and to the community bank.

Succession planning is one of the most important methods of ensuring viability and survival of smaller banks. It ensures that someone will be available to assume the immense duty of leading the bank when current management leaves. Specifically, research could work to formulate methodologies for smaller banks to attract and retain financially educated individuals to work at their institutions and live within their communities.

Research comparing various states and their policies to one another would be helpful as well. Different states, even those decently homogenous, have various degrees of difference in their banking policies, systems, and regulations. Research could look at specific timelines after the implementation of a policy within one state and compare it to key financial indicators and metrics for bank health of the most regulatorily similar state's banks. This would allow research to better single-out and assess the effectiveness or harm of certain regulations.

Lastly, it will be crucial to understand consumer expectations of community banking into the future. For community banks to remain viable and modernize, they must do so by meeting the demands of their clients. It is likely that the client expectation will evolve quickly during the coming decades with the rise of technologies and changing consumer behavior. Answering exactly what these clients want (more technology, less technology, format of branch operations, etc.) is difficult. However, creating better ways to gauge what consumers want and expect out of the bank of the future could prove helpful to banks looking to modernize and maintain competitive positions.

Final Summary

In summary, the community bank and rural areas are currently under threat of financial distress. The decrease in prevalence of the community bank coupled with a lack of financial awareness within communities has proven cumbersome for them. While causation is not certain, these facts correlate to economic and social issues that plague rural communities.

These institutions are important in maintaining economic viability and a financially literate rural populous. They serve a monumental purpose within their regions, and without them serious questions arise about the economic success and ability to build wealth within these areas.

Going forward, to best navigate the daunting environment, these banks can work to collaborate with one another to form powerful partnerships, continue what most already do in educating their populous, remain alert about potential changes in the field, and remain dedicated to their missions that offer a competitive advantage against national banks.

There is much work to be done. The future of the industry is far from certain, however, there is consensus that the community bank can survive to see success in the coming decades- it will just require agility, efficiencies, and continued collaboration. It is in the best interest of rural populations that these longstanding and powerful institutions do so.

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