Chapter 3 - The Geography of Community Banks

Community banking in the United States is inextricably linked with geography. Community banks are defined, in part, by the fact that they operate within limited geographic areas. There are also significant differences between community and noncommunity banks in the degree to which they locate their operations outside of major metropolitan areas and in how they have been able to expand their geographic footprint—the areas in which they do business—over time. This chapter explores these differences in the geography of community and noncommunity banks and discusses the implications for relative rates of growth between these two sectors of the banking industry.

Location of Bank Headquarters and Other Banking Offices

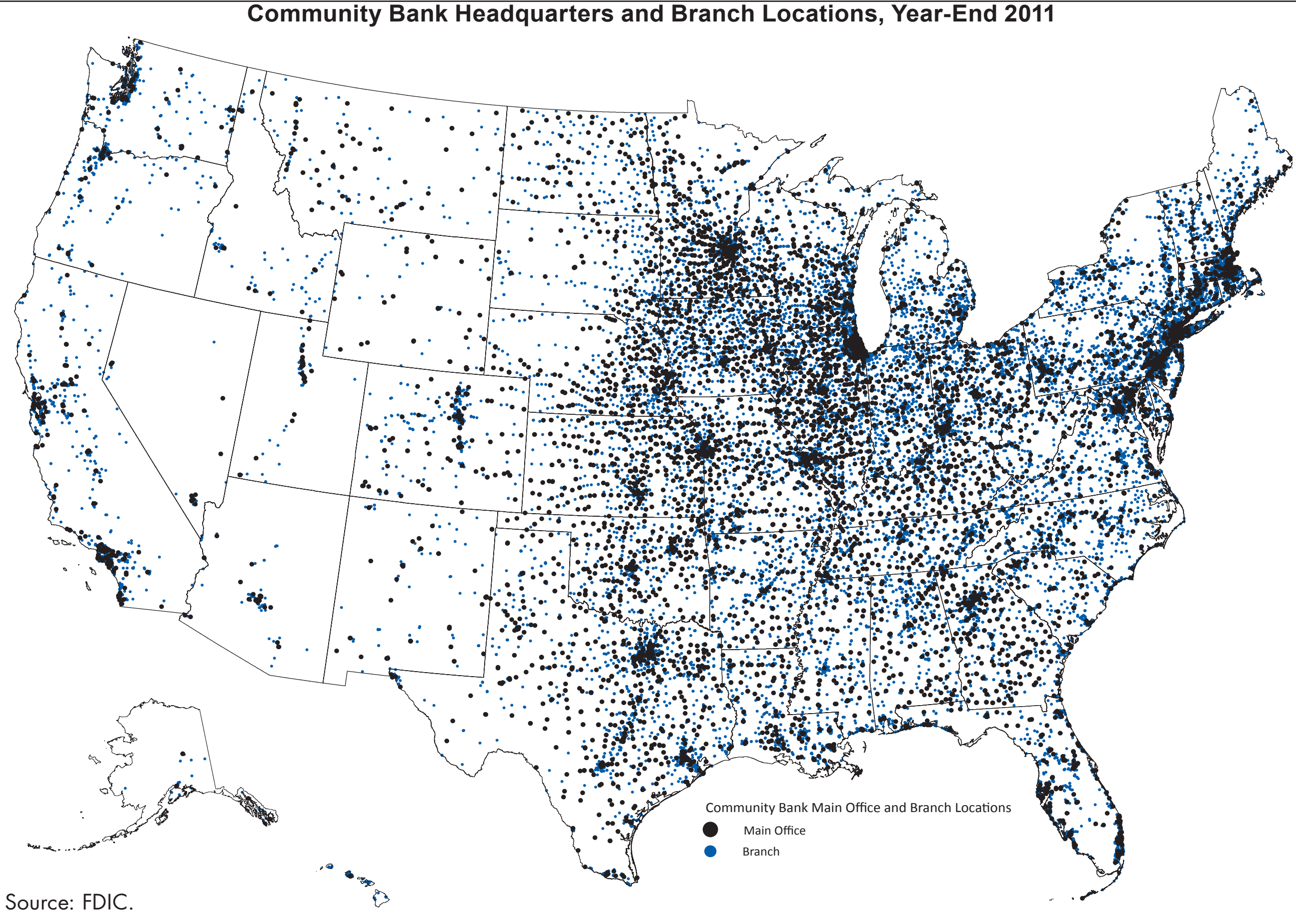
Federally insured banks report to the FDIC the headquarters location of the bank and the location of individual banking branch offices.[1] Maps 3.1 and 3.2 depict the headquarters locations of U.S. community and noncommunity banks, respectively, as of 2011. The maps show that community bank headquarters locations far outnumber those of noncommunity banks, and are particularly concentrated in the upper Midwest and the Northeast corridor between coastal New England and the mid-Atlantic states. Headquarters offices of both community and noncommunity banks are less frequently located in the sparsely populated regions of the Western states.

A much different picture emerges, however, when looking at the geographic distribution of total banking offices in

[1] Data on total banking offices are collected annually through the Summary of Deposits (SOD), which provides a detailed record of each individual banking office, its location and total deposits, starting in 1987. The SOD covers all FDIC-insured institutions, including insured U.S. branches of foreign banks. For purposes of this study, banking offices are defined to include all offices and facilities that actually hold deposits, and do not include loan production offices, computer centers, and other nondeposit installations, such as automated teller machines.

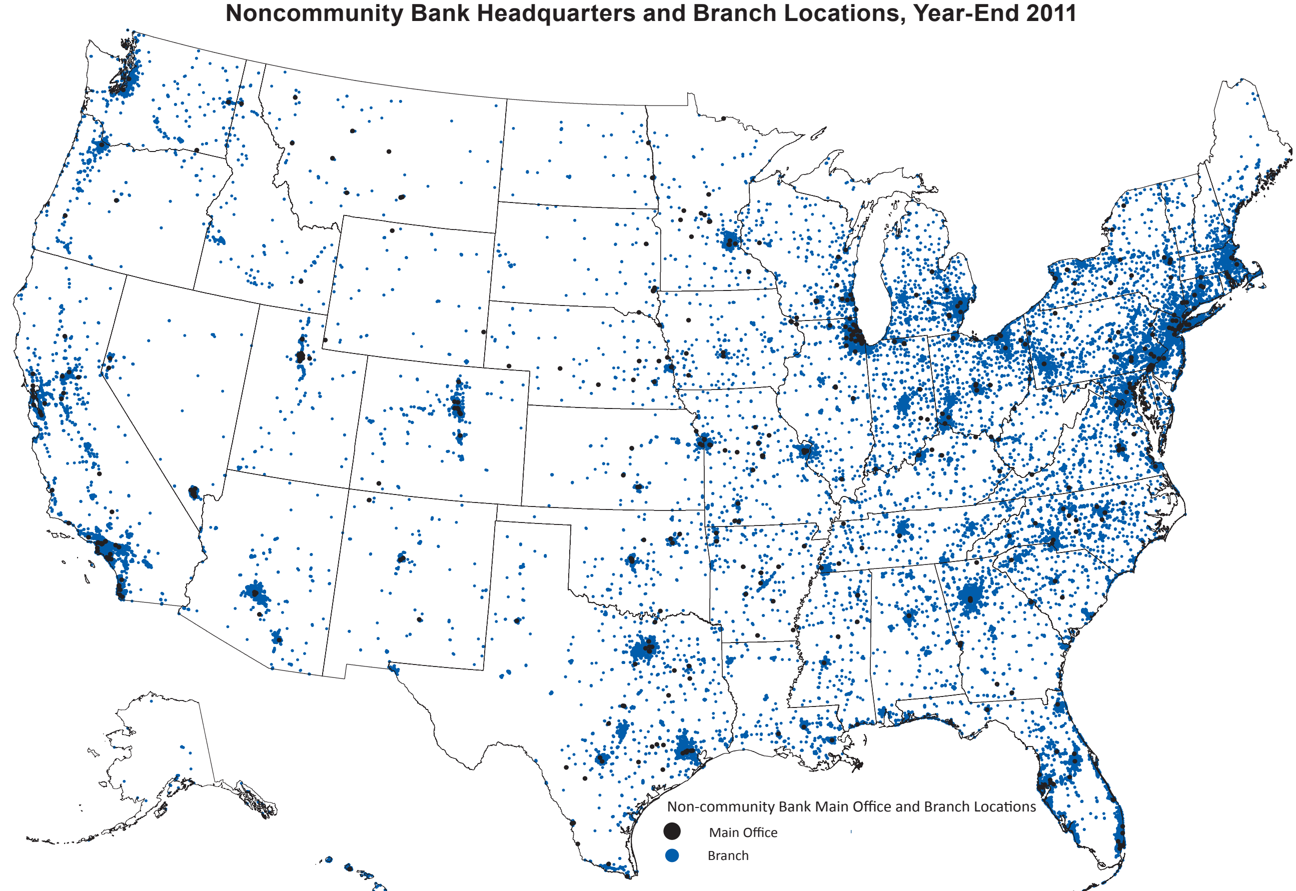
Map 3.1

Community Bank Headquarters and Branch Locations, Year-End 2011



Source: FDIC.
Note: Merger-adjusted to reflect community bank designations as of year-end 2011.

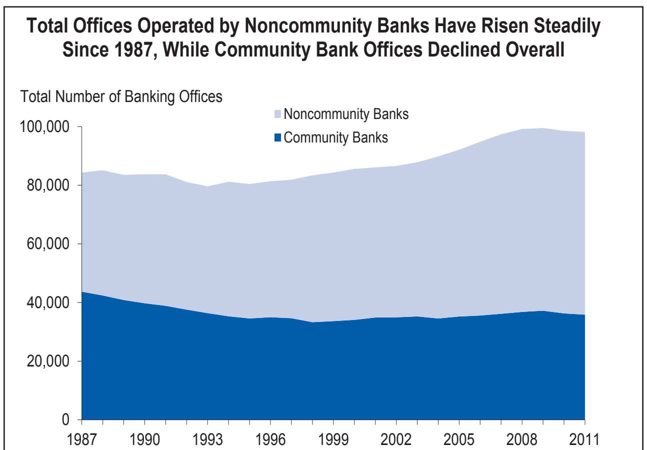
Map 3.2



Source: FDIC.
Note: Merger-adjusted to reflect community bank designations as of year-end 2011.

2011. The offices of noncommunity banks outnumber those of community banks by around 75 percent, demonstrating a physical presence far beyond their headquarters locations. Moreover, Map 3.2 shows particularly dense concentrations of noncommunity bank offices in the urban areas of not only the Northeast corridor, but also other major metropolitan areas of the upper Midwest as well as the Southern and Western states. While community bank offices are also mostly located in metropolitan areas, they also exist in large numbers outside the metropolitan areas, as discussed further below.

Chart 3.1



Source: FDIC.

While Banks Have Consolidated, Banking Offices Have Increased

Despite the large, long-term decline in the number of banks since the mid-1980s (see Chapter 2), the total number of U.S. banking offices increased from 84,202 in 1987 to 98,180 in 2011 (Chart 3.1). This growth, however, did not occur in a straight line. Total banking offices declined by nearly 5,000 between 1987 and 1993 as the number of banks declined by more than 4,100. After 1993, as industry consolidation continued, the number of banking offices began to increase, peaking at just under 100,000 in 2009 before settling at 98,180 in 2011.

Just as banking industry assets have shifted over time away from community banks and toward noncommunity banks, there has also been a shift toward noncommunity banks in their share of total banking offices (Chart 3.1). Overall, the number of community banking offices declined by 18 percent between 1987 and 2011, while the number of noncommunity banking offices increased by 53 percent.

The Geographic Footprint of Community Banks

Community banks average fewer banking offices per organization and tend to have a smaller average geographic footprint than noncommunity banks (Table 3.1). As of 2011, the average noncommunity banking organization operated more than 30 times more banking offices than the average community bank. Nonetheless, the average geographic footprint of both community and noncommunity banks has expanded over time as the industry has consolidated. The average number of banking offices per community banking organization increased by about two-thirds, from 3.3 in 1987 to 5.6 by 2010. Over the same period, the average number of banking offices per noncommunity banking organization more than doubled from 73 to 171.

Another way to express the relative size of the geographic footprint of community banks is in terms of the number of counties in which each community banking organization maintains banking offices. In 1987, 77 percent of all community banking organizations located all of their banking offices within a single county, while another 17 percent located all of their offices within a three-county area (Table 3.2). In contrast, noncommunity banks exhibited a substantially wider geographic scope, with just 26 percent locating all of their offices within a single county and another 10 percent locating their offices within two or three counties. Community institutions continued to have a narrower geographic scope than noncommunity institutions through 2011, although the disparity narrowed somewhat due to the wider geographic footprint of community banks. By 2011, fewer than one-half of community banking organizations operated in a single county, although 82 percent operated within three or fewer counties. In contrast, just 37 percent of noncommunity banking organizations operated within three or fewer counties in 2011.

Table 3.1 Banking Organizations, Charters and Offices of Community and Noncommunity Banks, 1987-2011

	Community Banks					Noncommunity Banks				
Year	Number of Banking Organizations	Number of Bank and Thrift Charters	Number of Banking Offices	Offices per Organization	Offices per Charter	Number of Banking Organizations	Number of Bank and Thrift Charters	Number of Banking Offices	Offices per Organization	Offices per Charter
1987	13,314	14,967	43,680	3.3	2.9	558	2,358	40,658	72.9	17.2
1988	12,715	14,323	42,387	3.3	3.0	570	2,237	42,724	75.0	19.1
1989	12,109	13,707	40,842	3.4	3.0	553	2,089	42,689	77.2	20.4
1990	11,582	13,150	39,745	3.4	3.0	540	2,008	44,004	81.5	21.9
1991	11,133	12,615	38,866	3.5	3.1	514	1,867	44,849	87.3	24.0
1992	10,692	12,081	37,560	3.5	3.1	475	1,772	43,537	91.7	24.6
1993	10,162	11,524	36,370	3.6	3.2	438	1,697	43,248	98.7	25.5
1994	9,612	10,925	35,291	3.7	3.2	438	1,679	45,904	104.8	27.3
1995	9,156	10,381	34,561	3.8	3.3	429	1,590	45,866	106.9	28.8
1996	8,794	10,078	34,978	4.0	3.5	414	1,376	46,388	112.0	33.7
1997	8,475	9,674	34,633	4.1	3.6	418	1,249	47,255	113.1	37.8
1998	8,098	9,206	33,281	4.1	3.6	426	1,258	50,092	117.6	39.8
1999	7,920	9,018	33,638	4.2	3.7	436	1,204	50,686	116.3	42.1
2000	7,799	8,817	34,072	4.4	3.9	450	1,087	51,489	114.4	47.4
2001	7,663	8,622	34,874	4.6	4.0	442	992	51,224	115.9	51.6
2002	7,518	8,416	34,934	4.6	4.2	450	938	51,646	114.8	55.1
2003	7,397	8,260	35,244	4.8	4.3	448	921	52,592	117.4	57.1
2004	7,246	8,045	34,548	4.8	4.3	461	931	55,301	120.0	59.4
2005	7,183	7,933	35,218	4.9	4.4	459	900	56,896	124.0	63.2
2006	7,073	7,758	35,559	5.0	4.6	454	922	59,273	130.6	64.3
2007	6,952	7,626	36,142	5.2	4.7	456	908	61,225	134.3	67.4
2008	6,835	7,446	36,785	5.4	4.9	449	859	62,400	139.0	72.6
2009	6,719	7,252	37,199	5.5	5.1	402	760	62,334	155.1	82.0
2010	6,524	7,016	36,275	5.6	5.2	390	642	62,290	159.7	97.0
2011	6,356	6,799	35,851	5.6	5.3	364	558	62,329	171.2	111.7

Source: FDIC.

Most Banking Offices Are Located in Metropolitan Areas

This study adopts the convention of dividing the 3,238 U.S. counties into two main categories: *metropolitan* (or metro) and *nonmetropolitan* (or nonmetro).[2] Metro counties, which numbered 1,168 as of 2010, are defined by being economically linked to one of the 374 U.S. *Metropolitan Statistical Areas* (MSAs), each of which encompasses an urban core with population of at least 50,000 people. Nonmetro counties can be divided into two subcategories: *micropolitan* (or micro) and *rural*. The 694 U.S. micropolitan counties are also centered on an urban core, but one with population between 10,000 and 50,000 people, while the 1,376 rural counties are defined by populations with fewer than 10,000 people. This study employs metro, micro and rural county definitions as of 2010 and applies them retroactively to prior years.

Table 3.2 Geographic Scope of Community and Noncommunity Banking Organizations' Percent of Banking Offices Within 1 to 3 Counties, 1987-2011

	Percent of Community Banking Organizations With		Percent of Noncommunity Banking Organizations With	
Year	All Banking Offices in 1 County	All Banking Offices in 2 or 3 Counties	All Banking Offices in 1 County	All Banking Offices in 2 or 3 Counties
1987	77%	17%	26%	10%
1988	76%	18%	28%	9%
1989	75%	19%	29%	9%
1990	74%	20%	30%	11%
1991	73%	21%	32%	11%
1992	72%	22%	33%	11%
1993	71%	22%	32%	13%
1994	70%	23%	33%	12%
1995	68%	24%	34%	11%
1996	66%	26%	37%	11%
1997	64%	27%	37%	11%
1998	62%	29%	36%	9%
1999	61%	29%	37%	9%
2000	59%	30%	37%	10%
2001	57%	31%	38%	9%
2002	56%	32%	37%	8%
2003	54%	33%	32%	8%
2004	54%	33%	31%	9%
2005	52%	34%	32%	8%
2006	51%	34%	31%	8%
2007	50%	35%	30%	9%
2008	49%	35%	28%	9%
2009	48%	35%	28%	7%
2010	47%	35%	27%	8%
2011	46%	36%	28%	8%

Source: FDIC.

Note: The community and noncommunity bank share of offices are merger-adjusted to each year-end.

As of 2011, over 55 percent of bank headquarters and nearly 78 percent of all banking offices were located in metro counties (Table 3.3). As large as they are, these concentrations of banking activity in metro counties still fall short of the metro share of U.S. population and economic output. Almost 84 percent of the U.S. population resided within metropolitan statistical areas in 2011, and an estimated 88 percent of U.S. Gross Domestic Product (GDP) also originated there.

In Relative Terms, Community Banks Are More Likely to be Located in Nonmetro Areas

Despite this overall tilt in the location of banking offices toward metro areas, community banks are more likely to locate their headquarters and banking offices in nonmetro areas than are noncommunity banks (see Table 3.4). As of 2011, 53 percent of community banks were headquartered within metro counties, compared with 85 percent of noncommunity banks. Some 62 percent of the banking offices operated by community banks in 2011 were located within metro counties, compared with 87 percent of noncommunity banking offices. In all, community banks were almost three times more likely than noncommunity institutions to locate their offices in a nonmetro area in 2011, and were four times more likely to operate offices in rural counties. These percentages have remained remarkably constant over time, reflecting longstanding differences in office location between community and noncommunity banks.

[2] These designations are based on definitions for county equivalents made by the U.S. Office of Management and Budget (OMB) using Census Decennial population data. While most of the United States is divided into counties, not all of it is (for example, Louisiana has parishes). For administrative purposes, the government allocates all jurisdictions not in counties into county equivalents. In this study, the FDIC combines counties and county-equivalents and refers to them as counties to encompass all U.S. states and major territories, including American Samoa, Federated States of Micronesia, Guam, Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

Table 3.3 2011 Share of Economic Output, Resident Population, Bank Headquarters and Total Banking Offices in U.S. Metro, Micro and Rural Counties

	Share of 2011 Total:			
	Real Economic Output	Resident Population	Bank Headquarters	Banking Offices
Metropolitan Counties	87.6%	83.8%	55.2%	77.5%
Micropolitan Counties	7.9%	10.0%	18.9%	11.9%
Rural Counties	4.4%	6.2%	26.0%	8.7%

Sources: FDIC, U.S. Census Bureau, U.S. Bureau of Economic Analysis, Moody's Analytics.

Table 3.4 Percent Share of Community and Noncommunity Bank Headquarters and Total Banking Offices Located in Metro and Nonmetro Counties, 1987-2011

	Community Banks				Noncommunity Banks			
	Headquarters		Total Banking Offices		Headquarters		Total Banking Offices	
Year	Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro	Metro	Nonmetro
1987	54%	46%	66%	34%	80%	20%	87%	13%
1988	54%	46%	66%	34%	77%	23%	87%	13%
1989	54%	46%	66%	34%	77%	23%	87%	13%
1990	53%	47%	65%	35%	78%	22%	87%	13%
1991	53%	47%	64%	36%	78%	22%	87%	13%
1992	53%	47%	64%	36%	78%	22%	86%	14%
1993	53%	47%	63%	37%	75%	25%	86%	14%
1994	52%	48%	63%	37%	74%	26%	85%	15%
1995	52%	48%	62%	38%	76%	24%	85%	15%
1996	51%	49%	62%	38%	77%	23%	86%	14%
1997	51%	49%	61%	39%	79%	21%	85%	15%
1998	51%	49%	60%	40%	77%	23%	85%	15%
1999	51%	49%	60%	40%	80%	20%	85%	15%
2000	52%	48%	61%	39%	81%	19%	85%	15%
2001	52%	48%	61%	39%	85%	15%	85%	15%
2002	52%	48%	61%	39%	85%	15%	85%	15%
2003	52%	48%	61%	39%	85%	15%	86%	14%
2004	52%	48%	60%	40%	84%	16%	86%	14%
2005	52%	48%	61%	39%	86%	14%	86%	14%
2006	52%	48%	61%	39%	85%	15%	87%	13%
2007	53%	47%	61%	39%	85%	15%	87%	13%
2008	53%	47%	62%	38%	85%	15%	87%	13%
2009	53%	47%	62%	38%	86%	14%	87%	13%
2010	53%	47%	62%	38%	84%	16%	87%	13%
2011	53%	47%	62%	38%	83%	17%	87%	13%

Source: FDIC.

Note: The community and noncommunity bank share of headquarters and offices are merger-adjusted to each year-end.

While noncommunity banks have adeptly located in metropolitan areas that have the greatest concentrations of population and economic activity, community banks are prevalent in both metro and nonmetro areas. As a result, while most metro areas tend to be well-served by institutions with a variety of business models, many nonmetro (and a surprising number of metro) areas tend to rely much more heavily on community banks as their lifeline to mainstream financial services. In 2011, there were 629 U.S. counties, with just over 6 million in population, where community banks operated offices, but where no noncommunity banking offices were present. Three-quarters of these counties were rural, but 14 percent were part of metropolitan areas. There were another 639 counties where community banks operated offices but where fewer than three noncommunity banking offices were present. Some 71 percent of these counties were rural, and another 16 percent were metro counties. Taken together, these data point to more than 1,200 U.S. counties (out of a total of 3,238), encompassing 16.3 million people, who would have limited physical access to mainstream banking services without the presence of community banks.

Deposit Market Shares Are Declining for Community Institutions

Consistent with their declining share of banking industry assets, Table 3.5 depicts a parallel long-term decline in the community bank shares of banking offices and total deposits. In 1987, the first year for which data are available at this level of detail, community banks operated 52 percent of U.S. banking offices and held 41 percent of industry deposits. By 2011, the community bank share of offices had declined by more than one-quarter, while their share of industry deposits had fallen by more than one-half. The decline was particularly evident in the metro counties, whereby 2011 community banks operated just 29 percent of banking offices and held 15 percent of deposits. In contrast, the community bank shares were more stable in micro and rural counties (Chart 3.2), where community banks still held a larger share of offices and deposits than noncommunity banks in 2011. The nation's rural areas continue to be dominated by community banks, where community banks have more than 70 percent of both offices and deposits. While this analysis does not necessarily capture banking transactions that may be conducted remotely with community or noncommunity banks, it does

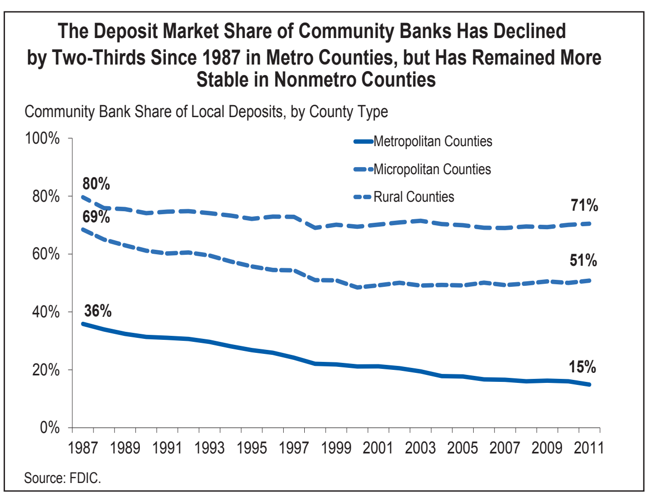
Table 3.5 Community Bank Share of Banking Offices and Total Deposits Located in Metro, Micro and Rural Counties, 1987-2011

Year	Community Bank Share of Banking Offices, by County Type (Percent)				Community Bank Share of Total Deposits, by County Type (Percent)			
	Metro	Micro	Rural	Total Share	Metro	Micro	Rural	Total Share
1987	44.9%	68.1%	81.0%	51.8%	35.9%	68.5%	79.7%	40.9%
1988	43.1%	66.3%	78.8%	49.9%	33.9%	65.0%	75.9%	38.7%
1989	42.3%	65.5%	78.7%	49.2%	32.4%	63.0%	75.5%	37.2%
1990	40.7%	64.3%	77.6%	47.8%	31.4%	61.2%	74.1%	36.2%
1991	39.7%	63.7%	77.9%	46.9%	31.1%	60.2%	74.7%	36.0%
1992	38.8%	63.6%	77.5%	46.3%	30.7%	60.5%	74.8%	35.8%
1993	38.3%	62.1%	76.1%	45.8%	29.7%	59.5%	74.1%	35.0%
1994	36.1%	59.7%	74.7%	43.6%	28.1%	57.4%	73.3%	33.4%
1995	35.3%	58.9%	74.2%	42.9%	26.8%	55.7%	72.1%	32.2%
1996	35.2%	59.5%	75.2%	42.9%	25.9%	54.5%	72.9%	31.3%
1997	34.3%	59.1%	74.4%	42.2%	24.2%	54.3%	72.8%	29.8%
1998	32.0%	56.5%	72.1%	39.8%	22.1%	51.0%	69.0%	27.4%
1999	31.9%	56.6%	72.2%	39.8%	21.9%	50.9%	70.1%	27.3%
2000	32.1%	56.4%	71.3%	39.8%	21.2%	48.4%	69.5%	26.3%
2001	32.8%	57.5%	71.6%	40.5%	21.2%	49.2%	70.2%	26.3%
2002	32.5%	58.0%	72.2%	40.3%	20.6%	50.1%	70.9%	25.7%
2003	32.1%	58.2%	72.7%	40.1%	19.4%	49.1%	71.5%	24.4%
2004	30.4%	57.2%	71.9%	38.4%	17.8%	49.3%	70.4%	22.7%
2005	30.3%	57.3%	71.7%	38.2%	17.7%	49.2%	70.0%	22.3%
2006	29.7%	56.7%	71.6%	37.4%	16.7%	50.1%	69.1%	21.3%
2007	29.4%	56.6%	71.6%	37.1%	16.6%	49.3%	69.0%	21.2%
2008	29.5%	56.4%	71.8%	37.1%	16.0%	49.8%	69.5%	20.7%
2009	29.9%	56.5%	71.4%	37.4%	16.2%	50.5%	69.3%	20.7%
2010	29.4%	55.8%	70.7%	36.8%	16.0%	50.0%	70.1%	20.6%
2011	29.0%	55.8%	70.5%	36.5%	14.9%	50.8%	70.5%	19.4%

Source: FDIC. Based on 2010 county designations made by the U.S. Office of Management and Budget.
Note: The community bank share of deposits and offices are merger-adjusted to each year-end.

show that community banks continue to maintain an important physical presence in nonmetro areas.

Chart 3.2



Noncommunity Banks Have Gravitated Toward the Fastest-Growing Metro Areas

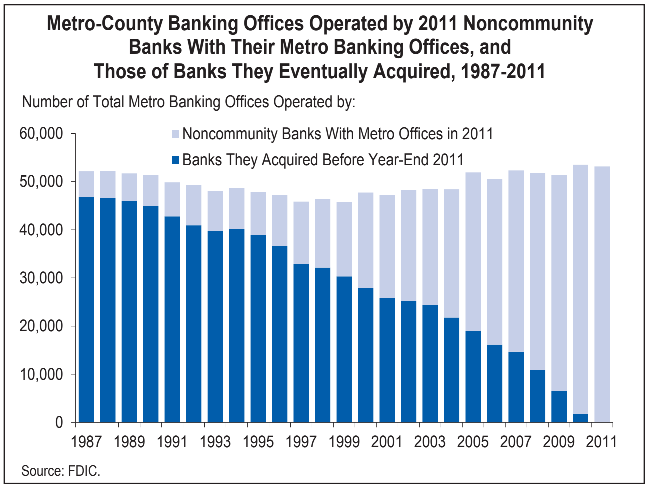
Metro counties have experienced significantly faster rates of growth in population and economic output compared with nonmetro counties over the past 27 years (Table 3.6). In terms of economic output, U.S. metro counties have grown at a compound annual rate of 2.6 percent over this period, compared with 2.4 percent for micropolitan counties and 2.2 percent for rural counties. While these differences in annualized growth rates may not seem large, they add up to a difference of 11 percentage points in total growth between metro and rural economies over the entire 27-year period. Although total population grew slower than the economy in all three county types, metro counties

Table 3.6 Compound Annual Rates of Growth in Economic Output and Resident Population, 1984-2011 U.S. Metro, Micro and Rural Counties

	Compound Annual Rate of Growth, 1984-2011:	
	Economic Output	Resident Population
Metropolitan Counties	2.6%	1.2%
Micropolitan Counties	2.4%	0.6%
Rural Counties	2.2%	0.2%

Sources: FDIC, U.S. Census Bureau, U.S. Bureau of Economic Analysis, Moody's Analytics.

Chart 3.3



grew in population twice as fast as micropolitan counties and six times faster than rural counties over this period. The highly disparate rate of population growth between metro and rural counties added up to a difference of 33 percentage points in the total population growth between these two groups over the 27-year period.

These disparities in long-term growth rates between metro and nonmetro areas point to greater opportunities for growth on the part of banks that do business in metro areas. In fact, banks headquartered in metro areas in 2011 that also operated in 1984 grew more than twice as fast over that interval as similar banks headquartered in nonmetro areas. The ability of noncommunity banks to expand their presence in metro areas through new charters and by acquisition appears to have significantly enhanced their ability to grow over the long term. Almost 95 percent of the new noncommunity charters that entered the industry during the study period were headquartered in metro areas, compared with 84 percent of new community bank charters. Meanwhile, the vast majority of metro offices operated by noncommunity banks in 2011 had been acquired by those banks through a previous merger. Chart 3.3 shows the total metro-area banking offices operated by noncommunity banks in 2011, as well as the metro banking offices operated in prior periods by these same banks and by banks they would acquire by 2011. While the total number of metro banking offices operated by these noncommunity banks grew nearly tenfold between 1987 and 2011, virtually all of this growth came about through acquisition.

The migration of noncommunity banks toward areas of rapid economic growth is particularly evident in some of

Table 3.7 Fastest Growing U.S. Metropolitan Areas, 1985-2011 With 2011 Population Over 1 Million

Metroplitan Area	Total Population Growth 1985-2011	Total Resident Population 2011 (thou.)
Las Vegas-Paradise, NV	251%	1,970.0
Raleigh-Cary, NC	149%	1,163.5
Austin-Round Rock, TX	135%	1,783.5
Riverside-San Bernardino-Ontario, CA	127%	4,305.0
Phoenix-Mesa-Scottsdale, AZ	121%	4,263.2
Orlando, FL	118%	2,171.4
Atlanta-Sandy Springs-Marietta, GA	100%	5,359.2
Charlotte-Gastonia-Concord, NC-SC	93%	1,795.5
Dallas-Fort Worth-Arlington, TX	81%	6,526.5
Sacramento--Arden-Arcade--Roseville, CA	74%	2,176.2
Houston-Baytown-Sugar Land, TX	67%	6,086.5
Nashville-Davidson--Murfreesboro, TN	67%	1,617.1
San Antonio, TX	67%	2,194.9
Jacksonville, FL	64%	1,360.3
Portland-Vancouver-Beaverton, OR-WA	63%	2,262.6
Denver-Aurora, CO	60%	2,599.5
Salt Lake City, UT	56%	1,145.9
Miami-Fort Lauderdale-Miami Beach, FL	56%	5,670.1
Seattle-Tacoma-Bellevue, WA	55%	3,500.0
Washingtn-Arlingtn-Alexandria, DC-VA-MD-WV	53%	5,703.9
Tampa-St. Petersburg-Clearwater, FL	50%	2,824.7

Source: FDIC.
Note: Calculations based on Census data.

the fastest-growing U.S. metropolitan areas. Table 3.7 lists 21 large U.S. metropolitan areas, encompassing around 21 percent of 2011 U.S. population, that experienced the fastest population growth between 1985 and 2011. Between 1987 and 2011, these metro areas accounted for 36 percent of the net increase in U.S. banking offices. What was most remarkable about the changes in the banking structure of these metro areas was the extent to which noncommunity banks increased their share of both the banking offices and deposits located there. In 1987, noncommunity banks operated just 62 percent of total banking offices in these markets (with 69 percent of total deposits), and by 2011 their share of offices had grown to 80 percent and their share of total deposits had risen to 90 percent.

New charters and acquisitions have been very important in reshaping the mix of community and noncommunity banks in these fast-growing markets. Of all institutions headquartered in these fast-growing markets at year-end 2011, fully two-thirds of both the community and noncommunity banks were chartered sometime after 1984. The 111 noncommunity banks headquartered in these markets in 2011 made up 16 percent of the fast-growing market banks, but they held \$2.8 trillion in assets, or 93 percent of the assets of all banks headquartered in these fast-growing markets. As described previously, acquisition was a critical factor in the growth of noncommunity banks in these

Rural Depopulation Continues to Limit the Growth Potential for Some Community Banks

The 2010 Census data made it possible to update the FDIC's 2004 analysis of rural population trends and the implications for banks headquartered in rural areas. Based on the 30-year comparisons made in the 2004 study, the new Census data show that 50 percent of U.S. rural counties lost population between 1980 and 2010, compared with 38 percent between 1970 and 2000.[1] In addition, there has been a marked increase in the number of rural counties labeled as "accelerated declining" because of the quickening pace of their population decline. As of 2010, there were 272 "accelerated declining" rural counties, or nearly double the 2000 total of 142 counties (see Map 3.3).

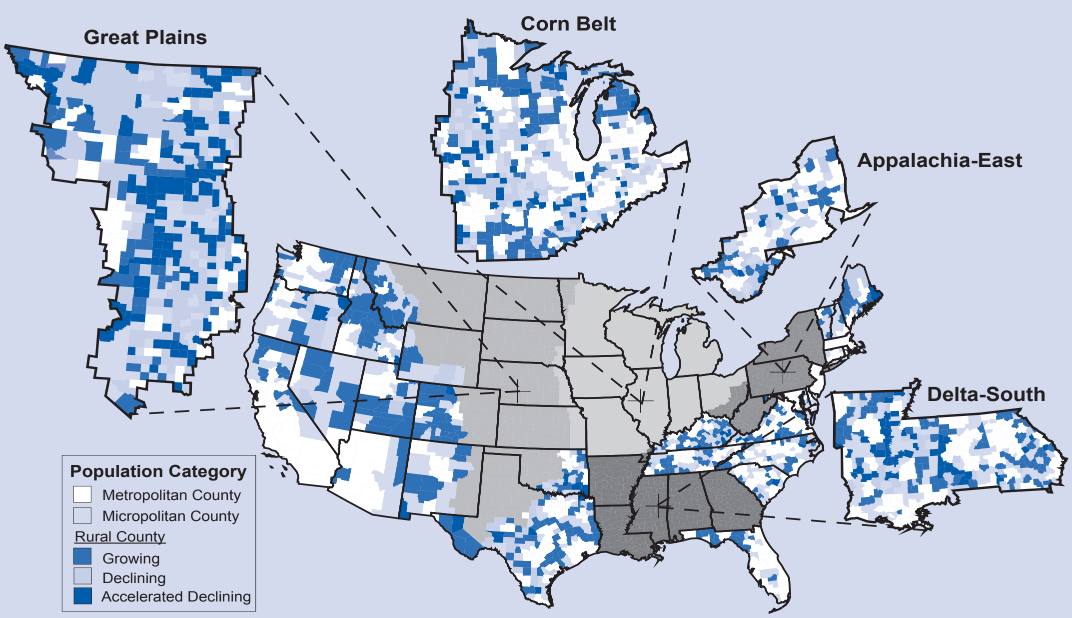
As Map 3.3 shows, the Great Plains has the largest share of rural counties reporting declining population and those with accelerating population declines. Over 86 percent of the rural counties in the Great Plains faced such declines, by far the most rapidly depopulating of the four depopulating regions in the country. At the same time, the Delta-South and Corn Belt areas also saw decline in population trends over the last decade, as previously growing counties began to lose population or previously declining counties experienced acceleration in population loss. In the four depopulating areas, only a small minority of counties showed a substantial increase in population trends over the decade.

Depopulation continues to have a pronounced effect on the age distribution in many rural counties. Compared with growing U.S. counties, depopulating rural counties tend to experience a "pinched" age distribution among those aged 20-45, reflecting out-migration among young adults seeking better opportunities in other places. The departure of people entering their prime working years can place fiscal pressure on local governments coping with an aging population, and the absence of recent college graduates may deprive local businesses and governments of the skilled, young workforce necessary to grow. To the extent that these trends reduce the vitality of the area over time, the dynamics of out-migration and depopulation can become self-reinforcing.

Besides the effects on overall economic growth in these regions, these demographic trends pose a direct challenge to the ability of community banks to attract and retain qualified staff, management, and officers. Nonetheless, it appears that many banks are successfully dealing with the problem of succession planning. A 2012 supervisory review of banks in the FDIC's Kansas City Region found that an officer who was 55 years of age or younger led nearly one-half of the community banks in rural depopulating areas reviewed, while just one in five banks was led by an officer who was 65 or older. While two-thirds of banks reviewed

Map 3.3

Depopulation Continues to Affect Rural Counties in Four Distinct U.S. Regions



Source: U.S. Census Bureau.
Notes: The 2010 U.S. Census Population compared with the 1980 U.S. Census Population and the 2010 U.S. Office of Management and Budget Metropolitan and Micropolitan Statistical Area county classifications. Rural is FDIC-defined as those counties not designated by the U.S. Office of Management and Budget as part of a Metropolitan or Micropolitan Statistical Area. Rural county classifications for the 2012 study: *Growing*—the population increased between 1980 and 2010, *Declining*—population declined between 1980 and 2010; *Accelerated declining*—population declined between 1980 and 2010, and the rate of decline between 2000 and 2010 worsened from the previous two decades.

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[1] These figures refer to rural counties as defined by the U.S. Office of Management and Budget as of 2010, a definition that this study applies retroactively to previous years.

maintained a satisfactory succession plan, a majority also had an ownership structure that was closely tied to current senior management. These situations pose the greatest risk that the retirement of current executives could necessitate the sale of the bank, if a qualified successor cannot be found.

Despite these demographic challenges, FDIC-insured institutions in depopulating regions continued to perform relatively well. There were 1,091 community banks headquartered in U.S. depopulating rural counties at the end of 2011. While these banks tend to be small, they represent about 16 percent of all community banks. The 2004 study focused on the Great Plains and found that earnings ratios and rates of long-term consolidation were similar between community banks in the rural Great Plains and other rural areas, while Great Plains banks reported comparatively lower rates of growth in total assets, loans and deposits than their metro-based counterparts. The update of this analysis, covering the decade from 2001 through 2011, encompasses depopulating rural areas across the entire Unted States. As in the 2004 study, growth rates for assets, loans and deposits were lower among depopulating rural institutions than their metro counterparts from 2001 through 2007. From 2007 through 2011, however, metro bank growth rates dropped below those of depopulating rural banks. Growth rates for community banks in depopulating rural counties were similar to those of community banks located in growing rural counties; by contrast, the 2004 study found that institutions in growing rural counties had an advantage. As in the 2004 study, consolidation patterns among rural banks in depopulating rural counties were similar to those in metro and micro counties.

Updated analysis shows that community banks located in depopulating rural counties reported lower pretax returns than community banks located in growing rural areas from 2001 through 2007 but reported higher earnings over the past four years. Earnings at community banks located in depopulating rural areas exceeded those in metro-based community banks across all time periods. Asset quality at community banks located in depopulating rural areas was not as strong as metro-based community banks from 2001 through 2007, but those institutions again fared better from 2008 through 2011.

The recent performance success of depopulating rural banks relative to other institutions owes much to their dependence on agriculture. Some 47 percent of community banks in depopulating rural counties are agricultural lending specialists, compared with 11 percent in growing rural counties and only 4 percent in metro counties. The agricultural sector has been strong in recent years, even while the nation entered and slowly exited a serious recession. In inflation-adjusted dollars, five of the best years for U.S. net farm income in the past half century have occurred since 2004. In addition, the adoption of new technologies for extracting oil and gas led to a new energy boom and even in-migration to a number of depopulating rural counties, most notably in western North Dakota, where previous depopulation trends had been severe.

On the whole, however, the demographic forces that have contributed to rural depopulation and slow growth for rural community banks do not appear likely to reverse in the near term. Community banks doing business in depopulating areas continue to find ways to cope with these challenges and serve the needs of local businesses and households for which they may be the only link to mainstream financial services. While rural depopulation does not immediately threaten the survival of rural community banks, it does place limits on their long run growth potential.

markets. Since 1984, noncommunity banks headquartered in these fast-growing markets had directly acquired 375 institutions with $1.5 trillion in assets and had indirectly acquired another 1,558 charters.

This example illustrates the process by which noncommunity banks have been able to alter their geographic footprint over time and come to dominate many of the fastest-growing metro areas. While new community banks have continued to be chartered in these same metro markets (more than 1,000 new community banks were chartered after 1984 in these 21 fastest-growing large metro areas alone), as a group they have lost market share as total assets and deposits have risen much faster at noncommunity banks.

Community Banks Predominate in Nonmetro Areas Where Growth Is Slow or Negative

In contrast to noncommunity banks' dominance in metro areas, community banks hold a much stronger competitive position in nonmetro counties. Table 3.4 shows that community banks not only hold a majority share of offices and deposits in micro and rural counties, but that their share has been very stable over the past decade. The downside of this trend is that growth in population and economic output has been slower in these nonmetro areas than in the metro areas where noncommunity banks and offices have proliferated. This slower rate of growth in nonmetro counties tends to limit the growth opportunities available to community banks.

The disparity in growth between metro and nonmetro counties is most pronounced among rural counties. A 2004 FDIC study examined rural depopulation at the county level between 1970 and 2000, identifying 662 rural counties as “declining” or “accelerating declining” in terms of long-term population trends.[3] Over 90 percent of these declining rural counties were located in four distinct geographic regions—the Great Plains, the Corn Belt, the Delta-South, and Appalachia-East—where a heavy reliance on agriculture or mining had contributed to significant declines in total employment over time. Despite these challenges and the lack of opportunity for growth, the 2004 study found that banks headquartered in depopulating rural areas performed comparably to other rural banks in terms of their rate of charter consolidation and most indicators of financial performance.

New Census data showed that the long-term trend of rural depopulation in these regions continued and, in certain respects, intensified between 2000 and 2010. (See the inset box). At the same time, high commodity prices and strong export demand boosted the fortunes of agricultural producers and other commodity-based businesses, helping to offset the effects of declining rural populations. Some of the economic and demographic challenges faced by depopulating regions appear likely to continue in the future. While community banks located in rural areas appear to still perform well, their long-term growth potential will likely remain lower than for banks located in metropolitan markets.

Summary

Community banking is defined to a substantial degree by geography. Community banks have fewer banking offices on average and occupy a smaller geographic area than noncommunity banks, but their geographic reach has expanded somewhat over time. While most banking offices are located in metro areas, community banks are more likely than noncommunity banks to operate offices in nonmetro areas, where, in many cases, they continue to hold a dominant share of total deposits. Community banks are especially important to rural and other nonmetro counties and conduct business in more than 1,200 counties—more than a third of all U.S. counties—where few, if any, noncommunity banks choose to operate.

Overall, deposit market shares have risen over time for noncommunity banks, particularly in the nation’s metropolitan areas. Noncommunity banks have been able to dramatically increase their presence in fast-growing metro counties through new charters and especially, in many cases, the acquisition of existing banks. Growth and consolidation in these markets have also created opportunities for community banks, but to a lesser extent. In contrast, the nonmetro areas where community banks generally retain a larger market share have grown more slowly or even declined in population. While these economic and demographic challenges do not appear to be adversely affecting financial performance or leading to higher rates of consolidation among nonmetro community banks, they do appear to limit growth opportunities.

[3] Anderlik and Walser (2004) categorized declining counties as those that lost population over the 30-year study period and accelerated declining counties as those that not only lost population, but did so more rapidly toward the end of the period.