FDIC PODCAST
SPECIAL SERIES
Banking on Inclusion

Banking in Rural America

BRIAN SULLIVAN: Hey, welcome back to another in our special series of the FDIC Podcast we call 'Banking on Inclusion.' I'm Brian Sullivan with the Federal Deposit Insurance Corporation. Today, we continue a conversation we've been having along with the National Bankers Association about access to credit and the role minority banks play in meeting the financial needs of people and places where, if not for these banks, there may not be a bank at all.

Today, we look at the particular needs of those living in rural parts of our country…places where the physical presence of a bank takes on added importance. A quick housekeeping note—any opinions expressed here may not necessarily reflect those of the FDIC.

Well, you've heard us on this podcast talk about 'mission-driven banks' or financial institutions with a purpose to serve those communities that may be underserved. And among those places…rural communities.

We'll be joined by a couple of people on the front lines of providing that access to capital in rural America. But first, let us welcome back to the FDIC Podcast, Nicole Elam. Nicole is President and Chief Executive of the National Bankers Association, a nearly century old organization representing the nation's minority financial institutions. Welcome back Nicole!

NICOLE ELAM: Thank you for having me, Brian. Good to be back.

BRIAN SULLIVAN: When you hear about banking in rural America, what comes to mind? Is it a market opportunity for banks to expand into the hinterland, or is that a challenge given that many of these communities we'll be talking about are effectively located in banking deserts?

NICOLE ELAM: You know, that is a great question. When I think about rural banking in America, I think about the unique banking needs of the community. In fact, that's what distinguishes mission-driven community lenders from big banks. They're focused on the unique needs of that community. So whether rural or urban, black or brown, indigenous, unbanked, underbanked underinvested….It all goes back to the unique banking needs, which I know we're going to jump right into.

BRIAN SULLIVAN: But from where you sit, what are those particular banking needs in rural communities?

NICOLE ELAM: You know, no rural community is the same. But there are some unique qualities about the banking needs in rural communities and one big, unique role or unique thing is *how* they bank, which you alluded to at the start of this podcast. Rural Americans depend on physical bank branches and smaller banks to bank. And I know we're going to talk more about that. And I think a key reason why they bank in physical bank branches is because of the demographics.

When you think about rural America, they tend to be older in rural versus urban America as the rates of poverty are higher in rural areas compared to urban areas. And despite the population shrinkage, which we've seen and this most recent census data, rural America is becoming more racially and ethnically diverse. And so I think *how* they bank, being in branches, is really driven by their demographics.

But I think another unique thing about the banking needs of rural communities is around credit. You know, rural Americans are less likely to have a credit history. And so if you were to plug them in to a large bank's algorithm, their credit needs aren't going to be met. And so rural consumers without credit histories have a much more difficult time accessing credit, particularly when they need it most, such as to fill a short-term income gap or to recover from a natural disaster or to seek new opportunities. And so because they're less likely to have credit histories, they're more likely to seek and use credit from non-banks. And as a result, rural consumers are paying more for their credit, given where they're seeking it from. And so, in short, credit and capital doesn't tend to be as affordable for rural America.

BRIAN SULLIVAN: Is the absence of a bank more keenly felt in rural parts than in, say, cities or suburbs?

NICOLE ELAM: Absolutely. You know, the absence of a bank is more keenly felt in rural areas than in cities or suburbs. And I think it's for three main reasons. One, they're more likely to depend on bank branches. Two, they're less likely to have those branches closed and so, as a result, they're having to travel further for them. And three, they're less likely to use Internet banking or have access to Internet banking.

And so, as I mentioned, rural Americans depend on physical bank branches and on smaller banks. In 2019, pre-pandemic, you saw nearly nine-in-ten rural households were visiting a bank branch…so they were going into the bank branch. And that's despite the fact that many of these rural communities lack access to a physical branch, meaning they're going into a bank branch that they may have to travel further to get to. And so when there's lack of access to physical branches, it means that they are relying more on phone conversations or online resources, which becomes even *more* of a problem in rural areas that may not have access to spectrum or broadband. And so all of these things are really compounded.

BRIAN SULLIVAN: Well, Nicole, we're going to get into this with our two bankers coming up. I just want to thank you so much for touching base with us and returning to the FDIC Podcast. It's really always a pleasure. Thank you so much.

NICOLE ELAM: Thank you for having me.

BRIAN SULLIVAN: Well, now let's turn to two bankers who indeed work to bring access to capital and credit into rural America. **Donna Gambrell** leads Appalachian Community Capital, a group of more than 30 CDFIs located across the Appalachian region. And **Kent Curtis**, president and CEO of First Southwest Community Bank, based in rural Colorado.

So, Donna, let's begin with you. What are the differences that borrowers experience accessing capital in rural communities versus cities and suburbs?

DONNA GAMBRELL: So, Brian, in a lot of cases, what you'll see is that there are similarities in the challenges that borrowers in both urban and rural markets face. But there are some distinctions, I think, in rural communities. First of all, and I'm thinking specifically of Appalachia, where you have seen decades of underinvestment or un-investment in those states that comprise Appalachia, which is all of West Virginia and portions of 12 other states.

And because of that underinvestment, it has been particularly challenging for small businesses to access affordable capital. You have within rural communities not the same level of infrastructure that you might have in urban markets. So you don't have the national banks necessarily in Appalachia or the national foundations. You don't have the same level of infrastructure. And therefore, it becomes even *more* difficult for small business owners to find institutions or organizations that are willing, frankly, to put in capital, to invest in capital in them simply because they don't exist in the region itself.

You also have geographies where, you don't have communities that are necessarily physically close together. There is a great distance between one community and another. So you don't have, for example, banks on every corner or branches on every corner if there are institutions. People often have to travel long distances to even get to banks. And so it leaves not a lot of options and a lot of choices for people who are living in rural communities as it relates to finding affordable capital.

BRIAN SULLIVAN: Yeah. Kent, do you feel the same way? What are the unique needs of those in the communities you serve?

KENT CURTIS: I'd say it's very similar to what Donna mentioned. You know, big picture wise, we also don't have national banks in our markets. As a matter of fact, we have a market where we're the *only* bank and it actually has to close over the lunch hour. So they have two in control and they both employees says we have two employees in that room. They go to lunch and the town knows not to go down there at that time. But, you know, big picture wise, where we do have a national bank in our market, it was through an acquisition. And I think that's a problem in rural America, is that a lot of times during those acquisitions, the capital leaves the rural community goes to maybe an urban area where it can be deployed faster at more of a profit, too. So, to me, there's a depletion of capital in rural America, kind of based on the current banking model and as well…but I would add that I think fintechs are trying to maybe fill that and make capital available in rural parts, but generally it costs more. And they don't they don't have a full understanding of the local community because they're a fintech and they're doing it through a computer so I think I think there's a couple of problems.

BRIAN SULLIVAN: Last March, the FDIC noted that we, as a nation, lost more than 2,500 deposit-taking bank branches last year and 18,000 over the last decade. What does it mean…and I'll throw this out to the both of you… and maybe Kent will begin with you….what does it mean when a rural community loses what might be the only bank in town?

KENT CURTIS: Well, access to capital, obviously, as well as any kind of initiative to keep that community thriving or moving forward, at least, they usually take a step back, actually. You know, we work on that. We try to make sure that our communities, our rural communities, which a lot of times we're, like I mentioned, sometimes we're the only bank in that community. We want to make sure that we're supporting especially small business, because small business helps create jobs and create wealth. So, yeah, it's a problem.

BRIAN SULLIVAN: How about you, Donna?

DONNA GAMBRELL: I agree totally. I mean, again, in Appalachia, what you have our folks with a very strong entrepreneurial spirit. You oftentimes have small businesses leading the way, being the anchor in many communities that attract housing, that attract other types of businesses.

If those small businesses, which are really the backbone of the community, aren't able to get access to that capital, then it affects the entire community. And I think what happens, too, is that when you lose that bank I mean, I worked for the FDIC for almost 20 years. I understand the importance of banks and banking, in particular in communities. And I think when you lose that bank, you lose a lot. So you have CDFIs certainly that have stepped into the breach. In many cases in these communities. But most of those CDFIs are loan funds, are nonprofit loan funds. They're not depository institutions. And so in many ways they have limitations because they cannot take a customer and move that customer into a banking relationship because the bank is no longer there.

And that really is one of the roles of a CDFI. We are kind of the onramp and the bank of the highway. So we love, you know, working with customers. We love helping those customers grow. But always with the idea that those customers are actually going to move into a banking relationship and begin to even build further their assets, build generational wealth, finance small businesses even more, finance education, buy homes and all of that. Without a bank there, which can be a wonderful complementary partner to a CDFI, it becomes even more difficult.

BRIAN SULLIVAN: What do each of you see as the number one challenge, maybe the number one opportunity that you see for institutions like yours? Donna, you first.

DONNA GAMBRELL: Well, I think this is you know, we talk about this being a moment in time for CDFIs. We saw that when the Paycheck Protection Program was underway and banks were turning to CDFIs to work with them to bring their customers on board and get through the process of getting guarantees through SBA for their small businesses. Brian I've been doing this for a long time, it's probably the first time in my career that I saw people really pay attention to the CDFI industry and say, “Oh, okay, wait a minute, there's a whole other group of folks out there that are doing this work and it's important work that they're doing.” So I do think we have to take advantage of this moment. We're seeing not only great visibility, we're seeing funding in the form of funding through Treasury, not only to CDFI banks and MDIs , but also to loan funds as well through separate programs either coming from Treasury directly or through the CDFI Fund by way of Treasury. And so for us, it really is looking at ways in which we can continue to have impact and to have sustainable impact. And so that's a great opportunity.

The challenge of that is that whenever you have any sort of capital coming into an organization, you have to make sure that it's going to be long-term capital. So oftentimes and again, I see this in rural communities, but I suspect that it happens in urban markets as well, investors or funders will come in and they'll say, “Oh, we love what you're doing. Let us fund for a couple of years.” Well, community and economic development take a whole lot longer than a couple of years. And so I tell people all the time, my mantra is, we need long-term, low-cost, sustainable capital, patient capital, that allows us in especially in places like Appalachia, to be able to take that capital, use it, recirculate it, keep it going multiple times, in order to really have impact within the community where you really start to see transformational change and that community.

BRIAN SULLIVAN: Kent, do you find that this is also a moment in time for your institution?

KENT CURTIS: Most definitely, especially given the numbers you just quoted, Brian, about the loss of banking institutions and branches in rural America. So if we go with that premise that that's good, that is a problem, then, yes, it's a moment in time in time right now. And interestingly, just a little background. I met Donna 10 years ago at my first CDFI event and we had some conversations about CDFI loan funds and how they can help. And so the model that we have at First Southwest Bank actually is we have a CDFI bank and we established an affiliated nonprofit that is not CDFI but acts very much like a CFI and brings funds, non depository funds, to the communities we serve. So it's actually the model that Donna’s kind of describing there.

And this moment in time with the influx of capital from organizations who have certain missions aligned with us… has really helped us allow community because we share that with the other community banks and in a collaborative way, it's allowed us to help community banks become even better community banks as kind of a facilitator of these funding sources and these programs through our nonprofit as well as the CDFI Bank to fulfill our mission in rural parts.

BRIAN SULLIVAN: Well, you both pointed to this being that moment in time where there may be opportunity out there. So I know this is a big question, but and I'll put it to you both. Kent, you first. Are you bullish or are you bearish on the future of banking in rural America?

KENT CURTIS: Well, yeah, being a CDFI and having affiliate nonprofit, I am bullish on a new kind of banking really for rural parts of America and especially with technology, what it can do today, Yeah, I'm bullish. We have a business model that we're working on diligently to help turn around this this decline of capital availability.

BRIAN SULLIVAN: Donna, how about you? Feeling good?

DONNA GAMBRELL: I am a big bull. I'll be bullish on rural America as it relates to CDFIs as well. Brian, you know, it's interesting because I think we talk a lot about capital. We know how to lend very well, very effectively…we do it safely and soundly. But there are also those other pieces that are important. Kent just mentioned technology. That's a big priority for us as well. And so we are pushing as hard as we can to not only help our members enhance their technology, but also help our own organization.

So as I mentioned at the top of this program, there are 423 counties in Appalachia. We want to go deeper. We want to have even greater impact in those areas where there are persons of color, communities of color, very rural areas where there are small businesses, owners who may not even know what a CDFI is! We want to not only find them, we want to have productive interactions in relationships…lending relationships, capital relationships, investment relationships with these sectors as well. And so technology will play a big role for us. I've heard Nicole Elam from the National Bankers Association talk about technology and talent, and I think for us it's the same thing. We want to bring people into the CDFI ecosystem, and so we need those additional resources to help us fulfill our mission. And we also need the opportunities. We need to look at ways in which we can further generate revenue, how we can increase our earned income.

You know, we are a nonprofit, so we're not out here trying to make trillions of dollars, but we also want to do well and do good at the same time. And we want to make sure that our organization has the capacity to grow at the same time that we're serving our community. So, yes, I'm bullish, very much bullish, and have a great deal of faith and confidence in the work that the industry is doing today.

BRIAN SULLIVAN: Well, Donna Gambrell of Appalachian Community Capital and Kent Curtis of First Southwest Bank in Colorado, thank you both for taking us down this country road to talk about access to credit in rural America. Thank you both.

DONNA GAMBRELL: Thank you Brian, it’s been a pleasure.

KENT CURTIS: Thank you Brian.