

Chapter 3: The Effects of Demographic Changes on Community Banks

The changing demographics of the United States have affected demand for community-bank services, with banks seeing changing client bases and therefore changing demand for loans as well as other products and services. Community banks headquartered in some of the most dynamic areas of the United States—those with lower median ages and the highest levels of net migration inflows—are prospering and form an important part of the financial community. Community banks in these more dynamic areas experience faster rates of asset and loan growth, and compared with the community-bank industry as a whole, they are frequently more profitable and have larger shares of business loans. At the same time, community banks that are serving areas of the country with less favorable demographic trends—for example, community banks headquartered in areas with higher median ages and net migration outflows—have fewer opportunities for growth but nonetheless fill a vital role in their local communities. This chapter focuses on the community banks headquartered in the regions experiencing the most favorable and the least favorable demographic changes, the performance of each group relative to the other and to all community banks, and ways in which the two groups appear to be supporting their local communities.

In all, the community banks that were headquartered in counties where some of the greatest demographic change was taking place made up 27 percent of all community banks in the United States in 2019—a percentage that has increased just slightly over time. Put another way, the analysis in this chapter encompasses barely more than a quarter of community banks. It is not meant to ignore the other 73 percent of community banks but, instead, to highlight the differences between groups of community banks facing some of the most extreme demographic situations. Other community banks may be facing similar influences on their operations, depending on the demographics of their particular counties, but in any case all community banks can benefit from considering changes in their customer bases. Thus, the analysis as a whole is designed to help all of them better understand their changing customer bases.

Counties Can Be Defined by Two Key Demographics: Age and Migration

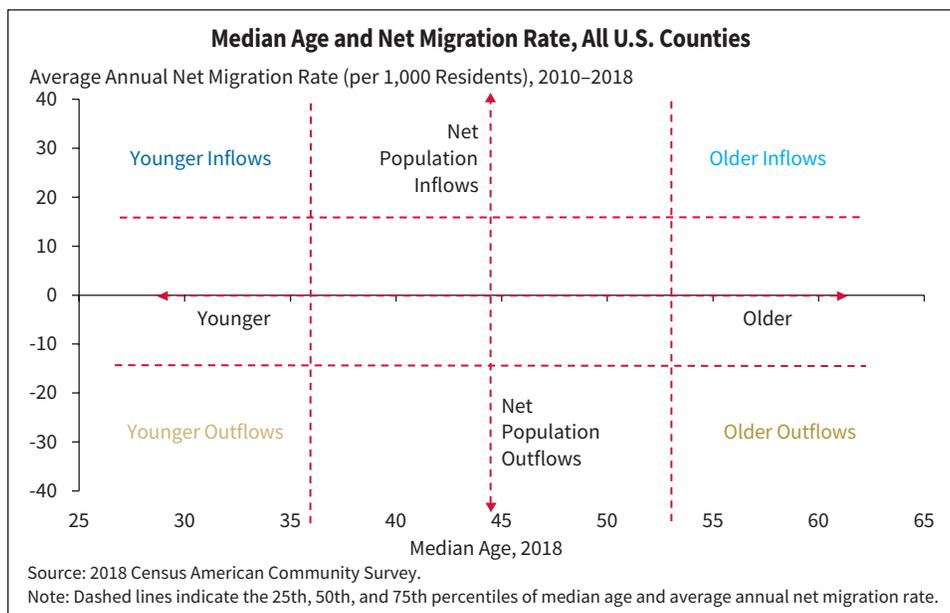
The term *demographic trends* refers broadly to major population characteristics—age, race, sex, marital status, educational attainment, and many others—and the ways in which they are changing in the nation over time. It is easy to sense that these trends will affect local economies and the community banks that serve them, but it is still important to understand how they produce their effects. Although there are many different kinds of demographic change influencing the U.S. workforce and population, of particular relevance to community banks are two key characteristics: age and migration. Each county in the United States can be ranked on both its median age and its net migration rate.

Chart 3.1 illustrates these two changes and delimits the counties of interest in this chapter. The dashed lines split all counties into quartiles, representing the 25th, 50th, and 75th percentiles for each age and migration trend. These two sets of quartiles separate counties, and, therefore, the community banks headquartered in them, into 16 groups, but it is only the outermost corners on which this chapter focuses:

- Younger inflow counties are those that are in the highest quartile of net migration inflows and the lowest quartile of median age.
- Older inflow counties are those that are in the highest quartile of net migration inflows and the highest quartile of median age.
- Younger outflow counties are those that are in the lowest quartile of net migration inflows—which in all cases means the community is experiencing population outflows—and the lowest quartile of median age.
- Older outflow counties are those in the lowest quartile of net migration inflows and the highest quartile for median age.

Although counties not in one of these four groups still are experiencing changing demographic conditions, the best way to illustrate and understand the effect on community

Chart 3.1



banks of these two major demographic trends is to focus on these four groups of counties.

The United States, like many countries, is growing older as healthcare improves, birth rates decrease, and life spans increase. But increases in the average age in the aggregate do not mean that all parts of the country are aging at the same rate. Small changes in the national average can reflect large differences at the county, state, or regional levels. When median age by county, as reported in the 2018 Census American Community Survey, is delineated into quartiles, counties in the youngest 25 percent are those where the median age is 36.6 years or below. Counties in the oldest 25 percent are where the median age is 42.5 years or above.¹

Map 3.1 displays these oldest and youngest counties, and shows that younger counties are often located more toward the South and West and also around larger metropolitan areas. Counties with some of the oldest median ages, on the other hand, are frequently located more to the Northeast, as well as in popular retirement destinations (such as Florida and Arizona) and in more rural areas. Age profiles across counties can have important implications for community banks headquartered in those areas because people of different ages and in different stages

of life have different credit demands and use different banking services.

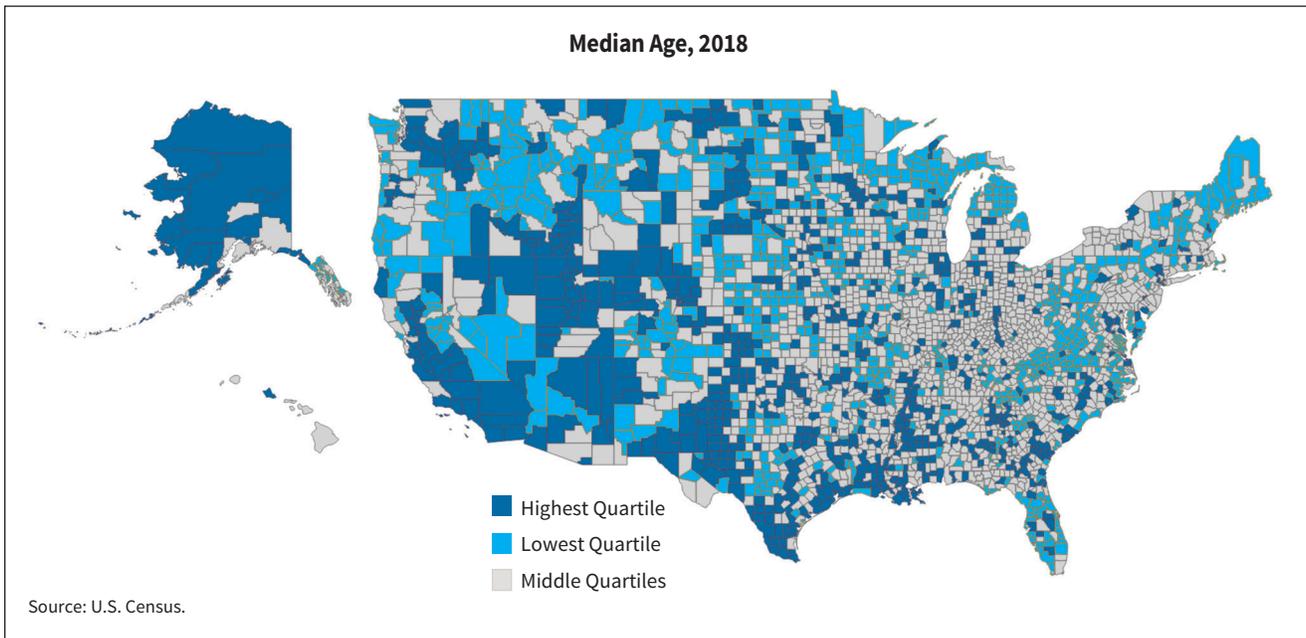
Net migration rate is the other key demographic trend affecting community banks. People move for many reasons, among which are school, work, and proximity to family. People also move different distances: within the same county, across state lines, and into and out of the United States. Net migration rate is the measure that captures all of this—the number of people moving into a county minus the number of people moving out of it. Although comparing net migration rates can mask important differences in why individuals are deciding to move into or out of a county, net inflows or outflows are still an important factor for community banks. Delineating the average annual net migration rate (per 1,000 residents) by county into quartiles shows that “inflow” counties are those with an average annual migration gain of more than 3.7 per 1,000 residents per year, while “outflow” counties are those that lose more than 3.7 per 1,000 residents to outmigration.²

Map 3.2, which shows the counties with the highest inflows and outflows, confirms conventional wisdom and the anecdotes that support it regarding population inflows and outflows. Somewhat like counties with the

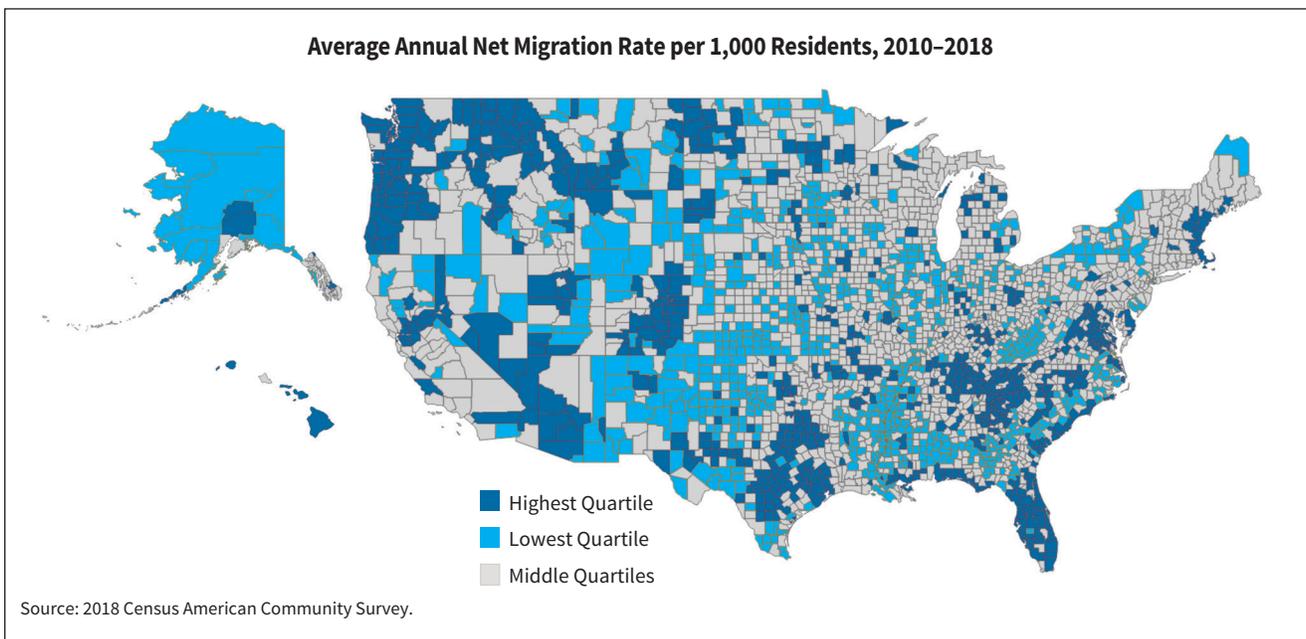
¹ At the state level, the five states with the oldest median age (descending) are Maine, New Hampshire, Vermont, West Virginia, and Florida. The five states with the youngest median age (ascending) are Utah, Alaska, Texas, North Dakota, and Nebraska.

² The five states with the highest net migration inflows (descending) are Florida, Colorado, South Carolina, Arizona, and Washington. The states with the highest net migration outflows (descending) are Illinois, Alaska, New York, Mississippi, and New Jersey.

Map 3.1



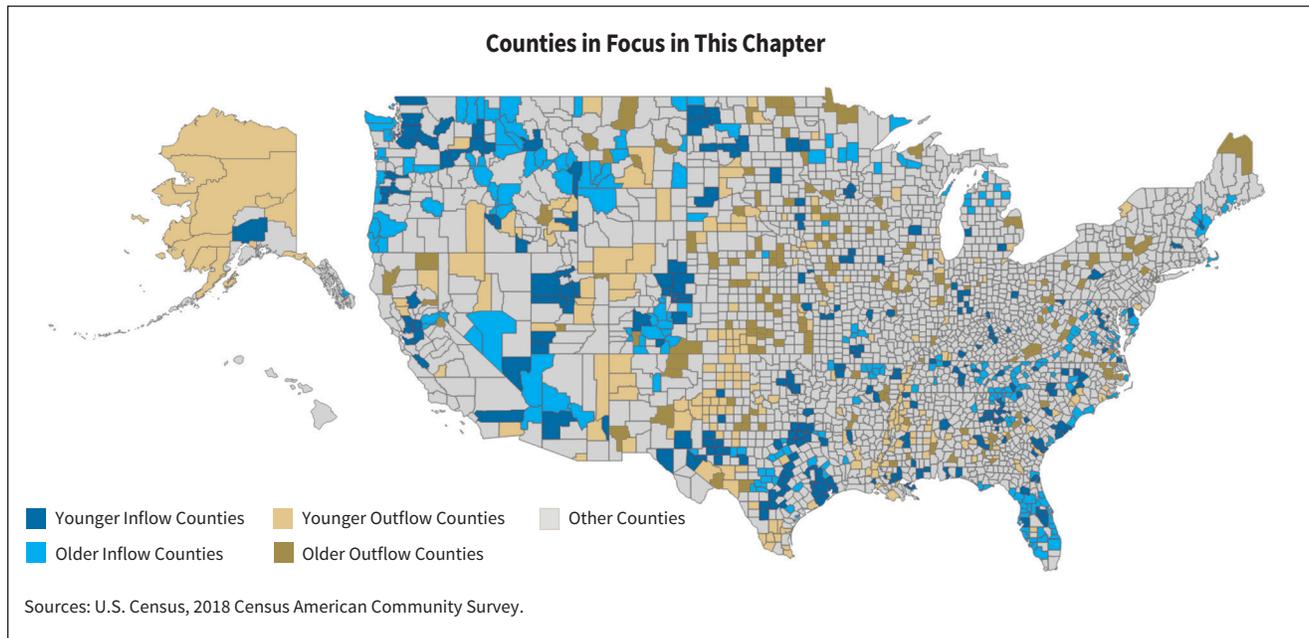
Map 3.2



youngest median age, counties with the highest net inflows are larger metropolitan areas or areas popular with retirees, like Florida and Arizona. Metropolitan areas, in fact, constitute not only just under 80 percent of inflow counties but also just over 70 percent of younger counties. Conversely, counties with the highest net outflows are often rural counties. Rural counties constitute almost 50 percent of outflow counties and just over 50 percent of older counties.

Each county is unique in the factors that affect who lives there and who moves there, yet between older counties as a group and younger ones as a group there are interesting and important differences, as there are between inflow counties as a group and outflow counties as a group. These differences affect the community banks headquartered in the different areas, with some banks experiencing an increase in demand and others serving a declining customer base. Map 3.3 displays counties that exhibit two

Map 3.3



of these key demographic trends simultaneously: oldest populations with highest outflows, youngest populations with highest outflows, oldest populations with highest inflows, and youngest populations with highest inflows. As noted above, these four kinds of counties are the focus of this chapter.

The Share of Community Banks in Each County Type Has Been Stable, Tracking National Consolidation Trends

The first section of this chapter defined the types of counties where demographic changes are most pronounced. Though as noted above, all community banks can benefit from considering changes in their customer bases, the rest of this chapter focuses on community banks headquartered in highlighted counties shown in Map 3.3.

Honing in deeper than Map 3.3 illustrates, Chart 3.2 displays—for each community bank in the country—the average annual net migration rate and median age of the county in which the bank is headquartered.³ The vertical and horizontal dashed lines in Chart 3.2 represent the thresholds for the bottom and top quartiles of age and net migration rates, respectively. The community banks of interest for this chapter are those in the most extreme quadrants made by the intersecting dashed lines—the

³ Because statistics are reported at the county level, different community banks in the same county are represented in exactly the same location. Community banks are as of year-end 2019.

furthest corners. Although many community banks are clearly serving areas that look similar to banks in the most extreme quadrants with respect to median age and average annual net migration rates, between banks in the highest and lowest quartiles there are real differences. And the chart strikingly symbolizes one set of differences that Maps 3.1–3.3 depict in a more conventional way: that community banks in metropolitan areas tend to have some of the youngest populations and highest net inflows, while community banks headquartered in rural areas have some of the oldest populations and highest net outflows.

For the end of each year from 2010 to 2019, Table 3.1 shows the number and percentage of community banks that were headquartered in each of the four demographic areas of interest—older inflow counties, older outflow counties, younger inflow counties, and younger outflow counties. Community banks headquartered in each of these four areas experienced consolidation trends similar to those for community banking as a whole, and so the number of charters fell consistently—but the *share* of community banks in each of these demographic categories was roughly stable for the entire eight-year period. All in all, community banks located in these demographic areas made up 28 percent of all community banks early in the decade and 27 percent later in the decade. Shares of community banks in each of the four county types were also remarkably stable during this period.

Chart 3.2

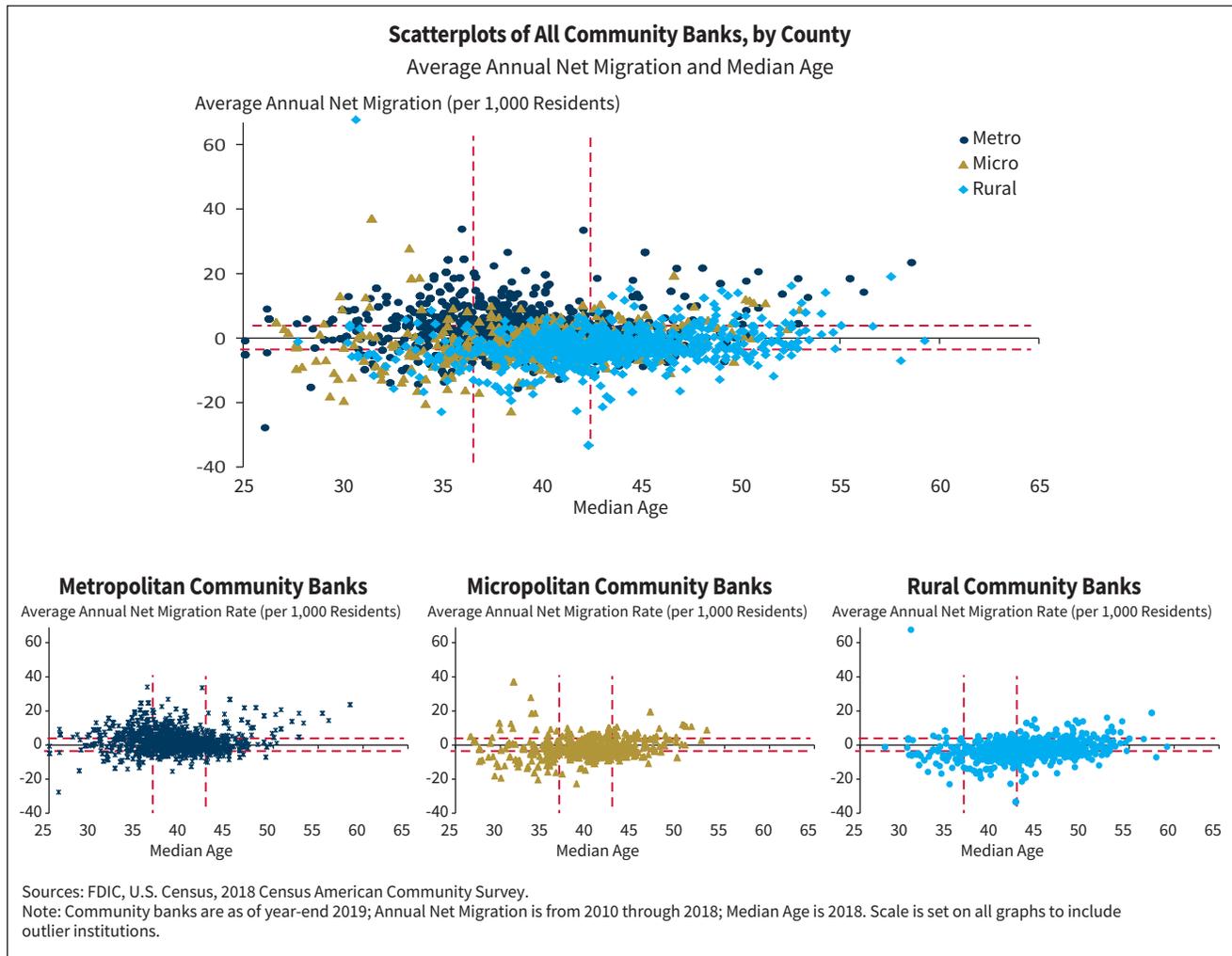


Table 3.1 Number and Percentage of Community Banks Headquartered in Key Demographic Areas, Year-End 2010–2019

County Type		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Younger Inflows	Number of Institutions	695	665	624	601	563	509	484	467	434	415
	Percent of Community Banks	10	10	10	10	9	9	9	9	9	9
Older Inflows	Number of Institutions	361	338	320	302	290	273	258	233	217	199
	Percent of Community Banks	5	5	5	5	5	5	5	4	4	4
Younger Outflows	Number of Institutions	350	341	331	322	308	291	277	267	253	245
	Percent of Community Banks	5	5	5	5	5	5	5	5	5	5
Older Outflows	Number of Institutions	562	544	532	519	505	494	474	462	445	426
	Percent of Community Banks	8	8	8	8	8	9	9	9	9	9
All Others	Number of Institutions	5,044	4,914	4,737	4,563	4,371	4,169	3,969	3,799	3,631	3,465
	Percent of Community Banks	72	72	72	72	72	73	73	73	73	73
Total	Number of Institutions	7,012	6,802	6,544	6,307	6,037	5,736	5,462	5,228	4,980	4,750

Source: FDIC.

Some of the same metrics that were considered in Chapter 2 of this study (“Structural Change Among Community and Noncommunity Banks”) can be considered in this discussion of community banks headquartered in specific demographic areas. Specifically, net inflow counties seemed to be a predictor of consolidation activity in general. Community banks headquartered in both younger inflow counties and older inflow counties had a higher net consolidation rate than did other institutions. And in both types of net inflow county, the most common cause of the decreasing number of individual institutions was outright purchase by another institution, rather than failure. It is counterintuitive that consolidation was highest in these counties: they had more customers to serve and were growing faster, and more customers should mean higher rates of new bank formation to serve them. But after mid-2009, the end of the Great Recession, as discussed in Chapter 2, *de novo* formation was limited.

In contrast, community banks headquartered in older outflow counties experienced lower rates of net consolidation than other institutions. This may be because of the strength of agriculture-focused community banks coming out of the Great Recession.⁴ Community banks in older outflow counties also experienced lower rates of outright purchase by another institution. Younger outflow counties also had lower rates of consolidation than other institutions earlier in the decade, but by 2015 the rate of consolidation had accelerated some and has been similar to the rest of the United States in recent years.

Community Banks Headquartered in Net Inflow Areas Had Strong, Profitable Growth

Key portions of the balance sheets of community banks headquartered in counties with the highest population inflows indicate that these banks showed strong, profitable growth and continued to support the banking needs of their local communities. But within inflow areas, important differences emerge depending on whether the underlying population is older or younger. One can see these differences by focusing on the relationship between demographic trends and the forms taken by asset growth.

In the discussion below, the statistics on growth and profitability are calculated using fourth-quarter annualized data for all institutions designated community banks in a given year; assets are not merger-adjusted to reflect the ultimate purchaser in preceding years.

⁴ Chapter 4 has a deeper analysis of agriculture-focused banks.

Younger Inflow Counties

The youngest counties with the highest net inflows are arguably some of the most dynamic areas of the country, and community banks headquartered in these counties are larger than other community banks. In 2019 the median asset size for these community banks was \$313.8 million; the median asset size for community banks headquartered elsewhere was \$206.6 million. Community banks headquartered in the youngest high-inflow counties were also more profitable than other community banks. Throughout the period from 2011 through 2019, the average community bank in younger inflow counties consistently had a higher NIM than other community banks, by 10 to 20 basis points. In addition, at these same community banks pretax ROA was often higher, usually by 5 to 20 basis points.

In addition, community banks headquartered in younger inflow counties were growing faster than other community banks, as several major parts of banks’ balance sheets attested. Between 2010 and 2019, annual asset growth was always faster for the average community bank in younger inflow areas than for other community banks. Between 2012 and 2019 annual deposit growth was greater every year. And, almost always during the study period, the annual growth rate for loans was higher.

Older Inflow Counties

Community banks headquartered in older inflow counties are not as large as their counterparts in younger inflow counties, but their median asset size of \$253.0 million made them, too, larger than other community banks located elsewhere. And like their counterparts in younger inflow counties, community banks in older inflow counties experienced stronger growth in key balance sheet metrics than the overall industry. Between 2013 and 2019, the annual growth rate for assets at the average community bank in an older inflow county was consistently higher than the rate for the community-bank industry overall. Similar trends can be seen in annual loan and deposit growth, which have been consistently higher than community banks overall since 2015 and higher more often than not during the entire study period.

There is also evidence to suggest that community banks in older inflow counties had more cash on hand, consistent with anecdotes about retirees keeping amassed assets in FDIC-insured, interest-bearing accounts. The evidence is

Table 3.2 Commercial and Industrial Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	8.3	8.3	8.4	8.9	9.2	9.3	9.3	9.3	9.8	9.5
Younger Inflow Counties	10.4	10.4	10.4	11.0	11.2	10.7	10.5	10.2	10.5	10.4
Older Inflow Counties	6.1	5.7	5.8	5.5	6.4	6.2	6.2	6.4	6.7	7.2

Source: FDIC.

Table 3.3 Commercial Real Estate Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	28.2	26.7	25.8	27.0	27.6	28.7	30.1	31.1	31.9	31.2
Younger Inflow Counties	33.4	31.2	30.3	31.3	31.8	33.2	34.5	35.2	36.7	36.7
Older Inflow Counties	32.6	30.6	27.0	26.2	26.5	26.2	27.5	27.9	26.8	27.4

Source: FDIC.

Table 3.4 Acquisition, Construction, and Development Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	5.4	4.2	3.8	3.8	4.1	4.4	4.7	4.8	5.0	5.1
Younger Inflow Counties	7.7	6.1	5.6	5.8	6.2	7.0	7.0	6.9	7.1	7.1
Older Inflow Counties	7.7	6.2	4.8	4.6	5.2	4.4	5.0	5.0	4.8	5.1

Source: FDIC.

that from 2010 through 2019, the deposit-to-asset ratio for the average community bank headquartered in an older inflow county was higher than for other community banks. This ratio indicated that these communities might be more deposit-heavy than the average community bank elsewhere, which in turn would further support the anecdotes mentioned above—not only that older customers had amassed assets in insured, interest-bearing accounts but also that the amount of the savings they had amassed was greater. At the same time, however, unlike the average community bank in younger areas, the quarterly pretax ROA at the average community bank in older inflow areas was consistently lower than for the average community bank overall. The lower ratio might have been due partly to the heavy deposit growth and high deposit-to-asset ratio.

Community Banks in Both Younger and Older Net Inflow Counties Supported Their Communities Through Business Lending, but Differently

Community banks headquartered in net inflow counties, whether older or younger populations, were clearly supporting economic growth and the needs of their local communities by issuing business loans. But comparing the shares of certain types of commercial loans makes it clear that community banks in younger inflow areas were doing a much larger volume than community banks overall.

For the period 2010 to 2019, Table 3.2 reports the share of C&I loans to assets for community banks headquartered in younger inflow counties, in older inflow counties, and in the community-bank industry as a whole. Community banks headquartered in younger inflow counties consistently had a higher share of C&I loans than the industry as a whole, but the banks headquartered in older areas still experiencing net inflows had a lower share of C&I loans than the community-bank industry as a whole, suggesting possible differences in demand between older and younger populations.

Table 3.3 reports the share of total assets that CRE loans made up for community banks headquartered in younger inflow counties, older inflow counties, and the entire community-bank industry, 2010–2019.⁵ Community banks headquartered in younger inflow counties consistently had CRE rates higher than for the community bank industry as a whole. This suggests that community banks in those most dynamic areas were able to support new business growth.

Table 3.4 reports the share of acquisition, construction, and development (C&D) loans to total assets for all community banks and for those headquartered in the oldest and the youngest net inflow counties. As with C&I

⁵ CRE loans group construction and development loans; multifamily real estate loans; and nonfarm, nonresidential loans.

and CRE lending, community banks headquartered in the youngest net inflow areas consistently had a higher share of C&D loans to assets. But whereas in older inflow counties the demand for the other two loan categories lagged behind the demand in other institutions, the C&D loan ratio for older areas was normally at or above the industry average.

Taken together, these trends suggest that areas with population inflows had stronger demand for loan growth and that community banks in those areas were ready to serve that demand. Community banks in younger inflow areas had a higher share of commercial lending than other institutions. And as noted earlier, areas with older populations had more deposits on hand and slower loan growth—findings that supported anecdotes about the characteristics of an older demographic group.

Community Banks in Net Outflow Counties Faced Challenges as Demand Growth Faded

The prior section discussed that, between 2012 and 2019, community banks in net inflow areas grew faster and were more profitable than the industry as a whole and some of the ways in which community banks supported commercial lending in those areas. In contrast to the higher rate of growth and greater profitability posted by community banks in net inflow areas, growth and profitability among community banks in areas of the country with net population outflows seem to have been hindered by headwinds resulting from this demographic change. Even so, differences between outflow areas that serve younger populations and outflow areas that serve older populations are interesting. As in the previous analysis of inflow counties, the statistics on growth and profitability are calculated using fourth-quarter annualized data for all institutions designated a community bank in a given year; and assets are not merger adjusted to reflect the ultimate purchaser in preceding years.

Younger Outflow Counties

One way in which net outflows seem to have affected community banks is by hampering their ability to grow. Between 2014 and 2019, average annual asset growth at the average community bank in younger outflow areas was for the most part lower than for other institutions, generally

by 0.5 to 2.5 percentage points, or between only two-thirds and 90 percent of the average annual asset growth of other institutions. Starting in 2017, the average community bank in these areas also saw consistently lower annual loan growth; and starting in 2014, lower annual deposit growth.

Yet the slower growth rates and other factors affecting community banks in younger net outflow areas do not appear to have translated into less profitable institutions. Starting in 2017 the average community bank in a younger outflow area consistently had a higher quarterly NIM than community banks overall. A similar trend is apparent in pretax returns. However, both the loans to assets ratio and, starting in late 2014, annual asset growth were lower at the average younger outflow community bank than at other community banks.

Older Outflow Counties

Many of the issues raised for banks by the demographic headwind of net population outflows were amplified in areas with older populations. At year-end 2019, the median asset size at these community banks, at only \$113.8 million, was much smaller than the median asset size at other community banks. And as in outflow areas with younger populations, annual growth rates for assets were lower for the average community bank in an older outflow county than for other community banks—starting in 2013, 0.6 to 3.5 percentage points lower. Likewise, from 2011 through 2019 the growth rate for loans at the average community bank in an older outflow area was consistently lower than for other community banks. The annual growth rate for deposits displayed the same trend: starting in 2013 it was consistently lower at the average community bank in an older outflow area.

The slower balance sheet growth occurring in older outflow areas seemed to weigh on bank profitability. Starting in 2010, the average community bank in older outflow areas consistently saw NIMs that averaged 3 to 20 basis points lower than other community banks; lower quarterly pretax ROA (though the difference was less stark than for NIMs, and it began in mid-2016); and a higher deposit-to-asset ratio (starting in 2010, it was consistently higher by roughly 10 to 70 basis points).

Box 3.1 The Effect of Rural Depopulation on Community-Bank Growth Potential

Even without updated Census designations of rural counties, it is still possible to update the analysis of rural population trends and the implications for banks headquartered in those areas from the 2012 FDIC Study.^a Using the 2010 Census county designations for metropolitan, micropolitan, and rural areas but supplementing them with American Community Survey annual population data through 2018, we see that rural depopulation has continued. Between 2010 and 2018, just over 70 percent of rural counties lost population (990 of the 1,353 rural counties had a lower population in 2018 than in 2010). The change from FDIC analyses in 2012 was substantial: in that year, the FDIC reported that 50 percent of rural counties were experiencing depopulation. Furthermore, between the 2012 FDIC study and this study, there was also a further increase in a subset of declining rural counties: rural counties labeled “accelerated declining” because of the quickening pace of their population decline. As of 2019, 300 counties were designated as accelerated rural declining areas, up from 272 in the 2012 study.

In fourth quarter 2019, there were 1,121 community banks headquartered in depopulating rural counties, up slightly from 1,091 at the end of 2011. The 1,121 constituted about 24 percent of all community banks. The reason the number of community banks in depopulating rural counties increased even in the face of continued consolidation in the industry is that more counties began to lose population since 2011. And of the 1,121 community banks headquartered in depopulating rural counties, 391 were headquartered in accelerated declining rural counties.

Concern over the economic effects of depopulation centers on the same issues that previous FDIC analyses highlighted: prime-age workers, those between the ages of 20 and 45, may be moving to seek better opportunities in other places. This can pinch the age distribution of rural counties, and the shrinking tax base that results can increase the fiscal pressure on local governments. In addition, the absence of recent college graduates and other younger workers may make it more challenging for community banks and other local businesses to attract and retain qualified staff, management, and officers, as well as grow their customer bases. The dynamics of out-migration and depopulation risk becoming self-reinforcing, a risk highlighted in the prior FDIC studies.

The median asset size of a community bank in rural declining areas has been much smaller than the median asset size of a community bank headquartered in other areas. The 2012 FDIC Study found that from 2001 to 2007 community banks located in rural depopulating counties reported lower pretax returns than did community banks in other areas—but the study also found that from 2007 to 2011 these community banks had higher earnings. During the latter period, the performance success of depopulating rural banks relative to other institutions was mostly attributable to rural banks’ dependence on agriculture, a sector that remained particularly strong throughout the Great Recession. The Great Recession largely hit metro areas, whereas the agriculture industry was spared major economic shocks. During the study period banks in rural declining areas consistently had a much higher share of agricultural loans to total assets, ranging from 14 to 19 percent of total assets and always at least triple the share of community banks headquartered in other areas. Agriculture-focused rural banks performed better during, and recovered more quickly from, that recession.

The period between 2011 and 2019 saw rural banks in depopulating areas continue to report higher earnings, and quarterly NIM was persistently around 5 basis points higher at these banks than at other institutions. This is once again attributable to the focus on agriculture lending at many of these institutions. Some of this advantage, however, eroded over time because of the fall in global commodity prices that began in 2014. Thus, although pretax returns recovered from the Great Recession more quickly at rural community banks than at other institutions and were higher initially, the situation reversed in 2015. Even so, going into 2019, community banks that specialized in agriculture were more profitable than community banks that were simply headquartered in rural communities. (See Chapter 4 of this study for details on agricultural specialists.)

continued on page 3-10

^a For an analysis, see *FDIC Community Banking Study* (2012), Chapter 3. Anderlik and Cofer (2014) also addresses the issue of rural depopulation.

Box 3.1, continued from page 3-9

From early 2014 through 2019, the demographic headwinds of rural depopulation weighed more heavily on other parts of community-bank balance sheets. Asset growth was weaker at community banks in rural declining regions than at other community banks: annual growth rates for assets were consistently between 1.5 and 3 percentage points lower than they were for other banks. During the same period, the average community bank in rural declining areas saw slower loan growth and slower deposit growth than the average community bank. Starting in late 2013, growth rates for both loans and deposits generally ran 1 to 3.5 percentage points lower, or roughly a half to two-thirds of the growth experienced by other institutions.

In summary, these trends indicate a continuation of findings from the 2012 Study. The performance reported here of depopulating rural banks relative to other community banks is somewhat surprising because the agricultural sector, which many of these banks service, faced low commodity prices during the latter part of the period between 2012 and 2019. Until the appearance of COVID-19 (discussed more fully in Box 3.2), the outlook for rural depopulation was for demographic conditions to continue their long-term trend of deterioration, with more migration out of rural counties, more pinching of the distribution of ages (with prime-age workers leaving), and some of the fastest-growing rural counties set to be upgraded to micropolitan areas in the 2020 Census.

Community Banks in Net Outflow Areas Do Not Have Similar Commercial Lending Portfolios to Other Community Banks

Partly because of the demographic headwinds outlined above, community banks headquartered in net outflow counties often had lower commercial lending volumes than other institutions. Table 3.5 reports the share of C&I loans to total assets for all community banks and for the institutions headquartered in older outflow and younger outflow areas during the period 2010 through 2019. Community banks headquartered in older outflow counties consistently had a lower share of C&I loans than other institutions. Community banks in younger outflow areas showed a slightly different trend. Although they had a lower C&I loan share in the years immediately after the Great Recession, starting in 2012 their share steadily climbed and, starting in 2017, was higher than the share

for all community banks. This suggested that in the coming years, perhaps the commercial loans demanded by a younger population would help support economic growth in their areas.

Table 3.6 displays the share of CRE loans for all community banks and for the institutions headquartered in older outflow and younger outflow counties. Between 2010 and 2019 community banks headquartered in younger outflow counties had CRE to asset ratios that were near—but always below—the ratios of the industry as a whole. Institutions in older counties, however, had CRE volumes much lower than those of the industry, suggesting less underlying demand for these types of commercial loans, which in turn may have been an additional headwind pushing against continued community-bank growth in those locations.

Table 3.5 Commercial and Industrial Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	8.3	8.3	8.4	8.9	9.2	9.3	9.3	9.3	9.8	9.5
Younger Outflow Counties	8.0	7.8	8.1	8.3	8.9	8.8	9.1	9.5	10.3	10.6
Older Outflow Counties	8.1	7.8	7.6	7.9	7.9	8.0	8.1	8.3	8.5	8.5

Source: FDIC.

Table 3.6 Commercial Real Estate Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	28.2	26.7	25.8	27.0	27.6	28.7	30.1	31.1	31.9	31.2
Younger Outflow Counties	28.0	25.9	25.7	25.8	26.6	28.0	30.0	30.4	30.6	30.1
Older Outflow Counties	17.4	16.3	15.5	15.8	16.4	17.1	18.0	19.0	19.9	19.8

Source: FDIC.

Table 3.7 Acquisition, Construction, and Development Loans to Total Assets (Percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
All Community Banks	5.4	4.2	3.8	3.8	4.1	4.4	4.7	4.8	5.0	5.1
Younger Outflow Counties	5.6	4.6	4.2	4.1	4.3	4.7	5.0	5.0	4.9	4.8
Older Outflow Counties	2.6	2.1	1.9	1.9	2.1	2.4	2.6	2.9	3.2	3.1

Source: FDIC.

Table 3.7 reports the share of C&D loans to total assets for all community banks and for the institutions headquartered in older outflow and younger outflow counties. From 2010 through 2017, community banks in younger outflow counties had C&D loan ratios above those of the industry as a whole, suggesting that these banks were able to support the economic expansion. In 2018 and 2019, however, the levels in these counties slipped below those of the industry. Levels of C&D loans in community banks headquartered in older outflow counties was less encouraging: the share of C&D loans at these institutions was much lower than for the industry as a whole—in some years, almost half as low—though the level of such loans has risen steadily since 2012.

This group of trends as a whole suggests that community banks headquartered in areas experiencing population outflows were less profitable and slower growing than other community banks. Worth noting, though, is the difference in deposit growth rates between community banks headquartered in older outflow areas and those headquartered in younger outflow areas. Although both

groups of banks experienced lower deposit growth rates than other parts of the industry, the deposit to asset share of community banks in older outflow areas was significantly higher than for other community banks, suggesting that retirees were continuing to keep their money with local banks.

Summary

Community banks serve customers in their local geographic areas, and long-term population trends affect the individuals located in an area and the services those customers demand. In areas of the country that are arguably most thriving—younger with net population inflows—community banks are growing quickly and profitably and are supporting communities with C&I and CRE loans to help areas continue to grow. There is some concern, however, whether some of the areas experiencing net outflows will be able to continue to grow; banks in those areas have slower growth and lower commercial lending portfolios, both of which could weigh down community banks in those areas and possibly feed into higher consolidation rates in the future.

Box 3.2 Net Migration Rates and the COVID-19 Pandemic

The emergence of the COVID-19 pandemic was an unexpected shock that affected the economy with immense speed and force. Unlike other areas of the economy that the pandemic has disrupted, however, demographic trends are slow to change: because the U.S. population is so large, demographic trends in this country normally take decades to develop and make their economic mark. Thus, changes in the population data that are due to the pandemic are not likely to be seen for some time. Even if in retrospect there is a clean break in some demographic trends beginning in 2020, most likely the changes will not appear in population data for a number of years.

One issue worth monitoring for its potential effect on demographics over the longer term is remote working. The government-mandated requirement for social distancing to reduce infection has led to a temporary increase in telework in many industries. If this increase in telework becomes a permanent feature for segments of the workforce, it may allow workers to move to locations outside major cities and still be productive. They may choose to relocate to areas with more open space or a lower cost of living, which could increase migration overall as well as changing which counties are the areas of highest inflows. Additional telework flexibility could even reverse long-standing trends of inflows into the largest urban areas.