Rural Financial Sector Restructuring and Persistent Poverty: Looking Backward and Forward at Community Banks

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I. Introduction

A. Rationale

A thriving local business sector is vital for rural community sustainability and development. For a number of years, we have conducted research projects to understand factors associated with successful rural entrepreneurship, business formation, and firm expansion. In that work, we have observed that a robust local business climate can also provide key paths for escaping poverty via entrepreneurship, business ownership, and job creation. It is also clear that rural business performance is closely linked to local financial sectors that have undergone a substantial restructuring since the 1990s. Simply put, traditional institutional sources of rural business capital have all but disappeared (especially, independent community banks). This has led to fewer bank loans for rural startup businesses and, consequently, threatens a key source of empowerment out of poverty.

Those of us who research rural America know the tenacity and resourcefulness exhibited by those we study as they seek to subsist and occasionally prosper. We are finding that rural entrepreneurs and small business owners are making more use of nontraditional business financing strategies that rely on personal and family resources. These alternate strategies seem unlikely to reduce poverty. All too often rural poverty is viewed as individual failure without regard for local conditions that limit opportunities. For entrepreneurship and business ownership to provide pathways out of poverty, business capital is essential. Rural community banks have been the primary source of business capitalization for decades. Yet, independent banks and lately even branches of regional and national banks are on the decline in rural America. Looking backward at the entirety of rural America, business capital was as close as the local bank. Looking forward, we don’t yet know what might supplant the broad-scale funding of community banks.

B. Outline of Arguments

In this conference paper and presentation, we draw on work by ourselves and others. Some is published, some is forthcoming, and some is just now being put in manuscript form. First, we review the financial sector restructuring of the last 35 years. Second, we show evidence of the impact of these changes on bank financing of rural businesses. Third, we highlight trends in use of nontraditional sources of business capital.
of capital by rural business owners. Fourth, we consider the direct and indirect association between financial sector restructuring and poverty. Finally, we highlight needed further research on transformations in rural financial institutions and linkages to persistent and increasing levels of poverty and inequality.

II. Background

A. Importance of Rural Small Businesses

The rural small business sector is at the heart of our ongoing work on civic community. We have established that a thriving locally-oriented small business sector is associated with a number of beneficial local outcomes, including less poverty, less income inequality, less population turnover, less crime, and better public health (e.g., Blanchard & Matthews, 2006; Blanchard, Tolbert, & Mencken, 2012; Tolbert, Lyson, & Irwin, 1998; Tolbert, Irwin, Lyson, & Nucci, 2002). Our empirical findings fit within a broader “Community Capitals” research framework that calls attention to social structure and problem-solving capacities of a locally-oriented and engaged citizenry (Besser, 1998; Flora, Green, Flora, Schmidt, & Gale, 1992; Flora, Sharp, Flora, & Newlon, 1997; Lyson & Tolbert, 2004; Mencken, Bader, & Polson, 2006; Irwin, Tolbert, & Lyson, 1999; Irwin, Blanchard, Tolbert, Nucci, & Lyson, 2004; Lee, 2008; Goetz & Rupasingha, 2006; Green, 2003; Tolbert, 2005; Flora, Flora, & Gasteyer, 2015).

The Community Capitals model of community development (Flora et al. 2015) proposes an interconnection between various types of assets, or community capitals, that a locality can draw upon for development. These include many well-known forms, such as human capital, social capital (civically oriented institutions such as associations, fraternal organizations and churches), and political capital. The model also includes factors such as the natural amenities of a community (rivers, mountains, lakes, beaches) and the built environment (e.g., communications infrastructure, water treatment systems, transportation corridors). Many of these topics have been the focus of studies for some time. Rural communities that have higher levels of these capital types generally have fewer social problems, better performing economies, and higher levels of social and economic development.

Financial capital is also an integral component of the Community Capitals model, but far less studied. All communities need access to financial capital to fund community improvements, programs, create jobs, and local well-being. It is well established that rural communities with a strong, locally-oriented small business sector have higher levels of socioeconomic development. Local business owners who depend on local clients/customers for their livelihood will take a greater interest in the civic welfare of their communities. By working with local leaders to plan carefully the use of space (shops, cafes, services), local entrepreneurs help to save downtowns of rural communities. This keeps town centers from becoming a blight of shuttered buildings and vulnerable to big-box retailers situated on along highways and by-passes (Hall and Porterfield 2001). Local business owners are the foundation of the civically-engaged, independent middle class. Their local orientation and entrepreneurial nature mean that they are likely to be effective leaders and facilitators of community integration. To sustain this key stakeholder group, a reliable stream of financial capital is vital. A strong local business sector, or the lack thereof, can make or break a community. And, this is more likely the case in rural economies which are typically less diversified and highly sensitive to even mild systemic disruptions. Without access to financial capital to create, sustain, and expand local businesses, rural communities are at risk of decline.

We contend that financial capital access, and a resulting thriving locally-owned business sector, are not only important for the overall well-being of the community, but also important for the efficacy of other types of capital in rural communities. Without economic opportunities, human capital will not remain in
rural communities. Without the strong leadership provided by a local business class, social capital in rural communities will not function well. As we explain below, the absence of independent community banks devalues the locals’ social capital and thereby contributes to rural community disintegration. Thus, we contend that an adequately capitalized local business sector is essential for rural community sustainability and development.

Functional rural communities, in turn, are vital for the security of the U.S. food supply and system. Without community capitals to anchor a rural population, the mass rural to urban exodus might be fully realized. Food processing, transportation, and storage facilities might idle for want of workers. That would leave a vast, abandoned American hinterland food supply vulnerable. Short of this draconian scenario, Gunderson, Dewey, Hake, & Crumbaugh (2017) note that many rural areas already have inadequate service infrastructures that hinder the operation of charitable food programs. They specifically mention lack of banking and cite our work (Tolbert, Mencken, Riggs, & Li, 2014). It follows that food insecurity could be partly a product of changes in the rural financial sector.

B. Financial Sector Restructuring

The sources and scope of U.S. banking regulations have changed over time, enabling seismic shifts in industry structure. Until the 1990s, individual states controlled most banking activity. Legislatures enacted regulations that governed which banks operated in a state. Interstate banking was feasible, but hampered by variations in regulations from state to state (Nippani & Green, 2002; Zou, Miller, & Malamud, 2011). With most banking entities operating entirely within single states, localized economic shocks could imperil entire banking enterprises. Perhaps the best example of this was the savings and loan crisis of the 1980s that saw many institutions in oil-dependent state economies collapse. Most of the shuttered banks did not have operations in other states or regions of the country that might have buffered the localized bad loans and toxic assets. Federally-insured losses were substantial. Congress was encouraged to pass legislation that would enable more interstate banking (regional and national).

The 1994 Riegle-Neal Interstate Banking and Branching Efficiency Act was intended to reduce inefficiency and relax rules that hindered interstate banking. The bipartisan legislation seemed like a win for all key constituencies: businesses, consumers and, of course, banks. With branches in several (or many) states, bank holding companies could spread their risk geographically. Riegle-Neal was not without its critics, however, and many of them were in rural America. One concern emanated from the independent and community banking sector. The community banks feared the emergence of an oligopolistic national banking market (DeYoung, Glennon, & Nigro, 2008). Locals also had reservations about community funds and assets being sent far away and out of their immediate control. Advocates for interstate banking countered by noting the highly regulated character of banking and anti-trust provisions that would mitigate the impacts feared by some. Supporters also contended that the Community Reinvestment Act would ensure that banks—even branches of far-flung enterprises—were obligated to fund the local markets in which they operated (Friedman & Squires, 2005; Johnson & Sarkar, 1996).

Post 1994, a restructuring of the banking industry has accelerated. It entails consolidation at the firm level and expansion at the establishment level (Berger & Black, 2007; Collender & Shaffer, 2003, 2009; Nicolo, Bartholomew, Zaman, & Zephirin, 2003). For banks in rural America, independent and locally oriented banks find it difficult to compete if they go it alone. Between 1976 and 2016, the national total of FDIC reported bank firms declined from 14,410 to 5,112, while the number of banking establishments increased from 31,344 to 80,638. There are fewer banking firms, but significantly more
branches/establishments of large banks scattered throughout the U.S. According to 2018 FDIC data, the six largest commercial banks account for a quarter of all banking establishments.

In the context of bank closures and ownership changes, we can clearly see the link between financial capital and social capital in rural areas. There has been a longstanding symbiotic relationship between local banks and local small businesses that relies on relational lending practices (Berger & Black, 2007; Berger & Udell, 1996; Boot, 2011; Devaney & Weber, 1995). Relational lending is based on well-developed relationships between lenders and the small businesses. Loan offices rely on their extensive personal and professional community network ties (i.e., social capital). In the financial literature, studies show that relational lending using such “soft data” is linked to favorable loan outcomes for small businesses (see for reviews Berger & Udell, 1995, 2002).

Local loan officers affiliated with multi-establishment regional or national banks may not have the discretion to rely on relational lending. Enterprise-wide loan standards are far easier to enforce when commercial loan decisions are based on “hard data” (Berger, Miller, Petersen, Rajan, & Stein, 2005; Brevoort & Hannan, 2004; Brickley, Linck, & Smith, 2003; DeYoung, et al., 2008). In this way, restructuring of the financial sector leads to a devaluing of social capital. Community relationships between bankers, businesspersons, customers, suppliers, and employees that were once key to acquiring business capital are largely irrelevant.

Given these changes, we next consider implications for rural America, its small businesses, and the potential for entrepreneurship to reduce poverty.

III. Recent Financial Sector Restructuring in Rural America

We have two primary sources of information on rural financial restructuring and its impact on entrepreneurship and small business. One source is an ongoing panel of business owners with whom we maintain contact. The other source is confidential business data in the Federal Statistical Research Data Center Network operated by the Census Bureau. Each source informs the other and is very valuable to us in our work.

A. Central Texas Rural Small Business Panel
As staff members at the Center for Community Research and Development at Baylor University, we have entree to business owners in the surrounding rural communities of Central Texas. For nearly a decade, we have followed owners that we first contacted as part of an NRI project. These individuals have generously agreed to be interviewed on several occasions. Some have participated in our focus groups. These owners have informed our statistical work in a number of ways. One example is their penchant for starting several businesses (“serial” entrepreneurship) which has led us to closely monitor our data for patterns of multiple ownership. It turns out that is quite common to see more than one business in our datafiles operated by the same individual. This panel of business owners continues to be key to work.

B. The Longitudinal Financial Database
In an AFRI project, we developed a longitudinal database of U.S. financial services that contains firm names and addresses along with industry codes, annual employment, payroll, and revenue measures.
This database was originally developed by our frequent collaborator Lynn Riggs (Newberger & Riggs, 2006). She has continued development and refinement of the database as her time permits. Because the Finance, Insurance, and Real Estate (FIRE) sector was not covered until 1992 in the Economic Census, industry codes for many financial firms tend to be coded in miscellaneous categories. Traditional financial institutions are fairly easy to recode from miscellaneous to more specific SIC and NAICS codes. Some nontraditional or alternative financial service firms are so new that they are frequently coded as miscellaneous industries. Riggs has led an effort that we are continuing that parses through names of establishments to assign more exact industry codes. The input data consist of annual observations since 1976 extracted from the Census Bureau’s national business register, the Standard Statistical Establishment List (SSEL).²

The financial services file encompasses a time of structural transition in the U.S. banking system that resulted in substantial consolidation. We have used these data, at the county level, to document the rate of change in local financial institutions over the last 38 years.³ Moreover, these data have significant information on bank structure (e.g., firm size, single establishment vs. multi-establishment, parent corporation). We have also used the database to chronicle the growth of non-bank alternative financial services (AFS) such as storefront consumer loans for paycheck, car title; check cashing; pawn shops and the like.

The datasets that underlie the financial database are housed in the Federal Statistical Research Data Center network hosted by the Census Bureau. We use the data in College Station, TX, where the Texas Federal Statistical RDC is located. We have Special Sworn Status with the Census Bureau and are permitted in the RDC to work on approved projects. The confidential data must be used inside the secure lab. Only aggregated statistical results are released after a review by Census personnel to ensure that no confidential data are being disclosed.

C. The Disappearance of Rural Community Banks

Our panel of business owners has all but stopped seeking bank loans for their new and existing businesses. They tell us how relationships between rural banks and small businesses have changed as local banks were acquired by larger regional or national banks (Tolbert, et al., 2014). Using our longitudinal financial data, we documented the precipitous decline of community banks nationwide (Tolbert, et al., 2014). We defined an independent community bank as a single-establishment banking enterprise or a multi-establishment enterprise with all branches within a single county. Employing the Federal statistical metropolitan definition (cite), we found that the share of metropolitan banks that are community banks declined from about half of all banks in the area to about 10 percent. Micropolitan (small cities from 10,000 to 49,999) areas saw a decline from about 70 percent community banks to roughly 20 percent. Nonmetropolitan areas (with urban areas of no more than 9,990 persons) exhibited a decline from 80 percent community banks to 20 percent. While the proportion of these financial institutions declined nationally, our findings showed a much sharper decline in community banks in rural areas of the U.S. (See Figure 1 attached and in slides that accompany the presentation.)

As noted above, numbers of banking establishments (mostly branches) increased in the Neil-Riegle era, peaking in rural areas just before the Great Recession. In the last 2-3 years of our data, however, we see

² For further information on the SSEL, see Ahmed, Blum, & Wallace (1998).

³ Further information on the database can be found in Tolbert, et al. (2014).
signs that branches are beginning to be closed. Morgan, Pinkovskiy, and Yang (2016) of the New York Federal Reserve use the term banking desert in an analysis of “debranching” or branch closing that resulting after the economic crisis. Wolfram (2016) provides evidence that large bank holding companies are closing more branches in lower and moderate income areas and rural areas. We see the number of rural banking establishments trending downward a few hundred each year. This is something that should be monitored closely over the next few years.

D. The Rise of Alternative Financial Services (AFS)
One owner in our business panel admits to having once taken out a car title loan on a Thursday so that he could make his Friday payroll. That individual strongly recommends against habitual behavior of this sort, but remains glad the option was available. While AFS can be difficult to define, most writers include high-interest, nondepository storefronts such as check cashing businesses, local pawnshops, car title loan businesses, pay-day loan, and rent-to-own operations (Blank, 2008; Praeger, 2009). AFS is perceived by some as convenient and cost-effective source of consumer financing (Blank, 2008; Caskey, 2002; Graves, 2003; but see Fellowes & Mabanta, 2008). Marketing research shows that reliance on AFS is facilitated by ease of transactions, proximity to home and work, lack of credit check, and the need to resolve cash flow crises (Berry, 2005). There is also evidence that low-income individuals rely on a mix of traditional and alternative financial services. Going further, Graves (2003) argues that a dual system of finance has emerged. On the one hand, well-off areas are surrounded by bank branches and other traditional financial institutions. On the other hand, AFS clusters on the fringes of transitional areas.

The recent work on AFS focuses almost exclusively on urban areas. Using our financial database with revised industry coding, we are able to trace the development of AFS since 1976 in rural as well as urban areas. We have shown that the most rural counties of the U.S. have seen more AFS development on a per capita basis of late (Tolbert, et al., 2014). Clearly, more needs to be done on this topic.

IV. Evidence of Financial Restructuring Impacts on Rural America

A. Data on Rural Businesses and Owners
In our earlier and ongoing work, we utilize the Characteristics of Business Owners (1988, 1992) and the Survey of Business Owners series (2002, 2007, 2012) to assess trends in attributes of business owners and the performance of the firms they own. We have access to these confidential microdata through the Texas Federal Statistical Research Data Center (RDC). The geographic detail on the datasets permits us to employ the standard metropolitan definition and identify rural businesses and their owners. SBO is designed to be a 10 percent sample of U.S. businesses. After filtering out metropolitan firms, our samples of rural businesses remain quite large.

B. Trends in Sources of Business Capital
While they don’t often inquire at banks any longer, business owners in our local panel tell us of the variety of ways that they have financed their enterprises. Some funding avenues have worked well while some have not. Early in our work with the panel, one owner told us that a parent’s 401K account had been largely emptied to launch the business. Sadly, that individual left the panel when the business folded. In the national data, our tabulations of rural business owners’ responses to questions about startup funding show that the percent obtaining a bank loan is cut in half as local banks begin to disappear (Mencken & Tolbert, 2016). About 20 percent of rural firms founded before 2000 received startup loans. From 2000 on, only about 12 percent of rural startups receive a loan. At the same time, rural owners report increases in use of home equity and credit cards to start business. When we
compare business capital sources for metropolitan versus rural firms, we find that rural businesses have always been more dependent on bank loans. As fewer banks make fewer loans in rural areas, rural businesses are at greater risk.

C. Local Banks and Loans for Business Startup and Expansion

We have just completed an analysis of rural business loans that relies on the Survey of Business Owners and our longitudinal financial database (Mencken and Tolbert, forthcoming). From the financial establishment data, we determine the proportion of local banks (single establishments or small local multi-establishments) for each rural area. We then estimate a multilevel model predicting likelihood of a business startup or expansion loan. The rich SBO data permit us to include a variety of owner attributes (e.g., gender, race, ethnicity, education). The model results are striking: where there are more community banks, local businesses are more likely to obtain both types of loans. In rural areas, the effect of the local bank variable is larger than many of the attributes of the business owner. Although declining in number, community banks still matter.

V. Financial Sector Restructuring and Poverty

A. Conceptualization, descriptive evidence

Several members of our Central Texas business panel have told us that, were it not for their businesses, they would be living in poverty or have moved away. They see minimal local economic opportunities other than their own businesses. Many say they would be forced to relocate were it not for their businesses. Rural business owners, employees, and communities clearly benefit when viable businesses are established and succeed. Broader participation in the local economy surely means that poverty levels decline. If entrepreneurship and small business performance are inhibited by financial restructuring, then rural business formation may not be so promising a pathway out of poverty. We can draw on the longitudinal and cross-sectional datasets noted above to explore the plausibility of this suggested relationship between rural financial restructuring, local business performance, and poverty.

In simplest correlational terms, the research question implies a negative relationship between a rural area’s proportion of financial institutions that are independent local banks and the level of poverty. That is, where there are relatively more local banks, there is less poverty. We computed this correlation and a moderate negative relationship exists through the years that we observe. This is important, but preliminary support for the notion that financial sector restructuring does directly impact rural poverty. In work we are completing now, we conduct more rigorous statistical tests (see the section on our modeling project below).

While job creation matters in any local economy, the impact of just a few new jobs in small rural local economies can be a substantial hindrance to poverty. Our business panel members talk at length about the regulatory and other hurdles to hiring the first employee. In one of our early projects, we followed a national cohort of rural business owners who first added employees in 1996. Our longitudinal Economic Census data indicate that there are about 20,000 such new employers each year through 2005. In 1996, the number of employees hired averaged near one. The corresponding payroll average for newly employing firms was $30,000. As we followed the new employers through time, about one-third were no longer employers by 1999. But, another third of them persisted throughout the 10-year observation

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4 These findings were reported in a webinar sponsored by the Southern Rural Development Center (Tolbert, Mencken, and Blanchard 2012).
period. By 2005, those surviving new employers employed an average of 15 persons with average payrolls of almost $500,000. It is safe to say that those new employers had prospered and very likely contributed to less poverty in their rural communities.

With the restricted data sources we employ, we were able locate about 10 percent of those new rural employers whose businesses survived through 2005 in the 2002 SBO. That permitted us to tabulate their responses on the SBO questionnaire. Of particular interest here, about 30 percent of the surviving business owners reported obtaining a startup loan from a bank (circa 1996). Since we know that overall loan rates have gone down in conjunction with financial sector restructuring, this finding suggests that we may find less firm longevity and job creation as well.

B. Modeling Project

We are in the midst of a modeling exercise in which panel models are used to estimate a variety of outcomes that might be associated with the relative presence or absence of community banks. Most of these are related to poverty and local opportunities to exit poverty. They include business formation ("establishment births"), business longevity ("continuers"), local wage and income levels, and business dissolution("deaths"). The first set of these models uses a constant set of continental U.S. counties as spatial units. Temporal units are the years 1980-2010. These years begin and end with decennial Census points within the longer period for which we have establishment data. Outcomes such as local growth in establishment births are treated as a function of local bank concentration at an earlier point time along with other community factors. This balanced, lagged panel design allows us to model temporal and spatial autocorrelation as well as address endogeneity issues.

The first paper employing these models is nearly ready. It shows that independent local banks in rural counties increase growth in establishment births over time. There is also a spillover effect such that local banks in one rural county increase regional growth in establishment births. Another set of models estimates change in local wages and incomes. Micropolitan counties show increases in wage and incomes locally and regionally associated with community bank presence. Across all counties, we observe that local banks are associated with especially large increases in firm formation and numbers of establishments in the following sectors: (1) Real Estate and Rental and Leasing, (2) Finance and Insurance, and (3) Agriculture, Forestry, Fishing and Hunting. Each set of models contains some interesting differences in metropolitan vs. nonmetropolitan local bank effects. Papers should be available soon.

VI. Looking Forward

In keeping with the theme of the conference, we conclude by considering how we might rethink approaches to rural poverty.

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5 Data for this sector are limited to non-farm establishments covered in the Economic Census.
A. Antidotes to Poverty from our Owner Panel

1. Business Formation

Our Central Texas rural business owners report little advice or assistance in starting their businesses. They all wished for help in navigating paperwork, making location decisions, and marketing. If such services exist, it is not widely known among rural residents. The simple suggestion is to redouble efforts to assist entrepreneurs. But, the status quo is clearly not effective. In watching the dynamic in our focus groups, we noticed how much advice was generously given from one businessperson to another. Sponsored (and compensated) groups of experienced business owners would have credibility amongst novices and first-time businesspersons. Consider creative ways of getting successful rural business owners in discussions with prospective owners.

2. Job Creation

Our business owners perceive the regulatory bar for adding employees—especially first employees—to be quite high. For example, many new businesspersons have little or no experience with income tax withholding and payroll taxes. More than one business owner has told us that they hold off on hiring anyone until necessary for firm survival. This sometimes sends owners in search of day laborers and temporary workers—a practice that doesn’t build an experienced firm workforce and is unlikely to reduce community poverty. Once experienced with employment regulations, veteran business owners tell us that hiring becomes routine. This is another instance in which the knowledge and experience of established business owners could be of great assistance in mentoring prospective owners and entrepreneurs.

Workforce quality is a constant theme in discussions we hold with rural business owners. The concerns, however, are not so much about job candidates’ skill levels. Owners worry more about punctuality, personal hygiene, appearance, attire, demeanor, and ability to relate to customers. Some of these concerns are linked to widespread drug usage in the rural labor force. They further complicate hiring and retention. We wonder if major reductions in poverty through job creation are even possible in light of the drug problem. Other than learning from experienced owners how they have navigated these problems, we have no silver bullet here.

B. Importance of financial capital to other capitals

Of the community capitals listed by Flora, et al. (2015), we clearly give primacy to financial capital. Surely all the capitals are important and interrelated: human capital, social capital, political capital, financial capital, natural amenities, and built environment. We sketch an argument for how financial capital can reduce the value of social capital by ending relational lending. Similar arguments could be made for other capitals. Financial capital has been a largely forgotten aspect of rural community sustainability and development. We contend it needs to be front and center as we rethink rural poverty. Some well-intentioned efforts at mitigation of poverty will fall short primarily because of the financial capital of rural community. Some of those same efforts might succeed in a different financial climate. We need to do much more to understand the structures and processes that generate such different outcomes.

Many a conference has been held on measuring poverty. Conferees almost always reach the conclusion that income-based individual and household metrics are best. When we describe poverty at the community level, we simply aggregate the individual and household numbers. Another approach would be to express community poverty as poverty in various capital measures. We wonder how different our
approach to rural poverty would be if we viewed the problem in terms of a poverty of community capitals.

C. Banks as Social Institutions
Outside the economics and finance research communities, social scientists haven’t given much thought to banks. When we do consider them, we improve our understanding of the role of community institutions in rural America. One can view a bank as an important venue in which social capital is valued and rewarded. The independent community bank exists not just for financial reasons but as another location for making transactions denominated in social capital.

Social scientists are quick to point out the negative community consequences of closing a school or consolidating schools. Similarly, they have chronicled the community damage associated with the closing of a church. That damage is expressed partly in loss of social capital. The value that one builds by repeatedly engaging friends and neighbors on the schoolgrounds or in the pews is degraded. Social scientists don’t use banks as examples of social capital-generating institutions, but we think the closing of a community bank does much the same thing. It leads to a devaluing of social capital. This is why we argue for close monitoring of bank branch closures. The number of annual closures is small, but the trend is steady. With so many rural bank branches now parts of far-flung enterprises, we can anticipate the same sort of “hard data” decisions by remote managers that we have seen in small business lending. We suspect that social capital in the community will not be one of metrics of “underperformance” employed in branch closure decisions.

D. Specifying the Financial Restructuring-Poverty Relationship
We acknowledge that our depiction of the relationship between rural communities’ financial sector and poverty needs better specification. In the broadest sense, some sort of connection clearly exists. Yet, there are concrete empirical steps that could be taken to refine our understanding of this relationship.

1. Learn from Rural Communities Where Poverty is Declining
While the vast number of rural places face persistent poverty, there are some that have seen reductions in local poverty. Our tabulations show approximately 130 out of 2300 rural U.S. counties saw poverty declines of 10 percent or more from 1990 to 2010. Those locales and their community capitals—especially the financial sectors—deserve intensive study.

2. Explore Alternative Strategies for Business Capital
Personal resources (home equity loans, personal credit cards, family savings, retirement funds, and the like) are becoming more common sources of business funding. And, the alternative financial services (AFS) such as consumer loan storefronts and pawn shops are held out by some as potential sources of business capital. There has not been research on firm performance of businesses funding in these alternative ways. It may be that some of these capital sources work for entrepreneurs and business owners.

Business loans from Internet lending firms are widely advertised, but little is known about firm performance funding remotely in this way. Business loans can differ substantially from personal loans in that local intervention is often necessary. Construction loans—a major category of commercial lending—are often parsed out at several points along a planned project schedule only after lenders and local
inspectors certify progress. We think these types of remote lending for many small businesses are untenable due to these constraints, but they deserve researchers’ attention.

VII. Final Thoughts

While none one in our crew has been engaging the topic of rural poverty for all of the last 50 years, most of us have spent much of our careers facing the pall of persistent rural poverty. It is a blight that hampers development and quality of life for those who call rural America home. Lately, it seems the nation is taking note. We highly recommend the provocative series of Wall Street Journal articles over the last year that frequently employs the “inner city” metaphor to describe today’s rural America. It stings a bit to conceive of rural communities in terms of social disorganization, broken windows, hollowed social class structures, hyperdisadvantage, or inescapable hopelessness. If we learn lessons from looking back, one ought to be that our approaches have hardly succeeded. Going forward, we need to focus on some largely novel and untouched topics. Local financial sectors ought to be one of those.
References


Figure 1. Percent Local Financial Institutions