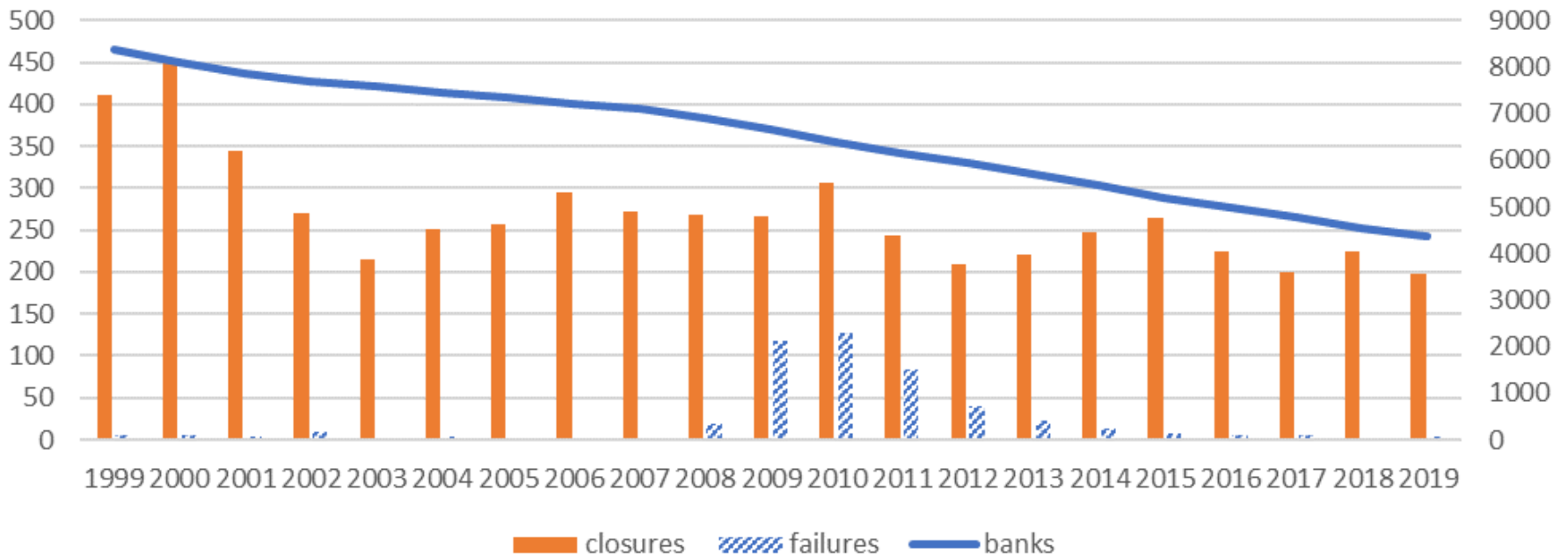


Unexpected Gains: How Fewer Community Banks Boost Local Investment and Economic Development

Bernadette A. Minton
Alvaro Taboada
Rohan Williamson

Substantial Decline in the # of Community Banks

Community banks, bank closures and failures



Concern . . .

Community banks are vital for community development due to their relationships with small businesses.

“small businesses have accounted for 66 percent of employment growth over the last 25 years.”

Small Business Association

“Consolidation also harms small businesses. Study after study has documented how, following bank mergers, small business lending dries up and available loans become more expensive. Consolidation among banks also supports consolidation in non-financial industries, undermining small enterprises.”

Senator Sherrod Brown of Ohio

In this paper, ask

Does the decline in the number of community banks lead to a decrease in small business lending, which in turn has adverse effects on community economic development?

How?

1. Investigate the impact of small business loan (SBL) originations in a county on community economic development
2. Then analyze how the loss of a community bank affects local SBL originations
3. What are the potential implications for the reduction in the number of community banks for community development through SBL

What do we find?

SB Lending & Community Economic Development

- The growth in SBL originations is positively associated with measures of community economic development
 - # of small establishments, total employment, small establishment employment
- Positive results remain in across county types including distressed and underserved counties
- *Bottomline*: Growth in SBL originations is important for community economic development.

What do we find?

Loss of community bank & Community Investment

- The loss of a community bank increases local SBL originations mainly in counties in which the closed community bank had a physical presence.

Is the increase due to the presence of Fintechs?

What about Fintech SB Lending? Positive Results Hold

	SBL originations	SBL originations to small firms	Total SBL originations
Post x Treat	0.146***	0.141**	0.113**
	-2.95	-2.21	-2.26
Controls	Yes	Yes	Yes
Share of deposits of top 4 banks	-0.010***	-0.013***	-0.009***
	(-3.09)	(-3.43)	(-3.01)
<i>Fintech share of SB lending</i>	<i>0.692***</i>	<i>1.039***</i>	<i>0.733***</i>
	-2.83	-2.98	-2.91
Observations	11,108	11,108	11,108
Adjusted R ²	0.889	0.831	0.876
Year-by-cohort fixed effects	Yes	Yes	Yes
County-by-cohort fixed effects	Yes	Yes	Yes

What explains seemingly counterintuitive result?



Are certain counties more likely to lose community banks?



Are the results driven by certain county characteristics?



Are the results driven by certain consolidated characteristics?



Are there structural changes over time?

Which counties are more likely to lose community banks?

Less likely to lose a community bank

- Distressed Counties
- Counties with
 - higher bank deposit concentration
 - larger share of small establishments
 - better capitalized banks

More likely to lose a community bank

- Underserved Counties
- Counties with
 - higher population growth
 - higher average wages
 - a larger share of deposits by the big four banks
 - banks with higher non-performing loans
 - higher share of deposits of CB

Does SB lending after the closures vary by county type?

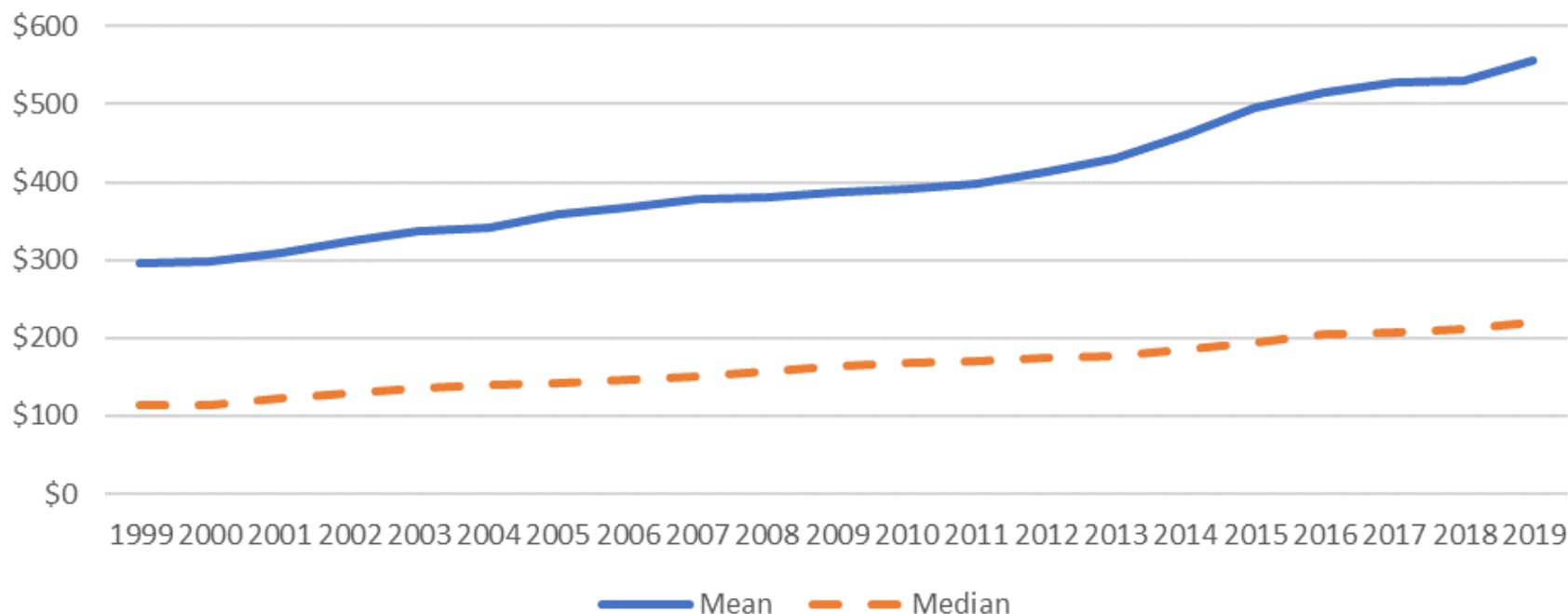
Increase in SB lending:

- Primarily in local target counties
 - with high *ex-ante* concentration of community banks
 - where consolidated entity keeps a local presence
 - Only when the consolidated bank is a community bank
 - Conversely declines if the consolidated bank is a large bank
- Driven, in part, by SB lending by other incumbent community banks

Do structural changes over time explain the result?

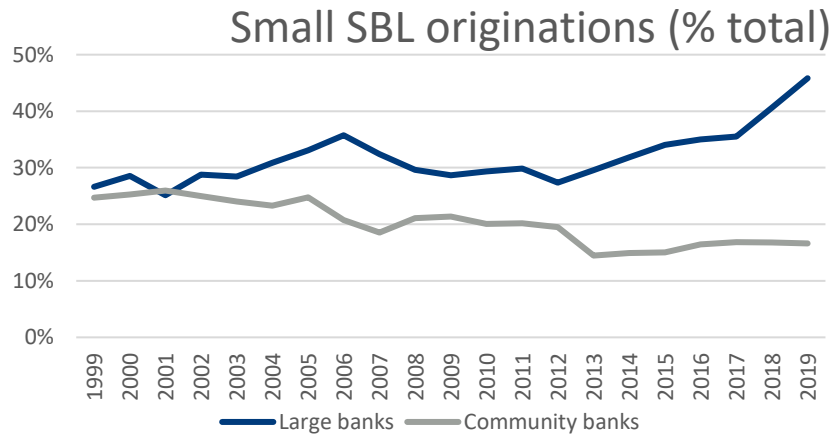
Fewer but larger community banks

Community Banks- Total Assets (US\$ million)

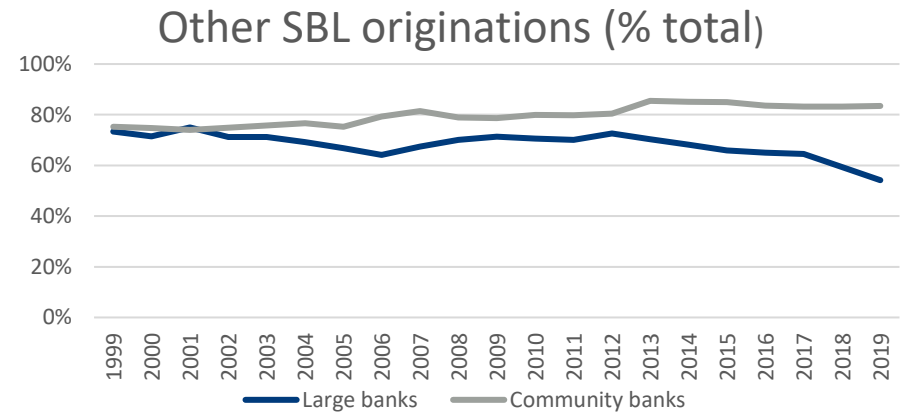


Change in SB Lending Focus over Time

Small SBL Large vs. CB



Other SBL Large vs. CB



- CB are decreasing the percentage of Small SBL under \$100K while large banks are increasing percentage of SBLs under \$100K
- CB are increasing the percentage of SBLs over \$100K while large banks are decreasing SBLs over \$100K

Conclusion

Policy response to the effects of community bank closures is nuanced

Evidence supports the idea that a one size fits all response to the loss of a local community banks are unlikely to enhance community investment

County level characteristics and consolidated entity decisions should be key considerations in any policy response to the reduction of the number of CB

Changes to the SBL landscape (e.g., Fintechs, emerging lending technologies, operational costs...) are important issues regulators should consider