

CFPB looks into the financial challenges of rural communities in the US

Article

The news: The Consumer Financial Protection Bureau (CFPB) is looking into the financial challenges faced by rural communities in the US living in [banking deserts](#).

A **banking desert** is a census tract that has no bank branches within it or within 10 miles of its center.

What action is the CFPB taking? The consumer protection watchdog's report, "**Data Spotlight: Challenges in Rural Banking Access**," gathered evidence of the impacts of bank consolidation and the declining number of branches on rural communities.

The report is a starting point for a CFPB initiative that will include further research and engagement with rural communities across the country, leading to actions to protect rural consumers.

What's the problem? In rural areas, high levels of financial needs often intersect with less access to banks, harming rural consumers.

Rural Americans rely heavily on physical bank branches. They visit bank branches at nearly double the rate of urban and suburban customers, the CFPB said.

- In 2019, nearly nine in 10 rural households visited a branch, and about four in 10 rural households visited 10 or more times yearly.

But bank consolidation and **branch closures** make it hard for rural customers to maintain in-person banking relationships.

- Rural communities tend to depend on community banks and credit unions. But institutions with less than \$1 billion in assets fell from 17,514 to 4,116 during that same period, according to the Congressional Research Service.
- Eighty-six new banking deserts were created in rural areas from 2008 to 2016, according to the National Community Reinvestment Coalition (NCRC)
- FDIC-insured institutions have fallen from a peak of 18,083 in 1986 to 5,033 as of 2020.
- That's mostly due to mergers, which averaged more than 400 a year from 1990 to 2016.

Internet-based services can't fill rural communities' banking needs due to a **lack of broadband access**. According to the FDIC, rural households have the lowest rates of mobile phone and internet access.

- Only 75.6% of rural people had access to a smartphone, compared to 86.2% in urban areas and 88.4% in suburban areas.

- **Only 68% of rural households had access to the internet in their home**—a much lower rate than urban households (79.5%) and suburban households (84.5%).
- As a result, **only 56% of account holders in rural areas use online banking**, compared to 75% in large Metropolitan Statistical Areas and 68% in small Metropolitan Statistical Areas, per the Federal Reserve.

High levels of financial needs often intersect with less access to banks, harming rural consumers, the CFPB said:

- Rural people are less likely to have credit scores maintained by one of the three nationwide consumer reporting agencies (NCRAs), so they're **more likely to be credit invisible**.
- Lower credit scores mean rural consumers pay higher rates on their mortgages—even though they are least able to afford it.
- **Rural households have the lowest rates of use of bank credit**. In 2019, 64.6% of rural households used bank credit, compared with 69.2% of urban households and 77.3% of suburban households.
- Instead they're forced to turn to more expensive alternatives to bank credit, such as payday loans and pawn shops.
- In addition, lack of banking access can make it more difficult to develop good financial habits. Lack of exposure to the banking system can result in **lower rates of financial literacy**.

Why it's worth watching: The **Community Reinvestment Act (CRA)** encourages banks to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. This also encompasses [rural areas](#). Stakeholder complaints within the CFPB's report point to unmet needs among rural residents:

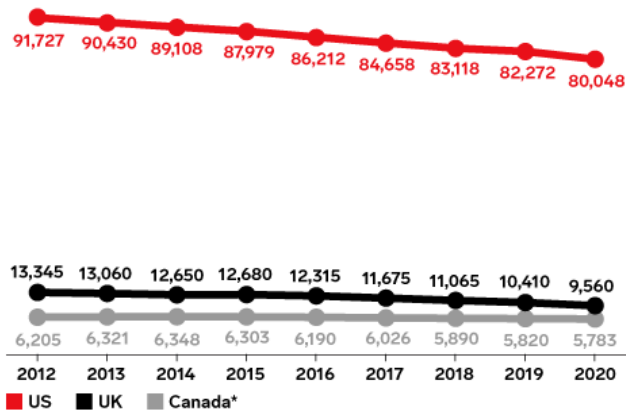
- Stakeholders said they **feel abandoned by the larger banks** who they say are not meeting their responsibilities to serve consumers across the country, including in rural areas.
- They point out that the larger banks have the resources to deliver tailored, relationship-based services to rural consumers and **should have a duty to do so**.

The banking industry can't afford to shrug off responsibility for banking access and claim it's more of a [connectivity issue](#)—leaving the Federal Communications Commission and infrastructure bills to ensure rural communities have access to reliable, high-speed broadband access.

- Rural stakeholders, particularly small businesses, reported that they need a relationship with someone from their community with “skin in the game” who can better perform underwriting and who cares about keeping storefronts open on the local Main Street.
- They also say the **loss of local banks can mean the loss of the people** who often provide much-needed expertise and leadership beyond their role as bankers, undermining the civic fabric of rural communities.

More findings like these from the CFPB’s research within rural communities may push the government to step in with regulatory changes.

Total Bank Branches in the US, the UK, and Canada*, 2012-2020



*Note: *Canada branch data is based on figures as of Oct 2020 from BMO Financial Group, CBIC, Canadian Western Bank, HSBC Bank Canada, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, Scotiabank, and TD Financial Group*
Source: Federal Deposit Insurance Corporation, Dec 2020; Canadian Bankers Association, Dec 2021; UK Parliament House of Commons Library, Oct 2021; National Credit Union Administration, March 2022

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