Local, Traditional, and Non-Traditional Financial Institutions in Rural America: 1976-2007

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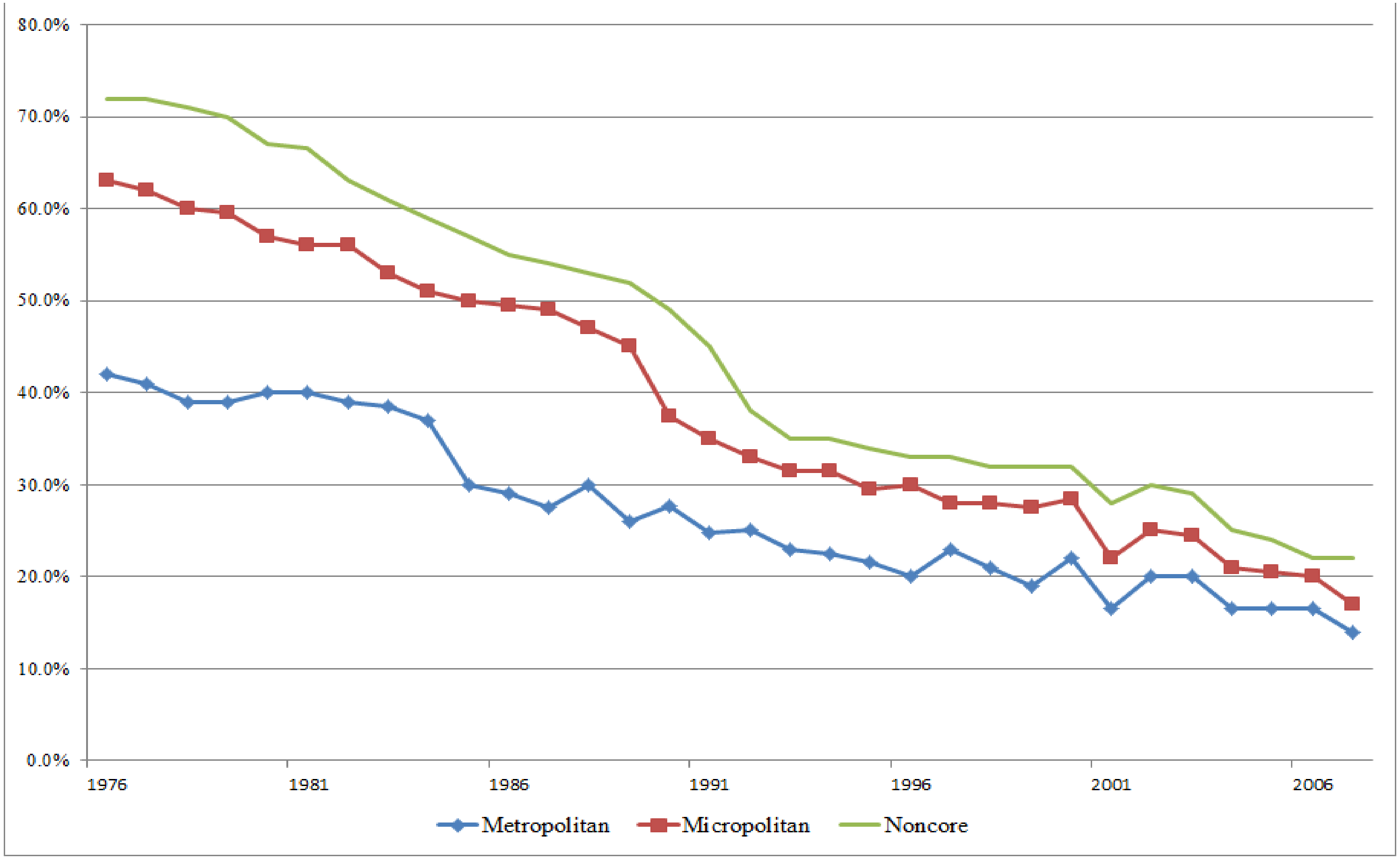
Importance of Local Businesses

- Locally-oriented businesses (e.g., small manufacturing and retail) associated with beneficial local outcomes and promote rural community resilience
- Thriving locally-oriented business class creates environment conducive to community development
- Our confidential business data permit us to distinguish local firms (all enterprise parts in one county) from non-local firms (scattered)
- Access to financing of local entrepreneurs is key

Percent Local Financial Establishments: 1976 - 2007



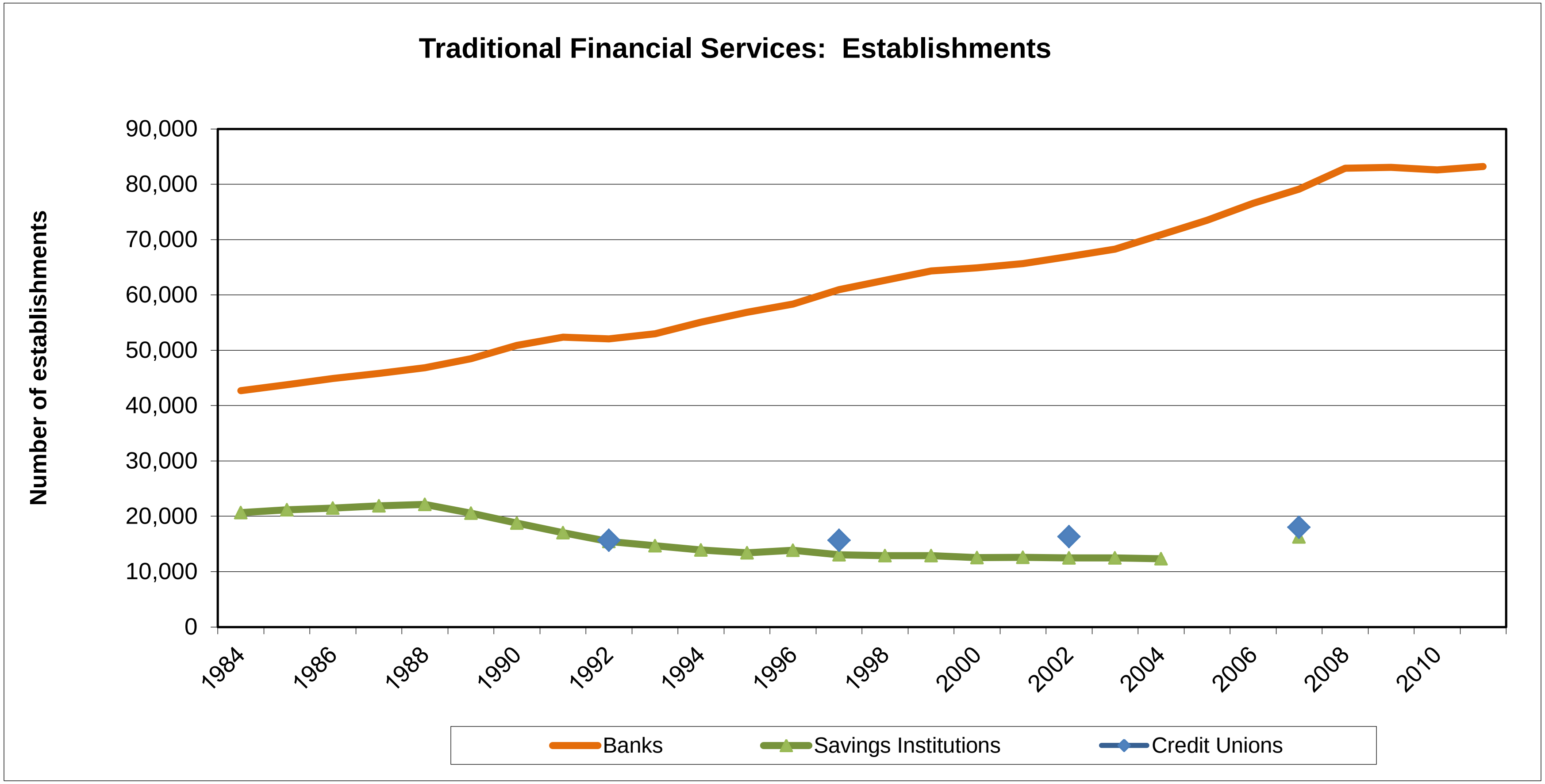
Changing Composition of Financial Services

- Spatial and temporal shifts in the traditional financial services (TFS) and alternative financial services (AFS) for rural America?
  - TFS: commercial banks, savings institutions, credit unions
  - AFS: pawn shops, check cashing stores, car title businesses, pay-day loans
- Potential impact of these shifts for rural America?

Changes in Traditional Financial Institutions

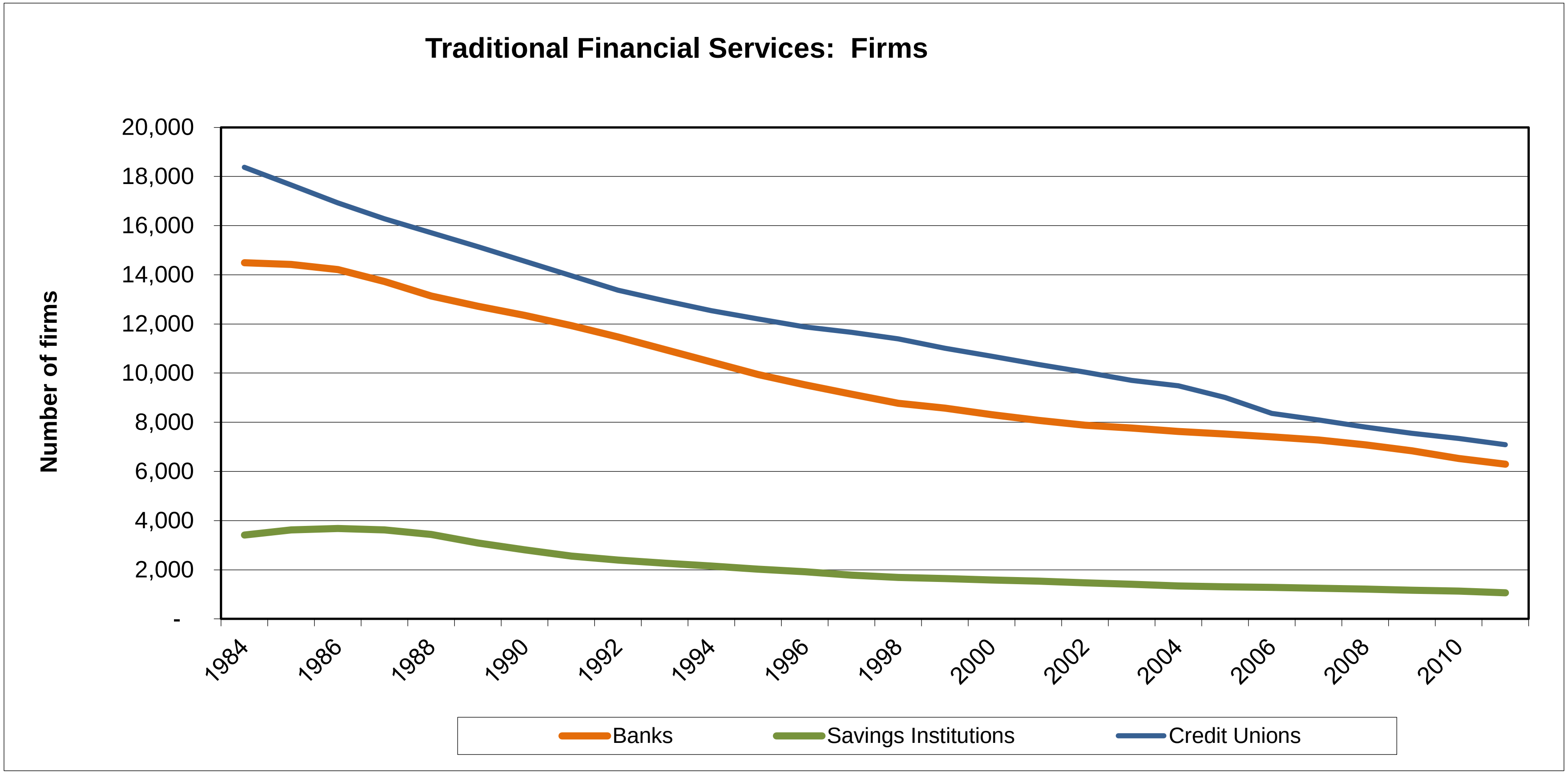
- Since 1980 depository institutions have gone through major changes
- Number of establishments has grown while the number of firms has declined
- Increased consolidation has led to absentee ownership trend at local level
  - Top 4 commercial banks in 2002 owned 12.6% of establishments (Source: 2002 EC)
  - Top 4 commercial banks in 2007 owned 31.8% of establishments (Source: 2007 EC)

TFS: Growth in Establishments



Source: United States Credit Union Statistics (CUNA), Federal Deposit Insurance Corporation, Economic Census (US Census Bureau).

TFS: Decline in Number of Depository Firms



Source: United States Credit Union Statistics (CUNA), Federal Deposit Insurance Corporation.

Impacts of Consolidation

- Increased geographical and social distance between lender and borrower
  - (DeYoung 2008)
- Inverse relationship between geographical distance of lending bank and lender and the volume of interaction between them
  - Berger et al. (2005)
- Reduction in relationship lending
  - Historically, small businesses relied on small, locally-owned depository institutions
    - Boot 2011; Devaney and Weber 1995; Berger and Udell 1996; Berger and Black 2007; Collender and Frizell 2002

Where will rural nascent entrepreneurs find capital?

- Half of all nascent entrepreneurs who applied for loans to help finance their ventures were turned down
  - Campbell and De Nardi (2009)
- Nascent business owners are very similar to low income workers in terms of access to credit
  - Bates (1997); Graves (2003)
- Sole proprietorships and small businesses more likely to depend on informal sources than on banks
  - Li et al. 2002; Huck et al. 1999; Bond and Townsend 1996

Sources of Capital

2002 Survey of Business Owners: Sources of Capital for Firm	Start-up	Expansion or Improvements
Personal/family savings	54.6%	25.5%
Other personal/family assets	9.0%	5.0%
Personal/business credit card	8.8%	11.4%
Business loan from bank	11.4%	9.2%

The next phase of the project

- How does mix of local financial institution impact small business performance?
- Modeling over time (1976-2007) and space (U.S. counties)

Small Business Performance = Attributes Of Entrepre-neurs + Various Area Controls + Financial Institution Mix