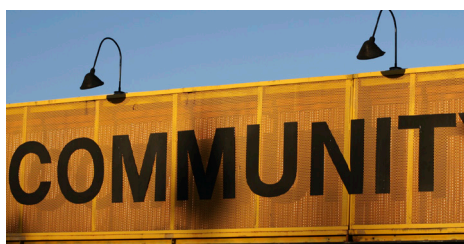


Why Branch Closures Are Bad for Communities



APRIL 2012

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ISSUE BRIEF

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Introduction

A recent article in the *American Banker* regarding the “death” of bank branches notes that “storefronts are expensive for revenue-strapped banks to maintain, while customers are using them less and less.”¹ But bank branches are also anchor institutions: the critical services they provide are essential to the vibrancy of communities.

Branches promote wealth creation and reinvestment. A previous study NCRC conducted for the Appalachian Regional Commission (ARC) found that as the number of branches increase in a county, the amount of small business lending increases.² Lending, particularly for small businesses and low- and moderate-income borrowers, is made possible through relationships and trust established between bank customers and branch personnel.³ In addition, before customers are ready to take out loans, they build credit and savings by establishing accounts at branches. In short, branches provide safe places for neighborhood residents to deposit their money, accumulate savings, and eventually receive home and small busi-

ness loans, which benefit their neighborhood through job retention and creation.

In contrast, when bank branches close in neighborhoods, fringe institutions such as abusive payday lenders or check cashers increase in number and charge exorbitant interest rates for services that were provided more cheaply by bank branches. In contrast to the wealth creation promoted by bank branches, fringe lenders represent wealth extraction from modest income communities. When considering that a single consumer can lose hundreds if not thousands of dollars paying usurious fees to payday lenders and other fringe financial institutions, the impact on neighborhood wealth can literally total in the tens or hundreds of thousands of dollars.

Branches Diminish in Modest Income Neighborhoods and Communities of Color

The Great Recession has had opposite impact on modest income and affluent neighborhoods in terms of bank branching. From 2007 through 2010, NCRC calculates that bank and credit union branches increased by 1,000 in middle- and upper-income neighborhoods while decreasing by 530 in low- and moderate-income neighborhoods across the country. In addition, branches increased in predominantly white neighborhoods by 598 while decreasing by 186 in minority neighborhoods (where more than 50 percent of the residents are minority).

The results of these trends are considerably less access to bank branches in modest income and minority neighborhoods than affluent and white neighborhoods. In Hous-

ton, Texas, for example, there was one branch for every 4,800 people in low- and moderate-income neighborhoods and one branch for every 2,700 people in middle- and upper-income neighborhoods during 2010. In other words, there are about twice as many people per branch in low- and moderate-income than middle- and upper-income neighborhoods in Houston, meaning that there is considerably less access to branches in low- and moderate-

income neighborhoods. In sharp contrast, there is more access to payday outlets in low- and moderate-income neighborhoods. In fact, there are about twice as many people per payday outlet in middle- and upper-income neighborhoods than low- and moderate-income neighborhoods. The chart below illustrates the disparity in branches and payday lenders by income level of neighborhood.

Disparities are likewise dramatic by race of neighborhood. In predominantly white neighborhoods (10 to 19 percent of the residents are minority), there was one bank branch for every 2,037 people, but one payday lender for every 42,668 people. By comparison, in predominantly minority neighborhoods (80 to 100 percent minority), there was one branch for every 7,059 people and one payday lender for every 6,413 people. There was more access to payday lenders than branches in the predominantly minority neighborhoods, while

Table: Bank Branches and Payday Lenders by Income level of Census Tracts, Houston MSA

Income Level	No. of Tracts	Population	Bank Branches	Payday Lenders	Population/ Bank Branches	Population/ Payday Lenders
LMI*	362	1,735,747	359	255	4,835	6,807
MUI*	533	2,979,660	1,113	237	2,677	12,572
TOTAL	895	4,715,407	1,472	492	3,203	9,584

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the opposite was the case in predominantly white neighborhoods.

The Center for Responsible Lending, Steven Graves, and other researchers have found similar disparities by race and income of neighborhood of bank and payday branch locations in Illinois, Louisiana, California, and Oregon.⁴

*LMI: Low- and moderate-income

*MUI: Middle- and upper-income

Table: Bank Branches and Payday Lenders by Minority Level of Census Tracts, Houston MSA

Income Level	No. of Tracts	Population	Bank Branches	Payday Lenders	Population/ Bank Branches	Population/ Payday Lenders
<10%	23	116,332	52	0	2,237	
10-19%	142	768,028	377	18	2,037	42,668
20-49%	286	1,531,050	596	141	2,569	10,859
50-79%	204	1,107,097	269	147	4,116	7,531
80-100%	237	1,192,894	169	186	7,059	6,413
NA	3	6	9	0	1	--
Total	895	4,715,407	1,472	492	3,203	9,584

Bankers' Opinions on Branches

Bankers are split on the desirability of branches. Thomas McDermott, senior vice president of cross-channel strategy for SunTrust, says that the “The next frontier would be much fewer branches.” He adds that “80% of SunTrust customers, regardless of age, want access to physical branches, but they don’t necessarily tell us we have to be on every single street corner, as long as they can get to us within a 20-minute drive.” What McDermott overlooks is that older Americans and other populations in traditionally underserved neighborhoods may not be able to drive 20 minutes, but would patronize a branch if they can walk to it in their neighborhood.

In a contrasting viewpoint, TCF Financial Inc. CEO William Cooper remarked that TCF continues to attract customers only in locations where it has branches. “TCF doesn’t have any branches in Florida and so we don’t have any accounts in Florida. In the Midwest we have 450 branches and I have two million accounts, and that’s what causes the opening of those accounts.”⁵

Policies Promoting Bank Branching

In order to ensure that all bankers understand the importance of bank branches to neighborhoods and their business, Congress and the regulatory agencies can undertake the following:

Better Data on Demographics of Bank Branch Customers: Congress should require Home Mortgage Disclosure Act (HMDA) like data for bank deposits (This requirement was in early versions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 but was stripped at the last minute). Publicly available loan data by race, gender, and income has effectively held lending institutions accountable for increasing responsible and prime home loans to minorities, women, and modest income borrowers. Likewise, the same result in terms of increasing branches and deposits would occur if data was publicly available on which demographic groups had deposits and access to branches.

Strengthen the CRA service test – The service test on CRA exams scrutinizes the level of bank

branches and services to low- and moderate-income borrowers and communities. Yet, the service test is often the least rigorous and effective test on a CRA exam. A University of North Carolina study concluded that of all the tests on a CRA exam, the service test was most likely to have an inflated rating.⁶ Likewise, a NCRC and New York Law School study found that the new CRA exams for mid-size banks dramatically reduced the scrutiny of bank branching.⁷ Currently, one of the regulatory agencies, the Office of the Comptroller of the Currency, is considering branches as far as one mile away as accessible to low- and moderate-income communities.⁸ Older adults and other populations with limited mobility will not have effective access to such branches. CRA exams need better data such as HMDA-like data for deposits and better methodologies for evaluating bank branching.

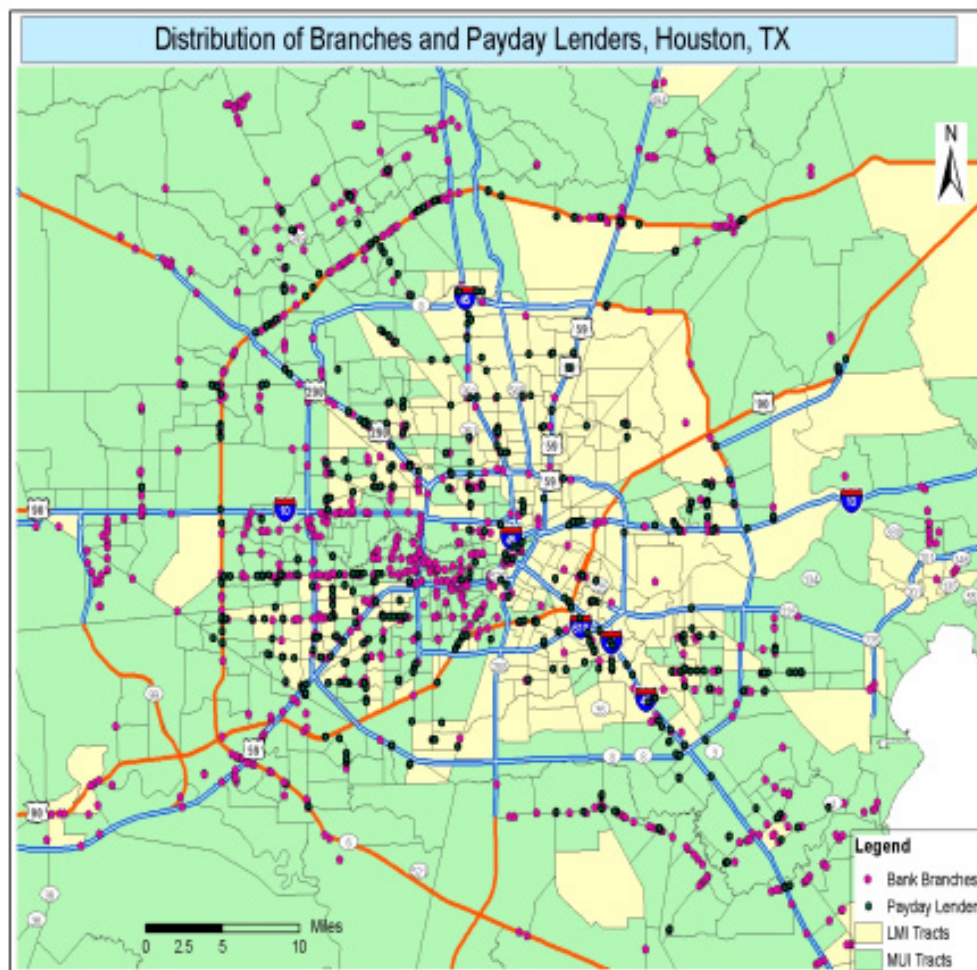
Access to Bank Branches and Lending as part of the Analyses of Impediments: The Department of Housing and Urban Development (HUD) requires jurisdictions participating in HUD programs to analyze impediments to choice in housing. These analyses often include an analysis of HMDA data. HUD should require an analysis of HMDA and branch data as part of these analyses.

Apply CRA to mainstream credit unions: The number of branches in low-income neighborhoods declined 1 and 8 percent for banks and credit unions, respectively, from 2007 through 2010. The number of bank branches in moderate-income neighborhoods declined 1 and 13 percent for banks and credit unions, respectively, during the same time period. Credit unions were more apt to retreat from modest income neighborhoods during the Great Recession, in part, because banks have CRA obligations whereas credit unions do

not. NCRC has previously found that banks are more successful in offering a higher proportion of their home loans to low- and moderate-income neighborhoods and other traditionally underserved populations than credit unions. Applying CRA to credit unions would bolster their branching and lending to modest income populations just as the experience of applying CRA to state-chartered credit unions in Massachusetts has shown.

Conclusion

The recent *American Banker* article on the future of bank branches suggests that online banking is poised to decimate branching, just like online movie rental service Netflix is wiping out Blockbuster. Yet, we have heard these predictions before, most recently in the late 1990s and early 2000s. The movie rental analogy is misplaced. Financial transactions are considerably more complicated than renting a movie, and many consumers will want the security and trust of dealing in person with bank staff. The question is whether “anointed” privileged communities will have primary access to branches, or whether branches can be made accessible to all communities. If public policy effectively motivates banks to focus on the symbiotic relationship between the profitability of bank branches and the economic health of communities, then the future for both banks and communities looks bright.



Footnotes

¹Victoria Finkle, “Bankers Defend Their Branches, Say Death Reports Are Greatly Exaggerated,” in the *American Banker*, March 16, 2012

²NCRC study for the Appalachian Regional Commission, Access to Capital and Credit for Small Businesses in Appalachia, April 2007, available via <http://www.ncrc.org> or http://www.arc.gov/research/researchreportdetails.asp?REPORT_ID=8. The NCRC study for ARC also has a literature review which describes studies assessing the importance of branches for small business lending.

³O. Emre Ergunor and Stephanie Moulton, *Economic Commentary: Do Bank Branches Matter Anymore?*, Federal Reserve Bank of Cleveland, August 4, 2011, <http://www.clevelandfed.org/research/commentary/2011/2011-13.cfm>. The authors find that lending to low-income populations with marginal credit is bolstered by the presence of bank branches in neighborhoods. They also examine the impact of population and economic change on bank branching in the Cleveland metropolitan area. Also, proximity to bank branches reduces defaults, particularly in credit card lending. See Sumit Agarwal, Souphala Chomsisengphet, Chunlin Liu, Nicholas S. Souleles, *Benefits of Relationship Banking: Evidence from Consumer Credit Markets*, Federal Reserve Bank of Chicago, 2010, http://www.chicagofed.org/digital_assets/publications/working_papers/2010/wp2010_05.pdf.

Wei Li, Leslie Parrish, Keith Ernst and Delvin Davis, *Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California*, Center for Responsible Lending, March 26, 2009; Steven M. Graves, *Landscapes of Predation, Landscapes of Neglect: A Location Analysis of Payday Lenders and Banks*, 2003; and Andy Freed, John Hall, Chris Lambert and Jamie Ludwig, *A Location Analysis of Payday Lenders in the Portland Metropolitan Area*

⁵See *American Banker* article, op cit.

⁶Michael A. Stegman, Kelly Thompson Cochran, and Robert Faris, Center for Community Capitalism, University of North Carolina, *Creating a Scorecard for the CRA Service Test: Strengthening Basic Banking Services under the Community Reinvestment Act*, 2001.

⁷Josh Silver and Richard Marsico, *An Analysis of the Implementation and Impact of the 2004-2005 Amendments to the Community Reinvestment Act Regulations: The Continuing Importance of the CRA Examination Process*, New York Law School Law Review, 2008-2009, Volume 53, Number 2.

⁸Capital One NA Charter Number: 13688, see page 60 for the section of the exam that discusses the service test in Maryland, via http://www.occ.gov/topics/compliance-bca/cra/2011-12_08_Capital%20One%20NA_CRA_PE.pdf

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