Daniel L. Milkove and Patrick J. Sullivan

Should Rural Communities Fear Bank Deregulation?

Some thought bank deregulation would lead to a "rural takeover" as urban banks drained funds out of rural areas. Instead, in rural areas lucky enough to be served by both urban and local banks, credit and other financial services may be more readily available than before. Urban banks, by drawing on their urban funding base, can better withstand reverses in the local economy. Customers have a wider choice of banks to patronize.

News about banks and the banking industry moved increasingly from the business page to the front page in the 1980's. Regulations controlling rates and types of deposits offered by banks were largely eliminated. A rash of bank failures resulting in part from troubles in the agricultural and energy sectors aroused public concern for the safety of bank deposits. Many States relaxed geographic restrictions governing where banks can operate, freeing large banks to move across State lines and encouraging mergers among bank firms. The last Congress even considered allowing all commercial banks to compete with investment banking, insurance, real estate, and securities firms by letting them provide services prohibited them since the 1930's.

Of special concern to rural areas is whether deregulation will lead to the demise of locally controlled community banks, as some have predicted, or to banks abandoning rural markets. Will deregulation increase the amount and range of financial services available to rural residents and businesses, or will it siphon funds out of rural areas, leaving local development projects underfunded? Convincing evidence is hard to come by. Our look at the data suggests that urban-based banks do play an important and increasing role in rural markets, but rural-based banking firms can coexist with their city cousins and continue to serve rural credit needs.

Why Care Who Owns Your Bank?

Some rural advocates believe that locally owned and operated community banks are of critical importance for economic development in rural areas. Because local bankers know the local residents and their businesses, they can confidently make loans that would not meet the rigid and standardized requirements of large, urban-based banking firms. These rural banking proponents fear that branches or holding company affiliates of outside banking organizations will transfer rural deposits for use in cities where lending opportunities are better understood and seemingly more profitable.

Other experts stress the ability of large banks and multibank holding companies to provide a wider variety of loan products and other financial services, and the implicit safety that arises from geographic diversification. As traditional rural industries decline, outside banks may be better positioned to help residents start new businesses that would not be familiar to community (locally owned) banks and bankers. By serving many localities, problems in one industry (such as agriculture) are less likely to harm the bank to the point of its being unable to meet other local credit demands.

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Reports of the demise of rural banks are premature. Some observers had feared that smaller banks' markets would be targeted for raids by larger urban banks.

Anecdotal evidence supports both positions, but the truth is simply not known. Behavior by branch banks and multibank holding companies varies considerably from firm to firm, so behavioral assumptions are unlikely to hold universally. And since detailed information on bank lending patterns is unavailable, we can only guess at how much freedom a branch manager or a manager at a bank subsidiary has in serving local credit needs. But we can say

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Table 1—Changes in State bank structure

State	Banks in 1960	Banks in 1986	New banks 1960-88	Failed banks, 1983-88	Absorbed banks 1972-86	Multibank holding company affiliates 1986	Banking firms 1986	Banking offices 1986	Rural offices under urban control 1986[1]
	Number								Percent
Alabama	237	229	122	7	110	57	184	1,003	33.7
Alaska	15	15	9	5	2	4	13	155	75.3
Arizona	8	53	61	1	5	0	53	751	88.6
Arkansas	233	256	41	5	10	57	219	703	3.1
California	110	471	583	35	89	28	455	4,824	70.7
Colorado	168	470	334	35	3	239	267	572	18.6
Connecticut	69	60	55	0	33	14	51	543	65.0
Delaware	20	30	28	0	3	0	30	178	56.5
Dist. of Columbia	12	19	12	0	1	2	18	176	NA
Florida	290	397	663	12	488	128	294	2,619	62.7
Georgia	384	367	113	0	121	123	276	1,501	22.1
Hawaii	6	22	16	0	0	4	20	247	92.3
Idaho	32	24	11	1	8	4	22	297	63.2
Illinois	952	1,217	353	18	42	410	927	1,977	5.7
Indiana	445	356	31	7	70	90	290	1,655	3.9
Iowa	663	613	41	34	53	159	491	1,164	5.8
Kansas	587	611	90	53	13	57	578	837	3.0
Kentucky	355	331	31	6	24	79	281	1,106	5.1
Louisiana	187	297	134	31	17	37	272	1,224	3.4
Maine	51	22	11	0	25	4	19	358	54.1
Maryland	141	91	38	0	42	26	70	1,263	64.3
Massachusetts	166	100	53	1	60	45	63	1,190	73.8
Michigan	382	344	93	2	48	188	175	2,438	43.8
Minnesota	684	732	95	31	38	204	571	1,102	12.2
Mississippi	192	141	45	2	68	0	141	863	12.5
Missouri	618	609	167	27	142	244	407	1,332	21.4
Montana	115	169	58	7	0	82	102	193	14.7
Nebraska	422	437	75	32	40	52	404	639	3.8
Nevada	7	18	14	1	1	2	17	195	78.9
New Hampshire	72	51	31	0	27	25	33	261	33.1
New Jersey	255	114	128	1	128	43	79	1,749	NA
New Mexico	52	94	52	6	4	41	61	372	8.5
New York	405	196	77	5	128	46	162	3,492	66.5
North Carolina	191	65	48	0	65	2	64	1,938	54.5
North Dakota	154	176	25	3	1	50	136	299	13.9
Ohio	587	302	57	3	223	92	230	2,688	50.1
Oklahoma	385	519	187	78	25	61	479	733	2.6
Oregon	53	59	74	14	40	4	56	697	59.0
Pennsylvania	712	302	22	1	149	86	244	3,049	31.5
Rhode Island	9	14	9	0	1	0	14	198	57.1
South Carolina	139	71	33	0	39	0	71	873	58.9
South Dakota	173	133	17	6	32	27	116	306	23.8
Tennessee	293	283	86	31	84	69	233	1,212	18.3
Texas	976	1,960	1,122	150	29	838	1,261	2,311	11.6
Utah	49	60	82	10	52	6	56	447	80.5
Vermont	56	25	2	0	16	10	19	215	31.4
Virginia	309	170	160	0	180	42	136	1,749	55.1
Washington	86	93	101	2	48	9	88	956	62.9
West Virginia	183	212	74	1	36	74	164	424	10.3
Wisconsin	554	566	121	2	86	232	377	1,164	18.3
Wyoming	53	106	71	20	0	60	57	112	2.9
Total	13,297	14,072	5,956	686	2,956	4,156	10,846	56,350	28.0

Source: Bank level data through yearend 1986 from the Structure File, Board of Governors of the Federal Reserve System, with lists of failed banks from the Federal Deposit Insurance Corporation. Absorption data (banks that became branches of other banks following mergers) begins July 1972. Interstate banking cases are ignored when counting affiliates of multibank holding companies, unless the MBHC owns at least two affiliates in more than one State. Office counts derived from FDIC's annual (June 30) Summary of Deposits tapes.

[1]Percent of all rural banking offices that are controlled by an urban-based banking firm. NA (not applicable) for DC and New Jersey because they have no rural counties.

something about trends in the structure of rural banking markets over the last several years.

Deregulation's Impact to Date

Through the early 1980's, new banks outpaced banks lost as a result of mergers and occasional failures. More recently, the pattern reversed as mergers increased and bank failure became all too familiar. Many MBHC affiliates are in States with strict limits on bank branching. And absorptions (banks that become branches of acquiring banks) are routine in some States that permit expansion into nonlocal markets only by purchasing existing banks. Generally, the number of banking offices far exceeds the number of banks in States with relaxed branching rules, and banks proliferate where branching is limited. State diversity is perhaps most evident in the measure of rural banking offices controlled by urban firms.

The total number of commercial banks grew in the 1960's and 1970's, peaked at around 14,500 a few years ago, and is now (13,229 as of June 1988) below the 1960 level (13,297). State banking laws, the policies of chartering authorities, local economic and demographic conditions, and the initial banking structure help explain State variations (table 1). The creation of new banks is closely associated with rapidly expanding economies; Texas and Florida lead the country in the number of new banks formed since 1960. But branching restrictions play a role, too. While California was third in new bank formations over this period, its population and strong economic growth suggest it should have been first. New banks were hindered by active statewide branching firms entering or expanding in growing markets. Nonetheless, the California experience suggests that small banks can successfully find market niches among the behemoths of the industry.

Liberal branching regulations reduce bank numbers both by permitting MBHC's to convert bank affiliates to branches of their lead banks and by inducing mergers of unrelated banks. Even if MBHC's converted all but their lead bank affiliates to branches in 1986, the number of banks still would have been over 10,000, (10,846 instead of 14,072). When deregulation was first picking up steam, some analysts predicted mergers of unrelated banks would drastically reduce

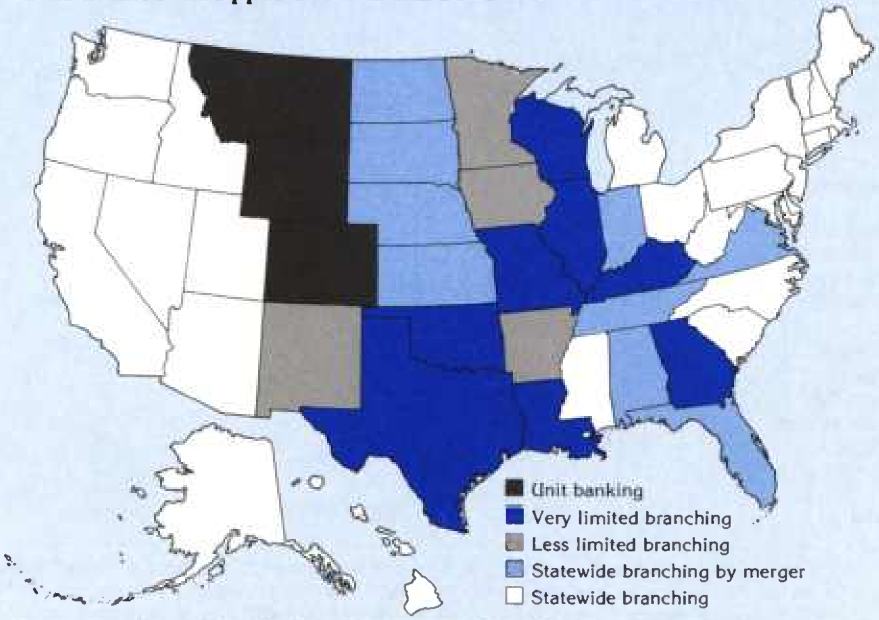
The U.S. Banking System

A bank can apply for either a State or national charter, both eligible for deposit insurance from the Federal Deposit Insurance Corporation (FDIC). States decide whether State-chartered commercial banks can have branch offices or belong to bank holding companies, and Federal regulators give national banks in those States equal branching and holding company authority. This dual banking system has led to wide variation across States in the number of banks and bank branches and in the structure of bank ownership.

States fall into three groups with regard to bank branching: unit banking (no branch offices permitted); limited branching (branches in designated areas); and statewide branching (branches anywhere). Some limited-branching States allow branching across contiguous county lines or within fairly liberal mileage restrictions, while some statewide branching States restrict new branches, but allow branches by merger anywhere. Figure 1 portrays branching by State as scheduled for 1994. A recent policy change by the Comptroller of the Currency (the Federal regulator for national banks) to let national banks follow savings and loan association branching regulations may accelerate the trend toward statewide bank branching. The Comptroller's reasoning, that S&L's can now provide most banking services yet typically have more liberal intrastate branching authority, has so far been supported by the courts.

A bank can be independently owned and operated, an affiliate of a bank holding company, or part of a chain bank. A bank holding company is a firm that owns at least one bank, and possibly other subsidiaries. In return for additional supervision from the Federal Reserve Board (Fed), bank holding companies may use subsidiaries to enter otherwise ineligible businesses (such as mortgage banking, discount stock brokerage, and consumer finance), gain tax advantages, and issue certain forms of securities to raise additional funds for expanding their bank(s). Two-thirds of all banks are now controlled by bank holding companies. Chain banks are formed when the same stockholders control two or more banks, but without setting up a holding company as an outer shell. This permits diversification into other markets without bringing in Fed supervision, but forgoes entry into lines of business allowed only for bank holding companies. Because the data do not identify chain banks, they are grouped with independent banks.

Figure 1
States differ in approach to bank branches



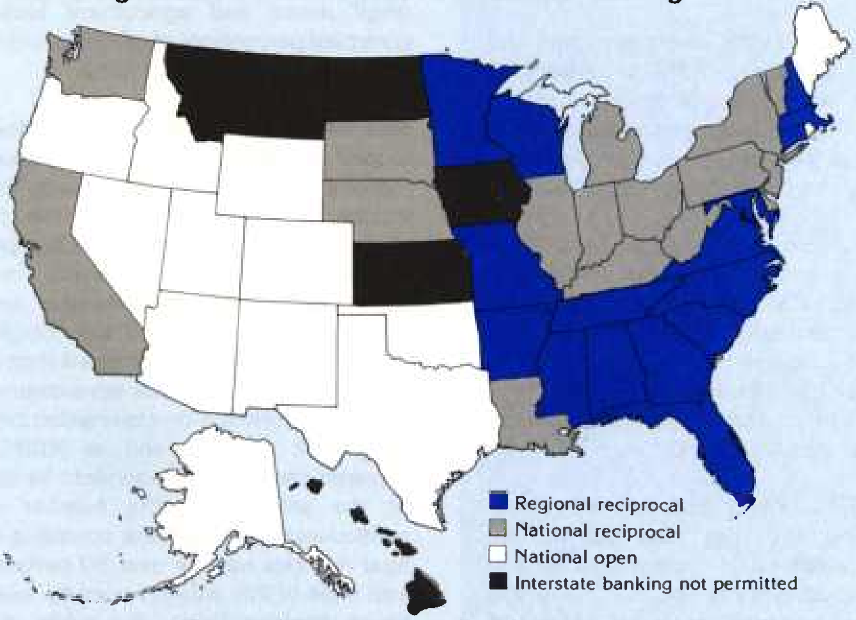
Source: Dean F. Amel, **State Laws Affecting Commercial Bank Branching, Multibank Holding Company Expansion, And Interstate Banking**, Mimeo, Board of Governors of the Federal Reserve System, and **Banking Week**, various issues.
The map classifies States according to laws scheduled to take effect by 1994.

A multibank holding company (MBHC) owns at least two bank affiliates. The banks have separate charters and boards of directors, but the holding company sets policy and may run its affiliates like bank branches. The MBHC structure substitutes for branches in States that restrict branching. Some States eliminated this option by outlawing MBHC's. Only Mississippi continues to do so but others limit the number of affiliates or the proportion of State deposits that can be controlled by a single holding company. MBHC's control about 30 percent of U.S. banks (1986 data), but 51 percent of bank offices and 51 percent of the banking system's total assets.

Interstate banking has proceeded almost entirely through MBHC's. Federal legislation (1956) intended to prevent interstate banking gave each State the authority to permit banks from other States to set up shop in its State. Only five States have not passed laws authorizing some form of interstate banking (fig. 2). Reciprocity is often required, at least in the initial years. Regional compacts, which limit acquiring banks to specified States, allow local banks time to merge into regional banking systems large enough to compete successfully in their own markets with huge banks based in New York City, Chicago, San Francisco, and Los Angeles. But increasingly, regional protection is accompanied by a nationwide trigger opening the State to all comers in a few years. Federal action is fast becoming irrelevant; by 1992, 29 States will permit nationwide banking.

Certain aspects of interstate banking are available through other routes. Banks can have loan production offices in other States, and market credit cards and deposits through the mail. Except for the bank itself, affiliates of a bank holding company can open branches anywhere. Several States permit bank holding companies to open special purpose banks, usually to handle credit card accounts. The State gains jobs, and the holding company applies that State's favorable terms on interest rates and annual fees to credit card holders in States with more restrictive terms. "Nonbank banks" were invented a few years ago by lawyers who noticed a loophole in the legal definition of a bank. The loophole allowed firms with bank charters and Federal deposit insurance to open offices across State lines provided they withheld offering either checking accounts or commercial loans. The Competitive Equality Banking Act of 1987 removed the loophole, but allowed existing nonbank banks to continue operating.

Figure 2
States rights rule when it comes to interstate banking



Source: Dean F. Amel, **State Laws Affecting Commercial Bank Branching, Multibank Holding Company Expansion, And Interstate Banking.** Mimeo, Board of Governors of the Federal Reserve System, and **Banking Week**, various issues.
The map classifies States according to laws scheduled to take effect by 1992.

the number of banks. Now the consensus seems to be that while total banks will continue to decline, the United States will maintain thousands more independent banking organizations than other industrial nations do.

Many rural banking offices are controlled by urban-based banking organizations, that is, banks headquartered in an urban county or affiliated with an urban-oriented MBHC (table 1). In States that prohibit or severely restrict branching, control comes primarily through MBHC's. Conversely, in States with long traditions of statewide branching, bank organizations assert control over rural banking offices primarily through branches. Further, the proportions of rural offices involved are much greater in such States. Many States fall somewhere between these extremes, either because branching authority has geographic limits or because liberalizing legislation is too recent to have taken full effect. In such cases, holding company affiliates supplement branching.

Though prior experience in States with long branching traditions is instructive, we do not expect it to be fully replicated generally, or in rural areas in particular. Given the opportunity, MBHC's will convert affiliates to branches. And banks will expand to rapidly growing communities, be they rural or urban. But expensive branch offices serving numerous small depositors are no longer the preferred method by which large banks gather loanable funds. Interest rates on alternatives, such as large certificates of deposit purchased through brokers, exceed those paid for more traditional checking and savings accounts, but overall handling costs are lower.

Banks no longer compete solely on the basis of service, such as a branch on every corner. With deposit deregulation earlier this decade, banks must offer competitive yields to attract consumer deposits and are under intense pressure to hold down operating expenses. As a result, some large banks reduced their branch networks and others plan to grow without the expense of building and staffing new offices. Over time, the banking systems of States with newly established branching systems and the systems of mature branching States may begin to resemble one another. But our guess is that branching in States like Texas, with a unit-banking tradition, will never approach the level of California, where some banks

Table 2—Characteristics of "rural banks" and bank offices

Banking firm characteristics	1980 Firms	1980 Offices	1986 Firms	1986 Offices
		Number		
Total	7,658	17,154	6,830	19,055
		Percent		
Geographic coverage:				
Local (intracounty) firms	90.0	62.8	82.9	49.6
Single-office banks	61.2	27.3	52.6	18.9
Multi-office firms	28.8	35.5	30.3	30.8
Multicounty banking firms	10.0	37.2	17.1	50.4
Urban-based firms	4.4	22.5	5.6	28.0
Interstate firms	.1	3.2	.7	12.3
Asset size of banking firms:				
Small (under $100 million)	94.0	67.6	87.9	52.7
Medium ($100—$1,000 million)	4.3	14.9	9.5	19.6
Large (over $1 billion)	1.7	17.4	2.7	27.6
Banking firms with expertise in:				
Agricultural lending	49.1	29.6	43.6	22.8
Commercial/industrial lending	8.7	15.1	11.8	23.2

Source: Asset size and lending data from the June 1980 and 1986 *Reports of Condition and Income* files, Board of Governors of the Federal Reserve System. Bank office location information from the June 1980 and 1986 *Summary of Deposits* files, Federal Deposit Insurance Corporation. The table includes all banking firms with at least one rural office.

Data Sources and Concepts

The goal of our research on banks is to assess whether rural banking offices can meet rural development needs. In this article, we therefore stress the banking firm (branch bank or MBHC) of which the office is a part. Since a small branch or MBHC affiliate can draw upon the resources of the parent organization, we consider "rural" bank to mean any banking organization with one or more bank offices in a rural county. To describe the basic character of the rural banking system, we further classify banking firms according to their geographic size (for instance, local firms serving only one county, multicounty firms, and interstate banking firms), their base of operations (for example, urban-based bank organizations), and their lending expertise.

The latter two classifiers need some explanation. Non-MBHC banks headquartered in metropolitan counties are considered urban-based. For MBHC organizations, the headquarters of the lead bank (an affiliate with assets over twice the size of any other affiliate) determines whether the banking firm is urban-based or not. For MBHC's with no lead bank, urban-based firms are those with more than two-thirds of their total assets held by affiliates headquartered in metropolitan areas.

Banks with expertise in agricultural lending and commercial and industrial (C&I) lending are also of interest. Since there is no commonly accepted measure of a bank's lending expertise, we have adopted rather arbitrary proxies. A bank is assumed to possess expertise in making agricultural loans if 25 percent or more of its loan portfolio is in farm loans—the FDIC's definition of an agricultural bank. A banking firm possesses C&I lending expertise if more than 19 percent of its total asset base is in C&I loans (that is, more than one standard deviation above the mean for banks with less than $500 million in assets in 1980).

Location of bank offices was derived from the FDIC's yearly *Summary of Deposits* reports. Aggregate data for the banking firm, as reported in the Federal Reserve Board's (Fed), *Reports of Condition and Income*, was used to describe the structural and operational characteristics of rural banks. Changes in bank structure due to the formation of new banks and bank mergers were tracked by the Fed's *Bank Structure* file, while information on bank failures was provided by the FDIC.

have hundreds of branches throughout the State.

"Rural Banks" and Bank Markets in the 1980's

Legislation affecting intrastate bank branching or MBHC activity took effect in 29 States between 1980 and 1986, as did much of the interstate banking legislation passed to date. The banking systems of only six States were totally unaffected by changes in State regulations governing bank structure during these 6 years. As a result, developments in the structure of rural banking since 1980 reflect both geographic and deposit deregulation.

At the beginning of the decade, 7,658 banking organizations operated one or more rural bank offices. Most of these were traditional "rural banks": small, independent banks serving very limited geographic markets, with 61 percent having no office other than the bank's headquarters, and about half specialized in agricultural lending (table 2). However, the distribution of rural bank *offices* paints a different picture of the rural banking system. Only 10 percent of the rural banking firms maintained offices in more than one rural county, but they controlled 37 percent of rural bank offices. Less than half of the multicounty rural firms were urban-based, but they operated over 22 percent of rural bank offices. Conversely, small banks and agricultural banks controlled percentages of offices far below their proportions of rural firms.

Structural changes since 1980 further eroded the validity of the mental picture many of us have of smalltown banks. The number of rural bank offices rose 11 percent from 1980-86, while the number of rural banking firms declined. The rural banking system became less geographically specialized too. Single-office banks (unit banks) dropped sharply in number as banks took advantage of liberalized branching laws to broaden their geographic markets, and as MBHC's acquired previously independent banks. At the same time, the number of multicounty banking firms operating in rural America rose by over 50 percent, with most of this growth fueled by rural-based banking firms. But while the number of urban-based banking firms operating in rural America did not increase substantially, they accounted for a sizable portion of the growth in rural bank offices and by 1986 controlled 28 percent of rural offices.

Neither of the extreme outcomes feared from bank deregulation had developed by 1986. Large urban-based banking firms neither drove rural banking organizations out of business nor abandoned rural markets, though at least one large MBHC system did sell off its affiliates that made mostly agricultural loans. Instead, urban-based banking firms substantially increased their presence in rural America through mergers or by establishing new branches. And rural-based banking firms demonstrated their adaptability to changing market and regulatory environments as well.

The effects of interstate banking compacts began to show up in the mid-1980's. In 1980, only 10 interstate banking firms operated offices in rural counties (most had been grandfathered when prohibitions on interstate banking were imposed by the McFadden Act of 1927 and the Bank Holding Company Act of 1956). By 1986, 51 interstate banking firms operated 2,347 rural bank offices. The importance of interstate banking organizations will grow over the next several years as more States allow outside banks to move in.

From a local economic development perspective, these trends in aggregate bank structure may have little meaning. Rural entrepreneurs, small businesses, and governments typically limit their credit search to the small group of financial institutions serving their community. Thus, the distribution of commercial banks among rural communities, and how these markets respond to deregulation, directly affect rural development prospects, not the national aggregate picture.

In 1980, the average nonmetropolitan county was served by 4 banking firms, through 7 banking offices, compared with 11 banking firms operating 46 offices in the typical metropolitan county (table 3). Structural changes in the banking system since 1980 did not reduce the average number of banking firms competing in local markets, as many had feared. In fact, the average number of bank offices rose roughly 11 percent in nonmetro counties and 15 percent in metro counties. Nonetheless, 30 percent of nonmetro counties were served by only one or two banking firms in 1986, leaving borrowers vulnerable to lending behavior that may be inadequate due to limited competition. Relatively few rural borrowers enjoy the range of banking services available to the urban borrower.

Deregulation did alter the structure of many local banking systems in important ways. Over half of the rural counties were served only by locally based banking systems in 1980, leaving them susceptible to credit problems when the local economy experienced a downturn. The percentages of rural counties served by multicounty banking firms, urban-based firms, and large firms (those with assets in excess of $1 billion) all increased from 1980-86. The number of rural counties served exclusively by nonlocal firms rose from 10 to 14 percent. While arguments can be made for and against the presence of "outsider"-controlled bank offices in rural America, borrowers probably prefer having the choice of doing business with a local community bank or a larger banking organization. From this perspective, the choices of many rural borrowers widened after 1980 as nonlocal banking firms moved into more rural markets.

The argument is often made that rural firms lack access to lenders able to evaluate loan applications for innovative development projects. Urban firms can approach a larger selection of banks having expertise in business lending, thus helping to skew innovative investment toward urban areas. If true, developments during the 1980's offer hope for rural areas, for the number of rural banking firms with expertise in commercial and industrial (C&I) lending rose (table 2), as did the number of rural counties served by such banking firms (table 3). Commercial banks as a group increased their C&I lending over this period, but the movement of larger, urban-based banking firms into more rural markets also influenced this trend. While the presence of a C&I lender in a community does not guarantee that loan officers will fairly evaluate C&I loan requests, the firm's expertise and commitment to business lending should make for an objective loan evaluation.

A growing minority of rural counties is served by one or more "experienced" C&I lenders. But nonmetro counties with a C&I lender averaged only two such

Table 3—Rural counties still lag behind urban counties in bank service availability

Bank market characteristics	Metro 1980	Metro 1986	Nonmetro 1980	Nonmetro 1986
	Number			
Average number of:				
Banking firms	10.6	11.0	4.1	4.1
Banking offices	45.6	52.3	7.3	8.1
	Percent			
Counties served by:				
1-2 banking firms	5.6	4.9	31.1	30.1
3-5 banking firms	24.0	23.1	45.8	45.9
6-9 banking firms	31.4	33.0	18.9	19.7
10 or more banking firms	39.0	39.0	4.1	4.3
Counties served by:				
Only local firms	25.4	7.4	53.4	33.0
Only nonlocal firms	5.6	9.4	9.9	14.1
Only urban-based firms	78.1	62.7	4.2	5.2
A combination of local and nonlocal banking firms	69.0	83.2	36.7	52.9
Counties served by one or more:				
Multicounty banking firms	76.7	94.2	49.8	71.0
Urban-based banking firms	99.7	99.7	35.4	45.1
Large banking firms	65.8	83.2	28.9	42.5
Agricultural lending firms	26.2	20.3	56.7	47.0
C&I lending firms	65.4	81.1	33.4	47.4

Source: Asset size and lending data from the June 1980 and 1986 *Reports of Condition and Income* files, Board of Governors of the Federal Reserve System. Bank office location information from the June 1980 and 1986 *Summary of Deposits* files, Federal Deposit Insurance Corporation. Seasonal branches are excluded from this table. In 1986, 1 metro county (Charles City, VA) and 22 nonmetro counties were without a commercial bank office.

banking firms per county in 1986, compared with seven in metro counties. Thus, rural borrowers had few local alternatives should an experienced lender turn down a loan application. The options are to go to an inexperienced lender, who may be reluctant to accept the added risks involved in making an unfamiliar loan, or try another bank market, with the added inconvenience, cost, and risk of rejection associated with borrowing far from home.

Conclusions

Local banking conditions vary considerably, with some rural counties lacking vibrant local bank markets to ensure adequate supplies of credit to local businesses. But deregulation by many States over the last two decades has meant more rural communities are now served by large urban-based banking firms, in addition to the smaller independent bank firms normally associated with rural America. Whether this will benefit or handicap rural communities remains an open question, but we believe that locally controlled community banks can coexist with larger, geographically extended banking firms. If so, deregulation will not harm rural borrowers.

Future deregulation will probably change rural banking structure less than urban. New urban banks often promote themselves for specialized market segments. But rural markets cannot sustain such specialization, and less than a fourth of new banks are rural. For similar reasons, few rural banks are likely to be interstate banking targets, unless indirectly because they belong to urban-based firms. And some communities may regain local ownership of their banks because MBHC's decide to sell off rural affiliates that do not meet corporate growth and efficiency standards. RDP

For Additional Reading . . .

David L. Barkley and Glenn T. Potts, "Will Branch Banking Increase Credit and Competition in Rural Communities?" *Rural Development Perspectives*, June 1985.

Daniel L. Milkove, "Are Rural Banks Different? Or Just Small?" *Rural Development Perspectives*, October 1985.

Herman Bluestone and Celeste A. Long

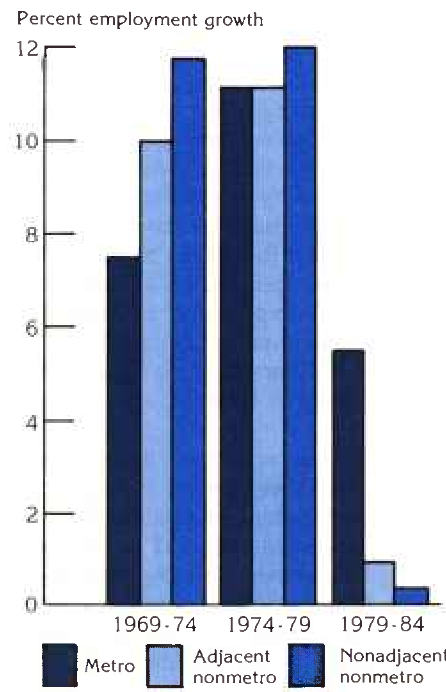
Growth Falters in Most Rural Counties: Manufacturing Both Hero and Goat

Nonmetro areas outpaced metro counties in employment growth in the 1970's but fell far behind in the early 1980's as the Nation's economic activity slackened. Nonmetro wage and salary employment increased only about 1 percent between 1979 and 1984, compared with a gain of almost 6 percent in metro areas. Only a third of nonmetro counties had at least moderate growth throughout 1969-84, compared with almost 60 percent of metro counties. Manufacturing was a leading source of growth in many nonmetro counties and a leading source of decline in others. Reasons may be different kinds of manufacturing and differences in the age of manufacturing facilities.

Nonmetro areas did relatively well and as a group outpaced metro counties in employment growth in the 1970's but fell far behind in the early 1980's as the Nation's economic activity slackened. Nonmetro wage and salary employment increased only about 1 percent between 1979 and 1984, compared with a gain of almost 6 percent in metro areas.

Some 74 percent of nonmetro counties enjoyed at least moderate employment growth in the 1970's but only a third grew that fast throughout the 1969-84 period. Only about 1 percent of nonmetro counties declined persistently between 1969 and 1984. Manufacturing was the leading source of employment growth in about a fourth of all persistently growing nonmetro counties and the leading source of decline in even more persistently declining counties.

Figure 1
Nonmetro employment growth way down, in contrast with earlier periods



Based on wage and salary unemployment.

Rural versus urban changes in national employment do not tell the whole story. They fail to reveal differences among counties and therefore do not portray the situation facing individual rural communities. To get at the variation in employment growth among rural areas, we classified counties by their employment change over three 5-year periods, 1969-74, 1974-79, and 1979-84. We identified how many metro and nonmetro counties had grown and declined persistently over the entire period and how many had grown at least moderately in the 1970's but had faltered in the 1980's. In addition, we wanted to determine the industries that had

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