



Comptroller of the Currency
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Shaping the Future of Rural America: Banks and Economic Development

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Small loans to farms receive positive CRA consideration under the small bank test and under the lending test for large banks (see "Compliance Corner" electronic article for details).

This issue of *Community Developments* is the first of a two-part exploration of banking opportunities in rural America. This issue looks at the role of banks in stimulating rural economic development, and the Spring 2003 issue will focus on financing affordable housing and delivering financial services.

What do wheat farmers in Alva, Oklahoma have in common with artists in Barre, Vermont? More than you might think. Articles in this issue explain how Alva's farmers are adding value to their agriculture and how Barre's artists are adding value to their downtown commercial area. They each wanted to strengthen their communities, they each needed help to convert their visions into reality, and in each case community-minded bankers have provided that help.

The Power of Partnerships

You'll find other stories here — for example, about a local manufacturer creating good jobs in Appalachia; a health center bringing new services to a medically underserved California community; a community in Oregon building a shelter from domestic violence; and a start-up technology company in Texas strengthening the local economy. In each case, the process of moving from brainstorming to drawing board to ribbon-cutting required bank participation and leadership.

And something more. As we look at what works in rural America, again and again we find public-private partnerships in action. We see banks investing in the 56 Rural Empowerment Zones and Enterprise Communities administered by the United States Department of Agriculture (USDA). We see banks leveraging their resources by working with USDA's guaranteed business and public facilities loan programs and selling loans on the secondary market in partnership with Farmer Mac. We see banks working with the National Trust for Historic Preservation, using tax credits to underwrite the revitalization of rural Main Streets. And we see, too, the value of partnering with rural community development organizations to promote positive change.

In countless rural communities, dedicated people are working together to strengthen their econo-

mies — attracting new businesses, creating jobs, building and upgrading community facilities. Our purpose is to recognize the good work being done – and encourage other institutions to replicate the successes described in these pages.

The Rural Mosaic

“Where is rural America?” Some 2,305 of the Nation’s 3,066 counties are rural, according to the USDA’s Economic Research Service. Rural counties account for over 80 percent of the Nation’s land, but less than 20 percent of the total U.S. population. Some 56 million people live in rural America today.

Farming was once the predominant occupation in the great majority of rural counties. Today, there are just 556 counties — mainly in the Great Plains — where farming accounts for 20 percent or more of earned income, and these counties are home to only 9 percent of the rural population. And roughly four out of every five farming counties have lost population over the past four decades, reflecting the decline in farm employment from more than 8 million to about 2 million.

Rural employment has shifted from farming to manufacturing and services, with services accounting for more than 50 percent of all rural jobs. Manufacturing, which employs about 17 percent of the rural workforce, has helped stabilize many rural counties that had been heavily dependent on farming. In recent years, many technology-related plants have either started up in or relocated to rural areas, attracted in part by low land prices and high quality of life.

Clearly, Rural America defies oversimplification. No one industry dominates the rural economy, no single reason for population growth or decline holds true for all areas, and no one formula for rural development will succeed everywhere. Just about the only thing that can be said with certainty about virtually every rural area is that its future well-being depends to some degree on its ability to attract development capital.

In short, rural America needs banks — and vice versa. Banks need viable communities to thrive. When a community declines, so do its banks. Those banks that diligently and creatively attend to the present and future needs of the community — the *entire* community, including its low- and moderate-income residents — have the best prospects in the long run.

Engines of Economic Development

In rural America the local bank is as vital to a town’s identity and viability as its schools and religious institutions. And every bank in rural America is, or at least has the potential to be, a primary engine of economic development.

In working with rural banks, ranging in size from small independent community banks to nationwide institutions with rural branches, the OCC has found that the best-performing banks typically share four key characteristics:

- They really know their communities, and actively search for economic development opportunities appropriate to their mission and markets.
- They take a strategic approach to development, forming or participating in broad-based, mutually supportive partnerships with community leaders, community development organizations, and government agencies.
- They do their homework. They keep up to date on the federal and other programs that can help them mitigate risk and make a fair profit from investing in the future of their communities. As one banker notes in an article in this issue, rural economic development lending offers many opportunities — that is, “if we’re willing to educate ourselves as well as our customers.”
- They’re in for the long haul, not the quick fix. They learn as much as they can from the best in the

business, adapt proven practices to local needs, and patiently nurture development initiatives.

In these pages, as well as at the OCC's Rural Community Development Banking Web Resource Directory (www.occ.treas.gov/cdd/resource.htm), you'll find many examples of resourceful and effective rural community development initiatives in which banks are playing crucial roles. It's my hope that the ideas, leads, and links in this issue will prompt additional lending and investments in our neediest rural communities.

Rural Economic Development Lending Resources

- **USDA Rural Cooperative Business Service – Business and Industry (B&I) Guaranteed Loan Program** provides loan guarantees for corporations, nonprofit entities, partnerships, cooperatives, Indian tribes (or federally recognized tribal groups), municipalities, counties or other political subdivisions. B&I program guarantees are available for up to 90 percent of the loan amount. www.ruraldev.usda.gov/rbs/busp/b&I_gar.htm
- **USDA Community Facilities Guaranteed Loan Program** provides loan guarantees requested by a lender. The guarantee is provided as an incentive for lenders to finance and develop essential community facilities in rural communities. Borrowers under the Community Facilities Program are public entities such as municipalities, counties, and special-purpose districts, as well as nonprofit and tribal governments. Community Facility loans may be guaranteed up to 90 percent. www.rurdev.usda.gov/rhs/cf_glp.htm
- **Small Business Administration 7(a) Loan Guarantee Program** provides loan guarantees to for-profit businesses operating in rural communities. Lenders making these loans may obtain guarantees for up to 85 percent of the loan amount on loans up to \$150,000 and 75 percent for loans above \$150,000 up to a maximum of \$1 million. www.sba.gov/financing/fr7aloan.html
- **Small Business Administration (504) Certified Development Loan Program** provides subordinate gap financing needed for a rural economic development project. A certified development company, or CDC, is a nonprofit corporation established to work with lenders who make senior debt financing available to growing small businesses. Typically, a 504 project includes a loan secured with a senior lien from a traditional lender covering up to 50 percent of the project cost, a subordinate 504 loan from the CDC (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and the remaining 10 percent in equity from the borrower. The maximum SBA (504) debenture is \$1 million. www.sba.gov/financing/cert.html

The 2002 Farm Bill's New Rural Business Investment Program

The Farm Security and Rural Investment Act of 2002 has broken new ground for increased entrepreneurship in rural areas. The Rural Business Investment Program (RBIP) will provide up to \$280 million in debenture guarantees to promote economic development in rural communities. The program will enable newly-formed venture capital investment companies to leverage the private capital they raise for investment in rural American businesses, and will provide grant resources for technical assistance to such businesses. The RBIP was modeled after SBA's SBIC and New Markets Venture Capital programs. It is envisioned that SBA will carry out the day-to-day management of the RBIP, with USDA retaining implementation and oversight responsibilities.