Economic Review

Community Banks' Ongoing Role in the U.S. Economy

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Despite declining numbers and growing challenges, community banks continue to play a crucial role in the banking industry.

In recent decades, both the number of community banks and their share of U.S. banking assets have steadily declined, raising questions about the future of community banking. In addition to competitive pressures from larger banking organizations, community banks face growing challenges from broader economic consolidation, changing demographics, and rapidly advancing financial technologies.

Matt Hanauer, Brent Lytle, Chris Summers, and Stephanie Ziadeh explore the role of community banks in the U.S. economy, the challenges they face, and their outlook for the future. They find that despite their declining market share, community banks remain crucial financial services providers and are the predominant providers of banking services in rural communities across the country. In addition, they find that community banks are outsized providers of credit to agricultural and commercial borrowers, including during periods of economic stress. The authors argue that community banks will continue to play an important role in their local communities and the broader economy.

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