Coronavirus Aid Prioritizes Big Banks. That's a Problem for Rural America.

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Located between California's Central Valley and the Sierra Nevada foothills, the town of Placerville is a standout amongst rural California communities. With a population of 11,000, it is one of the few rural towns to see economic performance outpace the national average since the Great Recession. Like other rural California communities, however, COVID-19 has sent shockwaves through the town and the federal response to businesses struggling under the state's stay-at-home order has been inadequate to address the distinct needs of this community and others like it.

Placerville resident and Rural County Representatives of California (RCRC) CFO and COO Lisa McCargar understands this problem all too well. Her organization advocates for broadband access, water rights, and other infrastructure resources on behalf of thirty-seven rural California counties. Now, facing the COVID-19 pandemic, the importance of RCRC's work has never been more apparent to McCargar. With nearly all of the businesses on Placerville's Main Street closed, she worries rural communities may not have equal access to federal government aid programs that have been touted as crucial to propping up small businesses.

Although Congress allocated more than $650 billion to lend to small businesses through the Paycheck Protection Program (PPP) that is being administered by the Small Business Administration (SBA), accessing an approved lending institution in communities like Placerville is easier said than done. Only 31 percent of the community banks chartered since 1986 remain in the rural financial sector. This has led to a significant challenge in accessing financial services, especially now. "Everyone was flocking to Citi and Bank of America to the point that they couldn't handle it. It ended up that you needed to be a customer with an outstanding loan or at least an account," McCargar noted.

Steve Frisch, CEO of the Sierra Business Council, is dealing with the same problem. His group, which advocates for the business community in the mountain region of California, has helped more than 500 small businesses apply for the loan program. Despite their assistance, he estimates that only 10 percent received funding. “If you already had a strong relationship with a bank and your bank was approved to lend, then you got funded. If not, you were out of luck,” Frisch said. This is partly the result of inadequate funding to smaller community banks, who despite providing capital to nearly 1.5 million small businesses in 2018, received 16 percent of second-round PPP funding.

In addition, the quick roll out of the program was a major learning curve for smaller lending institutions. Banks “got the guidelines at 3:00 p.m. and the program opened at 10:00 a.m. the next morning,” Frisch noted. This isn’t to say community banks weren’t able to process any applications. However, community banks reported that the system locked up because of the mass uploads by larger lending institutions. As a result, they had to manually enter applicant information, a process which is reported to take up to an hour.

It is worth noting that businesses owned by historically underrepresented ethnicities have been particularly impacted by these barriers. “COVID-19 exacerbated all pre-existing inequalities” Tara Lynn Gray, the CEO of the Fresno Black Chamber of Commerce said. Her group, which provides technical support to business owners of color, has helped 40 businesses through one-on-one sessions and nearly 330 businesses through webinars. “Not one business got funded in the first round, while seven got funded in the second round” she said.

Research from the Center for Responsible Lending backs this up. Their recently released report notes that banks tend to lend to larger businesses with greater payrolls. Even though businesses owned by people of color employ 7.2 million individuals, the report estimates that 95 percent of Black-owned businesses, 91 percent of Latino-owned businesses, 91 percent of Hawaiian- or Pacific Islander-owned businesses, and 75 percent of Asian American-owned businesses may stand little chance of receiving a loan because of these access issues.

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Aside from the difficulty of getting a loan, no one knows how long funding will be available. To date, $669 billion has been allocated to SBA loans. That’s 19.11 percent of last year’s federal tax revenue. And with an estimated 70 percent of all small businesses applying for the program, there aren’t nearly enough funds to go around. Data from COVID Loan Tracker suggests that denial rates are as high as 90 percent, but the denial rate is likely higher in rural communities where there are fewer eligible banking institutions. McCargar and Frisch both noted that there was a lack of capital in these communities, even before the crisis. Many business owners have little more than their homes — or if they are lucky, personal savings — to rely on.

This sort of liquidity crisis has significant implications. During the last downturn and subsequent recovery, regions that had greater access to capital were able to reduce the number of layoffs and in turn, preserve the skill of their labor force. Areas that lacked access to financial resources experienced severe wage atrophy and decreased output.

Not surprisingly, it tended to be rural areas that were hardest hit by this capital disparity. The results are still obvious today. California's three most rural counties, Alpine, Mariposa, and Trinity, have seen far slower income growth since the Great Recession began, compared to the state's three most urban counties of Alameda, Orange, and San Francisco. Nationwide, there are 0.2 percent fewer jobs in non-metropolitan areas since 2007, and labor force participation is over 7 points lower than in metropolitan areas.

The last decade's decline is largely the result of decades worth of underinvestment in any concerted rural economic development strategy. Now, COVID-19 is stress testing the deteriorating financial and economic infrastructure of these communities. Already, they have lost 14 percent of bank branches in the past ten years, 43 percent more than their urban counterparts. Last year, 1 in 4 rural small businesses cited capital access as one of the biggest barriers to successfully running their business. With so many communities yet to recover from the Great Recession, the shock of COVID-19 only hurts that much more.

While the government's efforts to prop up small business are a step forward from the last recovery efforts, there still needs to be a conscious attempt to address rural-centric financial issues. Not only did communities like Placerville have less capital going into the COVID-19 pandemic, they now face additional barriers to accessing the government programs intended to help them. No plan to help America can work without supporting financial services to our rural neighbors.

Source: *https://talkpoverty.org/2020/05/19/coronavirus-aid-prioritizes-big-banks-thats-problem-rural-america/*