Rural Communities:
Challenges and Opportunities

Summary of SARL Breakout Session
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Jason Henderson
Vice President and Omaha Branch Executive
Kansas City Federal Reserve

Joe Black
President
Southern Bancorp Capital Partners

Senator Jim Luker, Moderator

Jason Henderson
Mr. Henderson began by observing that rural economies tend to do better in recessions due to commodities, which form a significant part of their economic base. This recession is no different, he added, with both energy and commodity prices on the rise. Moreover, it is surprising to some people to learn that rural unemployment is lower than that of metropolitan areas currently. Perhaps the brightest spots in the rural economy is the growth in agriculture-related manufacturing and food processing. Indeed, the wedge between natural gas and crude oil prices is helping to bring fertilizer production (along with other chemical manufacturing) back to the United States. Other good news for the rural economy includes increased rural equipment sales, most especially farm equipment, and rural home prices which have tracked much better than the nation as a whole, dropping only 7 percent since the start of the recession. Indeed, local government revenues are much stronger in rural areas than in urban areas, taken as a whole. All of this is compounded by low interest rates, which help borrowers (but not savers).

With one segment of the rural economy doing well, the challenge is using that to leverage growth across all rural sectors. To accomplish this, we need to support sustained growth in in commodity sector, but the chief limitation skilled labor—welders, computer IT, and such—which we are not training enough of even as our global competitors do. Additionally, we need to invest in our infrastructure, particularly our capacity to move goods to export markets through rail, ports, and trucks.

Agriculture and energy are cyclical sectors, so it is vital to sustained community success that we diversify rural economy to even out the dips. This means being more entrepreneurial, and helping to grow micro enterprises into bigger businesses. To do this will require equity (and not debt) capital, but equity investors are hesitant to invest in part because of regulatory uncertainty. Investors are less concerned about the content of the rules, as much as the uncertainty of the regulations.

Joe Black
Southern Bancorp operates in many ways like a conventional bank, albeit one that has a non-profit development mission to work in distressed communities. Lending by itself is not sufficient to help distressed communities, however. In these areas, lending needs to be accompanied with support services. The community development component of Southern Bancorp's mission moves passive lending into an active strategy that tries to create lending opporutnities.

In part, this work is struggling to overcome some of the cultural and social touchstones that have set rural areas apart for generations, including (among others) the predominance of cheap land and cheap labor, the tendency of rural people to operate in isolation and reject partnerships or resources from "outsiders," and the prevalence of exploitation and exclusion within the rural economy.

With this background, Southern Bancorp decided lending was not enough to catalyze community development. So their work is built around their five Pillars of economic development

- Housing
- Education
- Leadership development
- Healthcare
- Community development

Conspicuously absent from this list is agriculture, but this sector has reinvented itself in to a capital intensive, high productive industry; their communities have taken longer to reinvent themselves. Furthermore, not all rural communities are agricultural in nature.

Southern Bancorp's approach is to use the convening power of a bank to bring together community members who are then in charge of developing a plan for which funding would be available. Community participation in the planning process is critical to developing local ownership of the proposals. In the end, the bank targets specific communities—those with more than 8,000 people, a 2 or 4 year college, a retail and industrial base, and a hospital—because these communities have the potential to serve as centers for rural revitalization that can affect communities within a 50 mile radius.

Representative Kevin Killer (South Dakota) added that a challenge to keeping a rural town vital is population loss. Many rural communities are increasingly older. Typically people in their 20s leave for larger cities and schools. When they get older and begin to have families, they often want to return. The challenge is for rural places to find a way to welcome them back home and make use of their contacts and experiences to build the local economy. The exception to this trend, he noted, was immigrant and Native populations, which are often booming in rural places and can represent the majority of young adults in a rural town. This group is the available workforce for improving healthcare, infrastructure and services, and it is incumbent upon rural communities to work with these groups in order to ensure a healthy economic future for everyone.