
George Bailey Meets Tempestates: How Local Finance Strengthens Economic Resilience Through Extreme Weather Events

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Abstract

Extreme weather events cause substantial economic costs to affected communities, with trends rising. The banking sector can play a significant role in moderating these costs. In this study, we demonstrate how community banks – financial institutions with strong local ties – mitigate some of the economic consequences of extreme weather events. We use an event study design on quarterly county-level data for the US to show that counties with higher community bank market shares experience significantly fewer employment losses through such events. We then use bank-level analyses to demonstrate that community banks achieve this through the continuation of small business credit supply. These results are not driven by selection bias or secular trends. As extreme weather events become more frequent and severe with global warming, our results point to a possible solution for policymakers that develop novel strategies to mitigate the impacts of these events – local finance.

Keywords: Natural hazards, Climate Change, Financial Institutions, Economic Resilience

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