



# 2016 National Survey of Community Banks: Presentation of Results

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Conference of State Banks Supervisors and Federal Reserve Bank of St. Louis. The views expressed do not necessarily represent those of the Federal Reserve Bank of St. Louis or the Federal Reserve System.



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# 5 Questions for 5 Bankers

1. What emerging local, regional, or national issues are of most concern to your bank?
2. What are the most time-consuming and burdensome regulations for your banks?
3. How do we remake the compliance examination process so that it is more valuable to bank management?



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## 5 Questions for 5 Bankers

4. What types of competition are you facing from new types of lenders for small business loans?
5. How would you assess your ability to attract and retain employees?



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# Local, Regional, National Issues

- Steady growth, but a few areas with real estate bubble potential and shortage of construction workers
- Significant concern about agriculture
- A few states are pursuing policies that are causing business to leave the state
- Financial literacy is a significant problem but banks are excited about the programs they have implemented
- Concerns about the national election



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# Lending and Non-lending Activities from the Survey



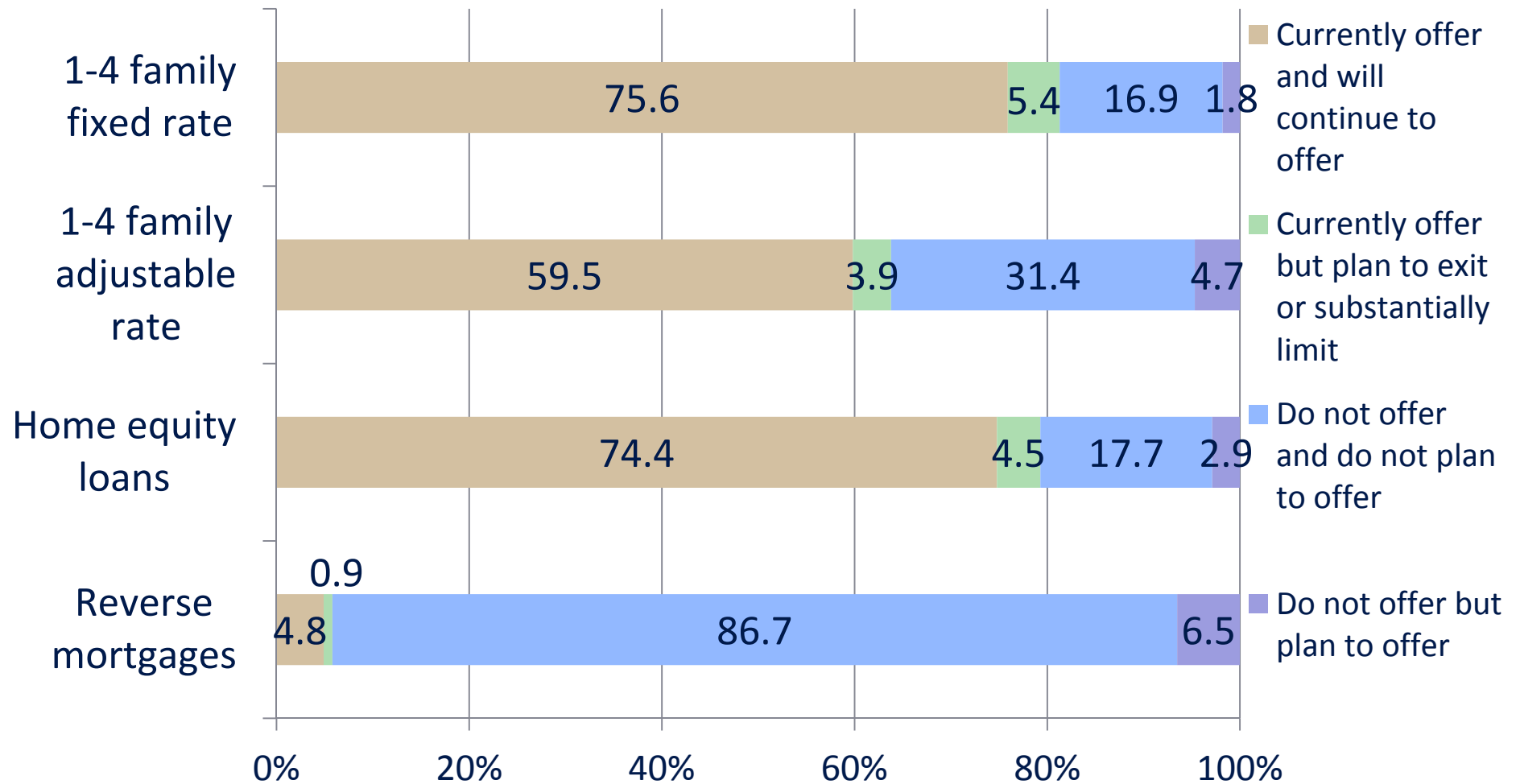
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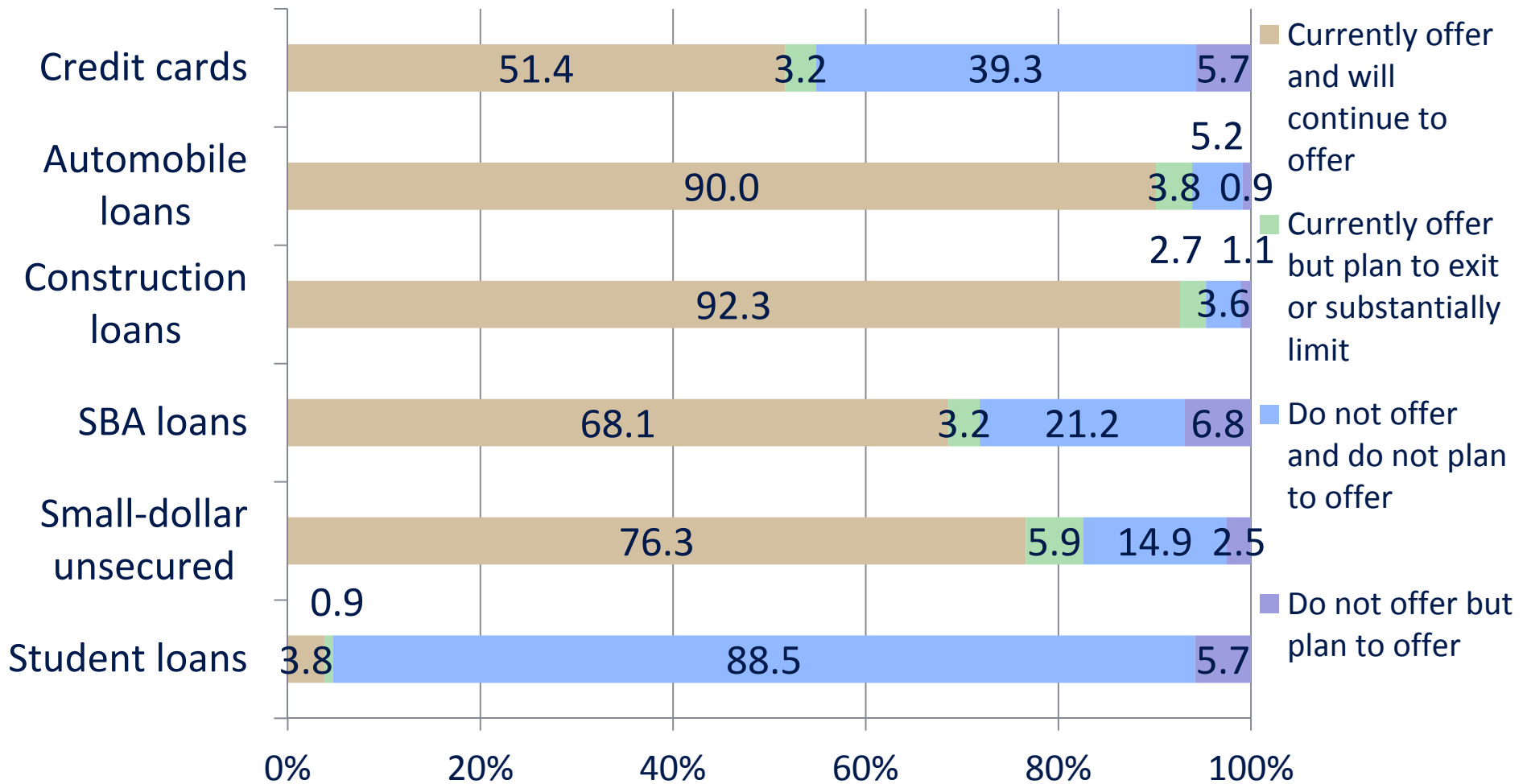


**Fig. 2: Lending Activities (Housing)**

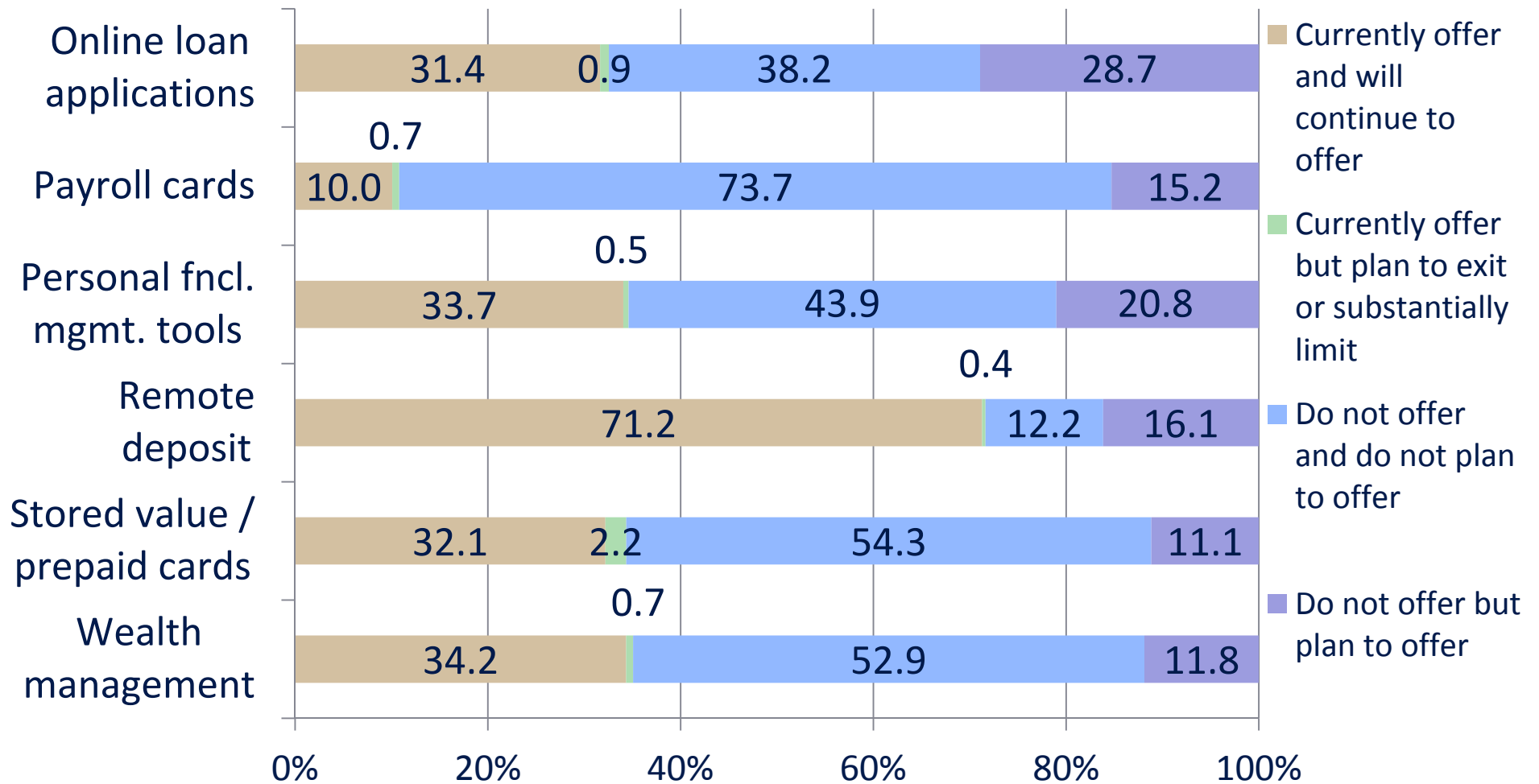




**Fig. 2: Lending Activities (Non-housing)**

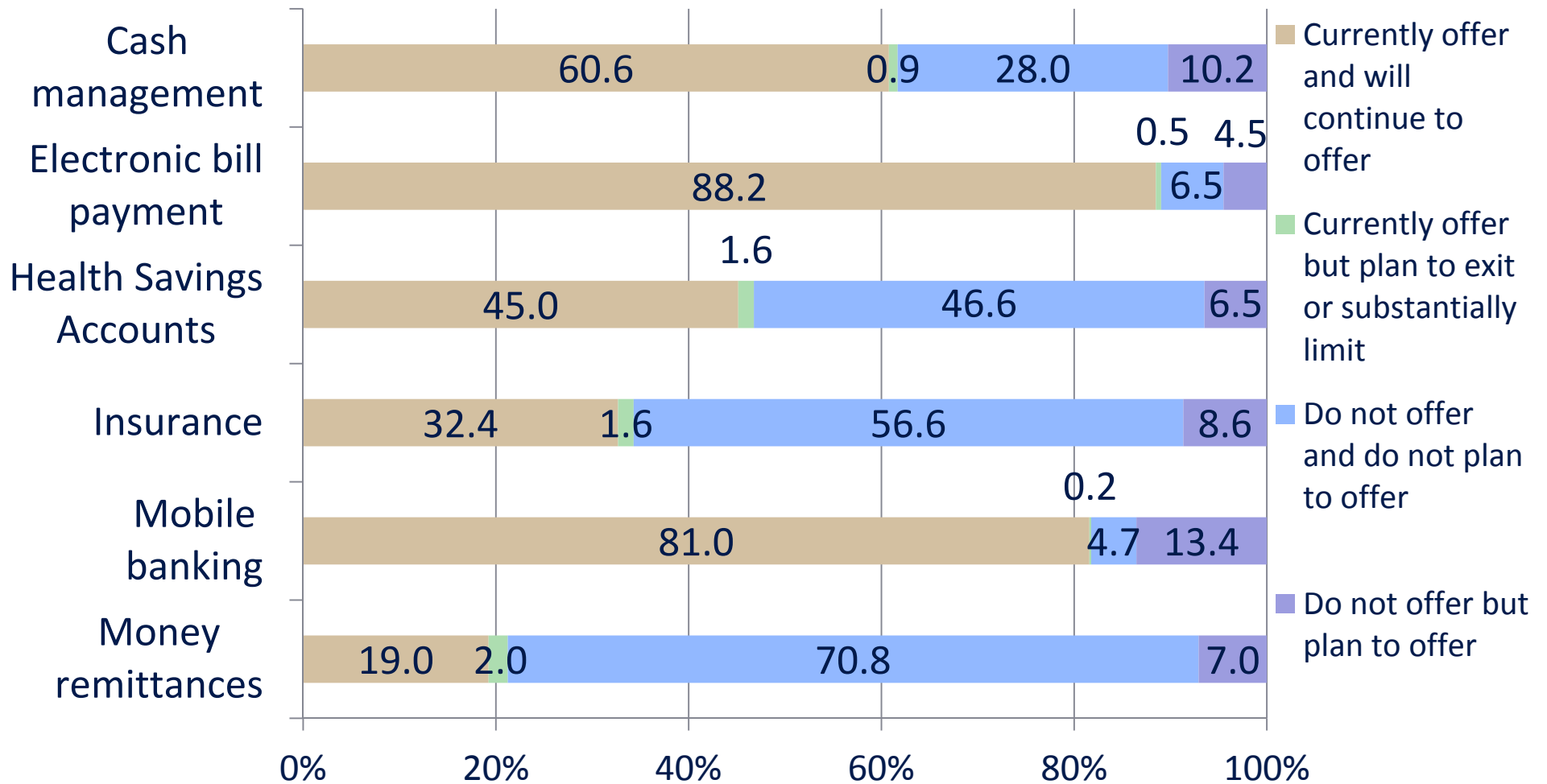


**Fig. 8: Non-lending Activities**





**Fig. 8: Non-lending Activities, Continued**





# Regulatory Views from the Survey



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Fig. 12: What percentages of combined compliance expenses identified in the previous question were attributable to the following regulations (must add to 100%)?

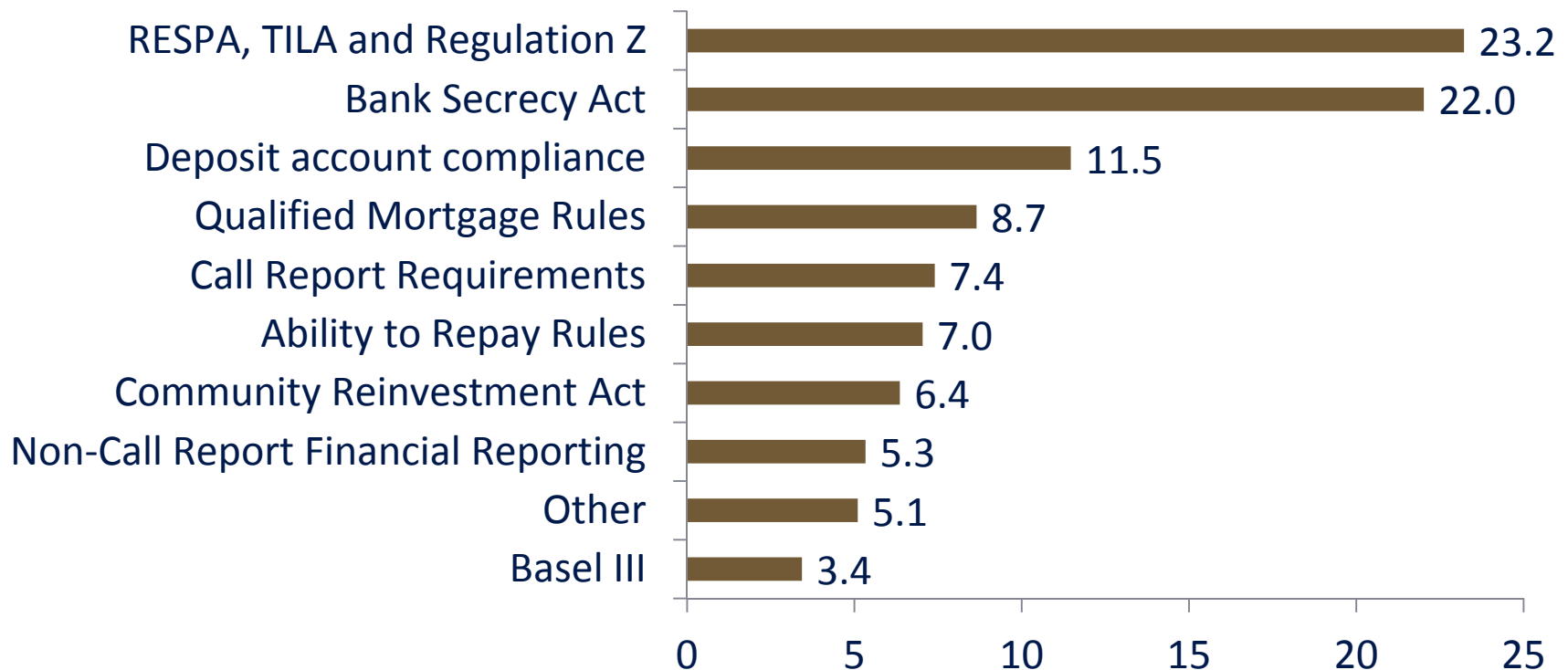




Fig. 14: How has the TILA-RESPA Integrated Disclosure (TRID) Rule affected you the most?

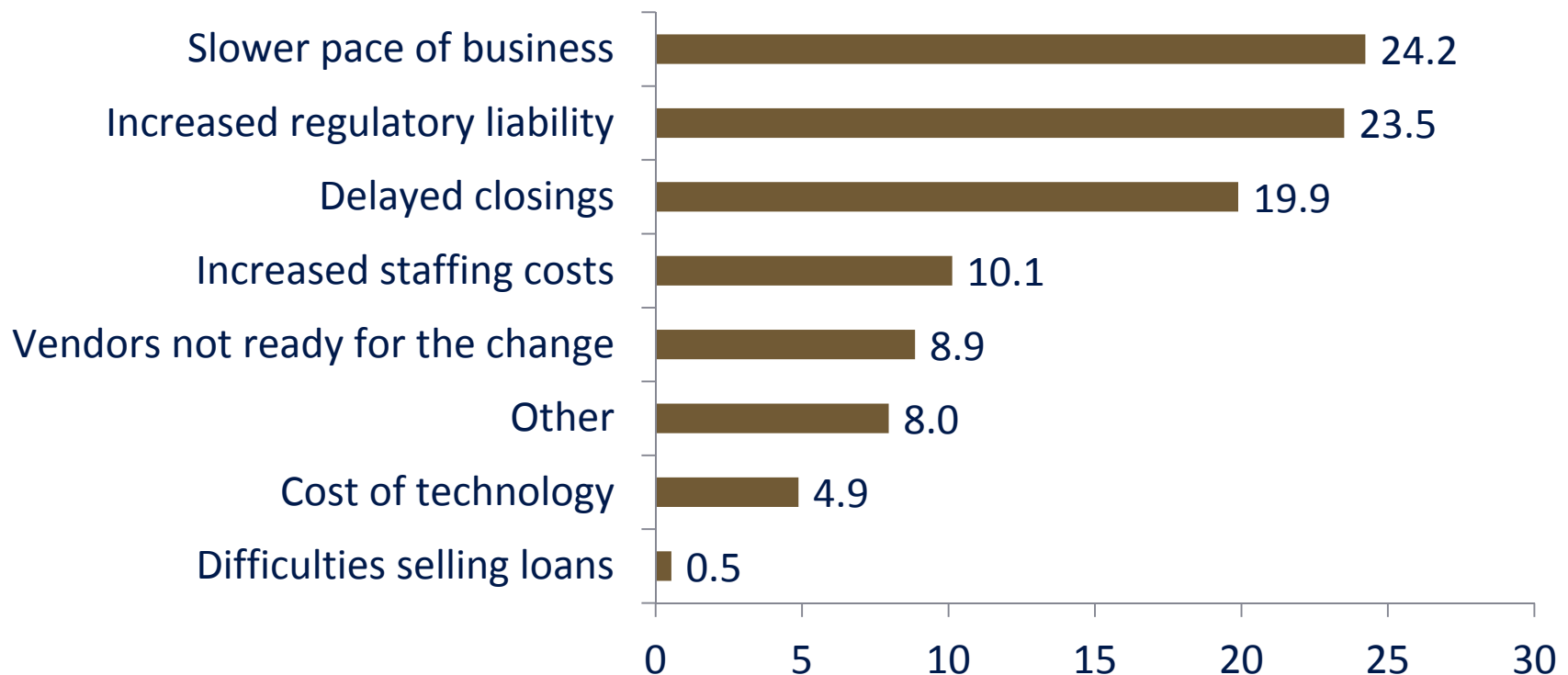
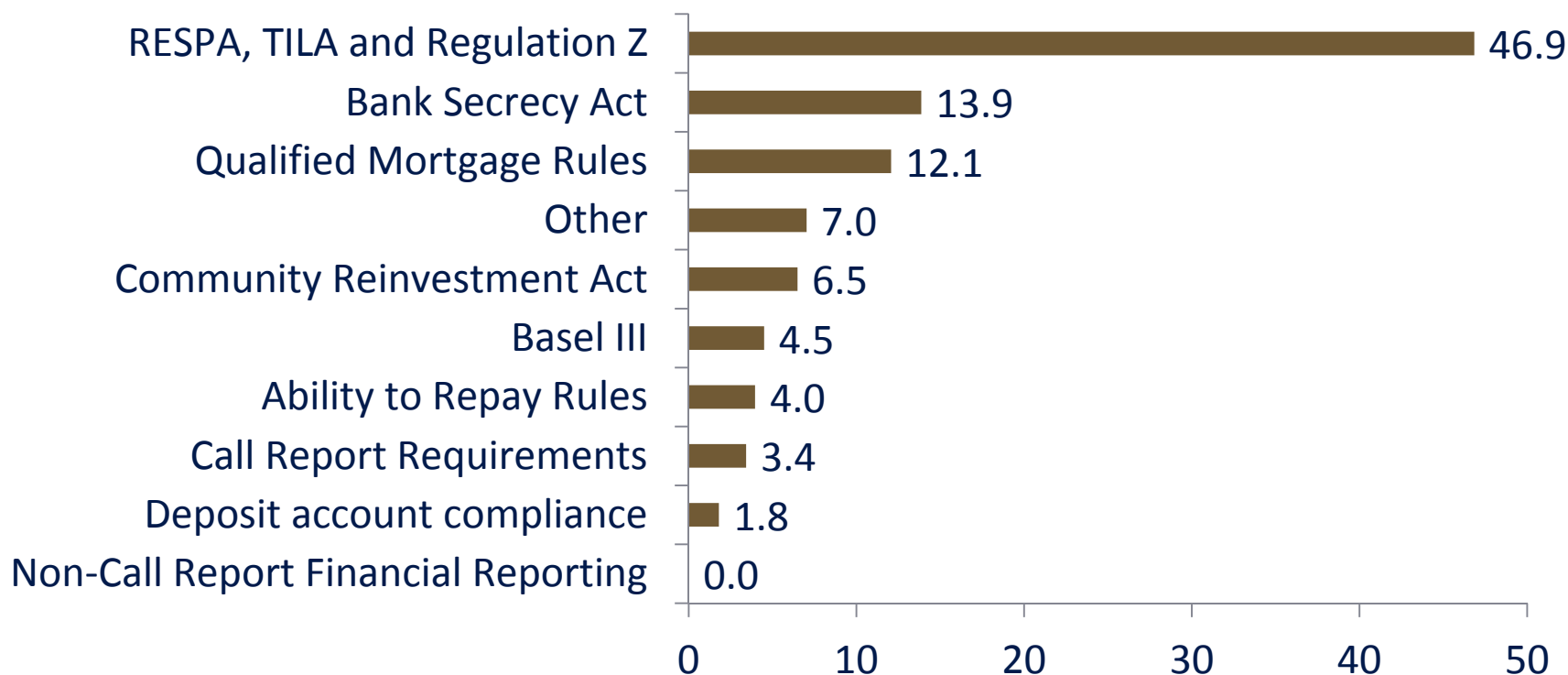




Fig. 15: What single regulation, law or reporting requirement would you change if you could?





# Regulations: Commentary

- Mortgage rules slow the process
- Reluctant to make mortgage loans; accommodation for customers who might have difficulty getting a conforming loan elsewhere
- Consumers are not benefiting because they are not reading the disclosures
- Customers mistake regulations for bank protocol, mistrust or suspicion
- Greater reliance on 3<sup>rd</sup> party providers
  - Not always ready to implement required changes
- Cost and fair lending risk leading to product elimination



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# Regulations: Recommendations

- More instructive, less punitive
- Increase frequency
- Community banks need to start collaborating to spread the cost
- Need more exemptions for smaller banks



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# Small Business Lending



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Fig. 3: For your internal purposes, how do you define a small business loan?

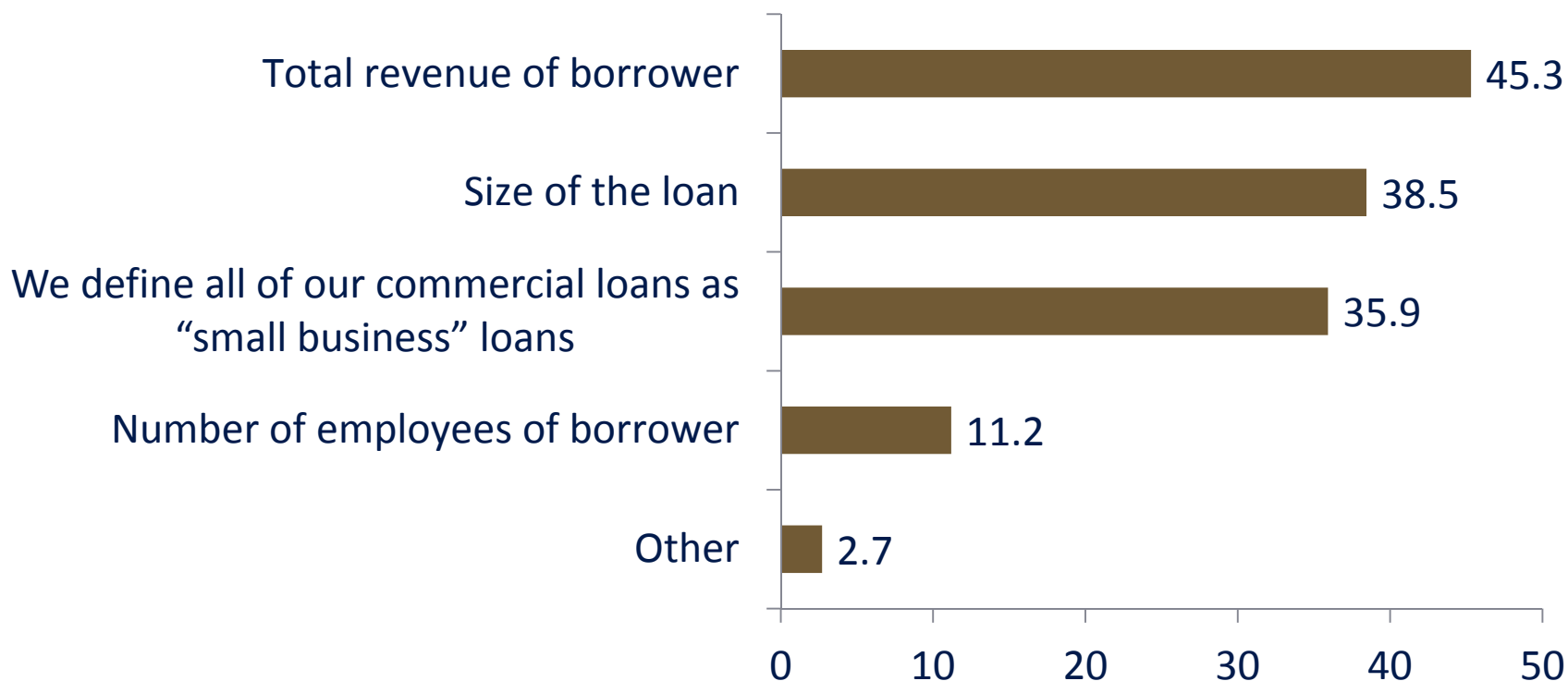




Fig. 4: Which of the following factors do you consider when making a small business loan?

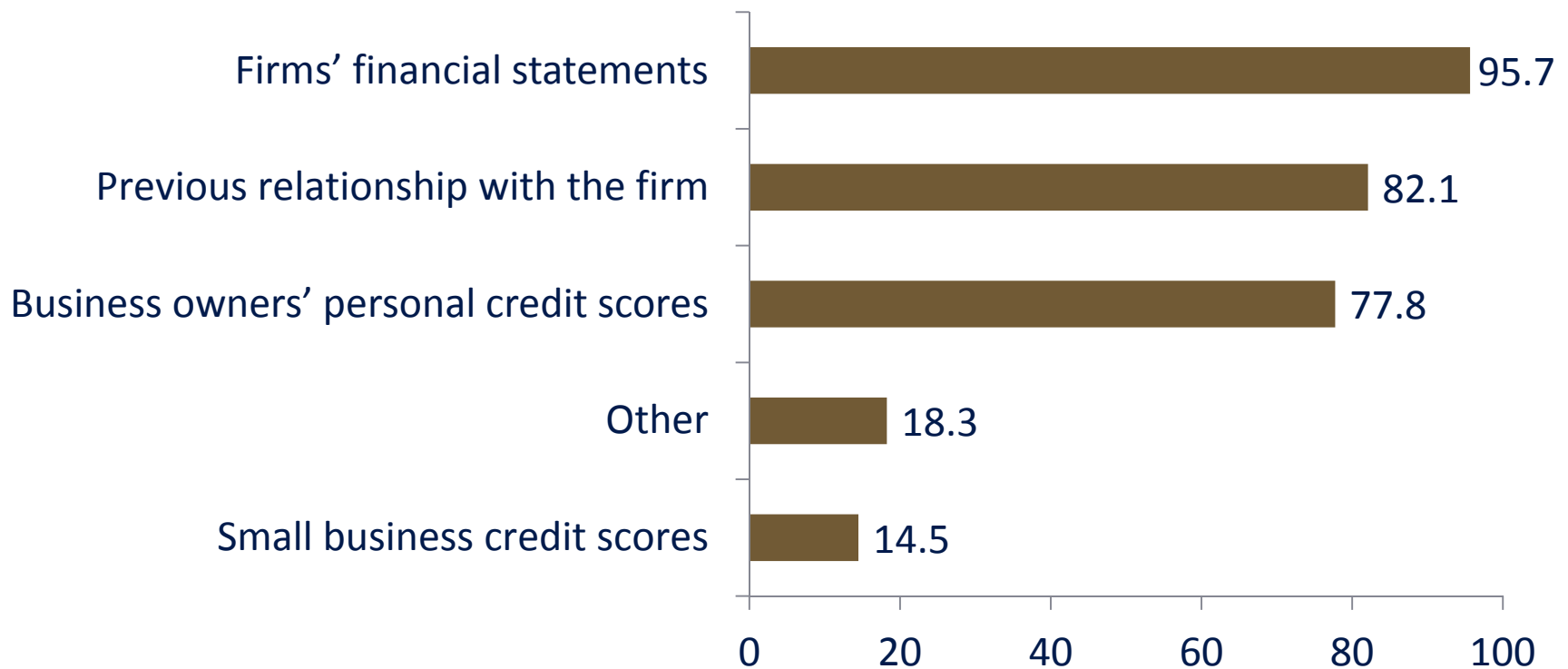




Fig. 5: Of the small business loans that you made in 2015, approximately what percentage was to customers with a previous relationship such as a deposit account or previous loan?

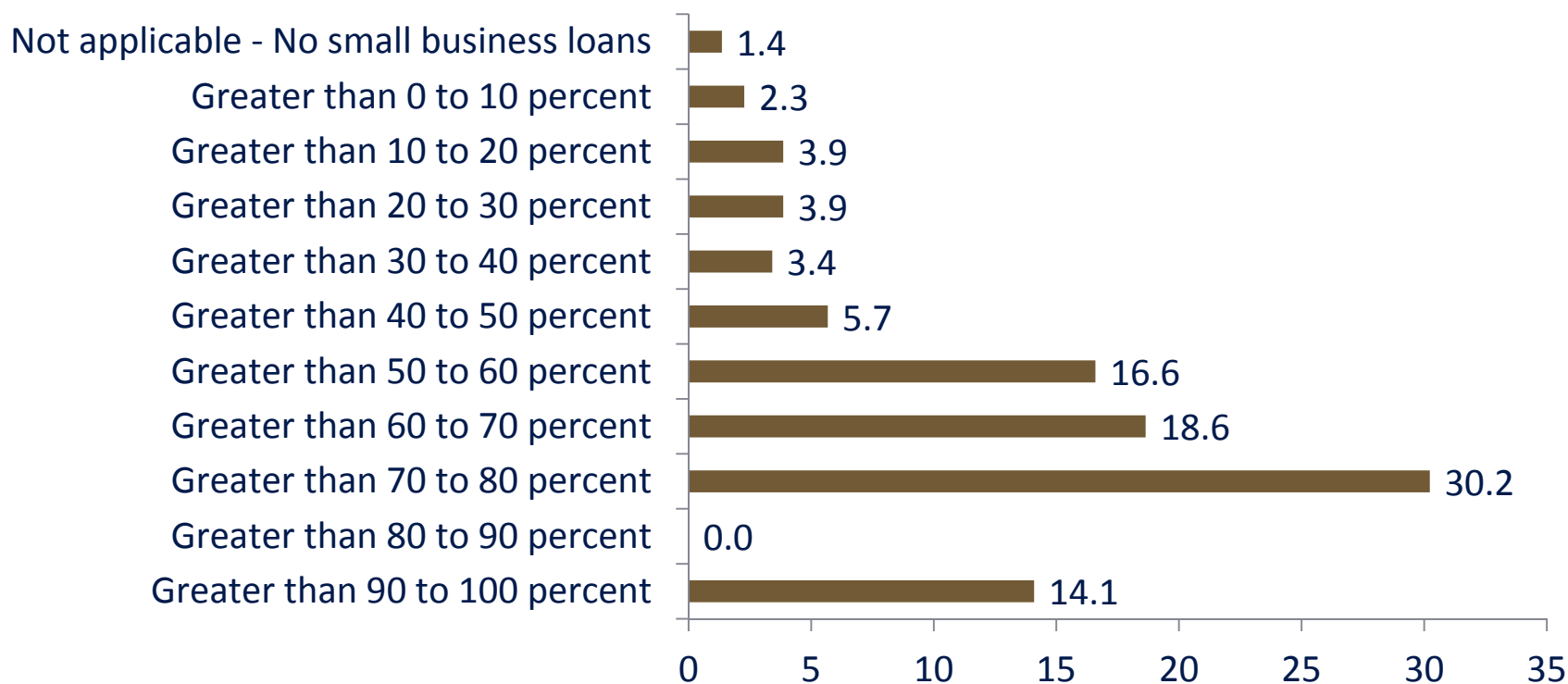
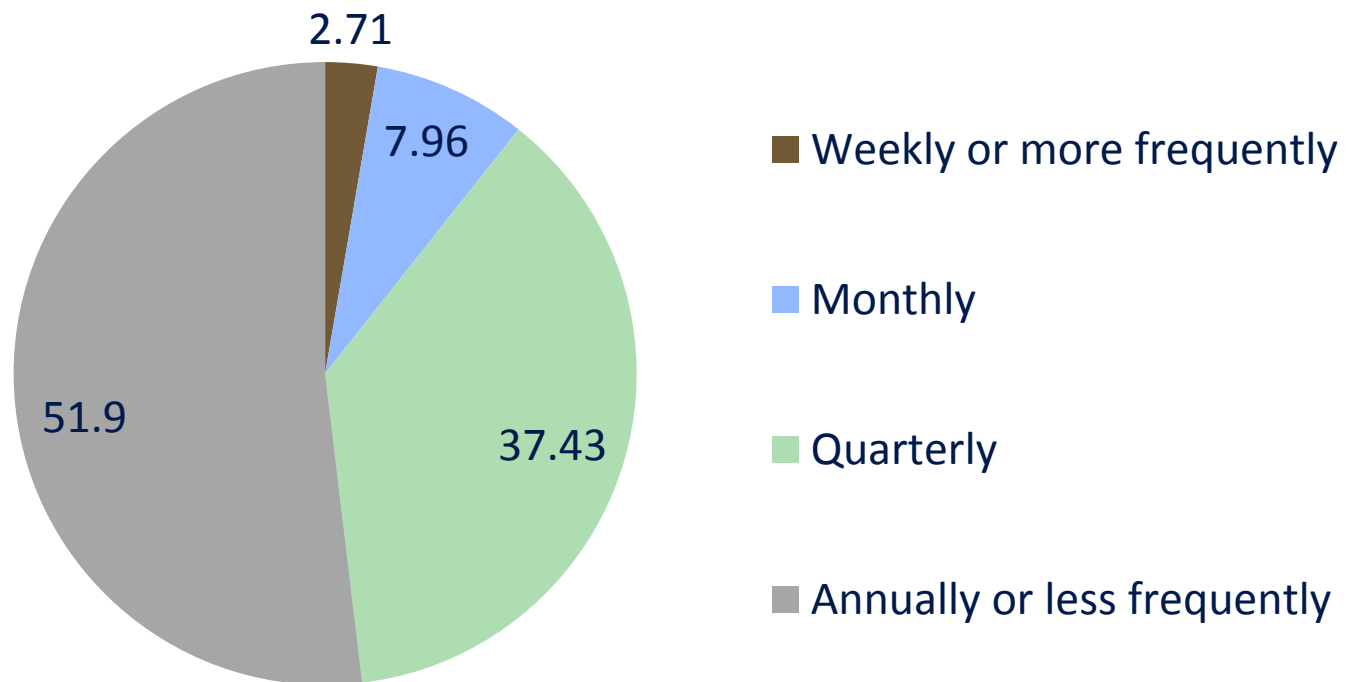




Fig. 6: On average, how often do you meet with, provide business advice to, or monitor small business borrowers if their loans are in good standing?





# Small Business Lending Competition

- Market based lenders
  - Winning the speed component
  - Small businesses going to online lenders are not receiving proper financial guidance
  - Need to ensure they are regulated in the same manner as a bank
  - Despite the pressure, some community banks believe they have the upper hand due to long-term established relationships
- Credit unions
- Larger banks pursuing smaller credits

*Relaxing credit standards and rates in ways that community banks cannot.*



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Fig. 16: Identify the single greatest source of **current** competitive pressure for the following products or services: **Small business loans**

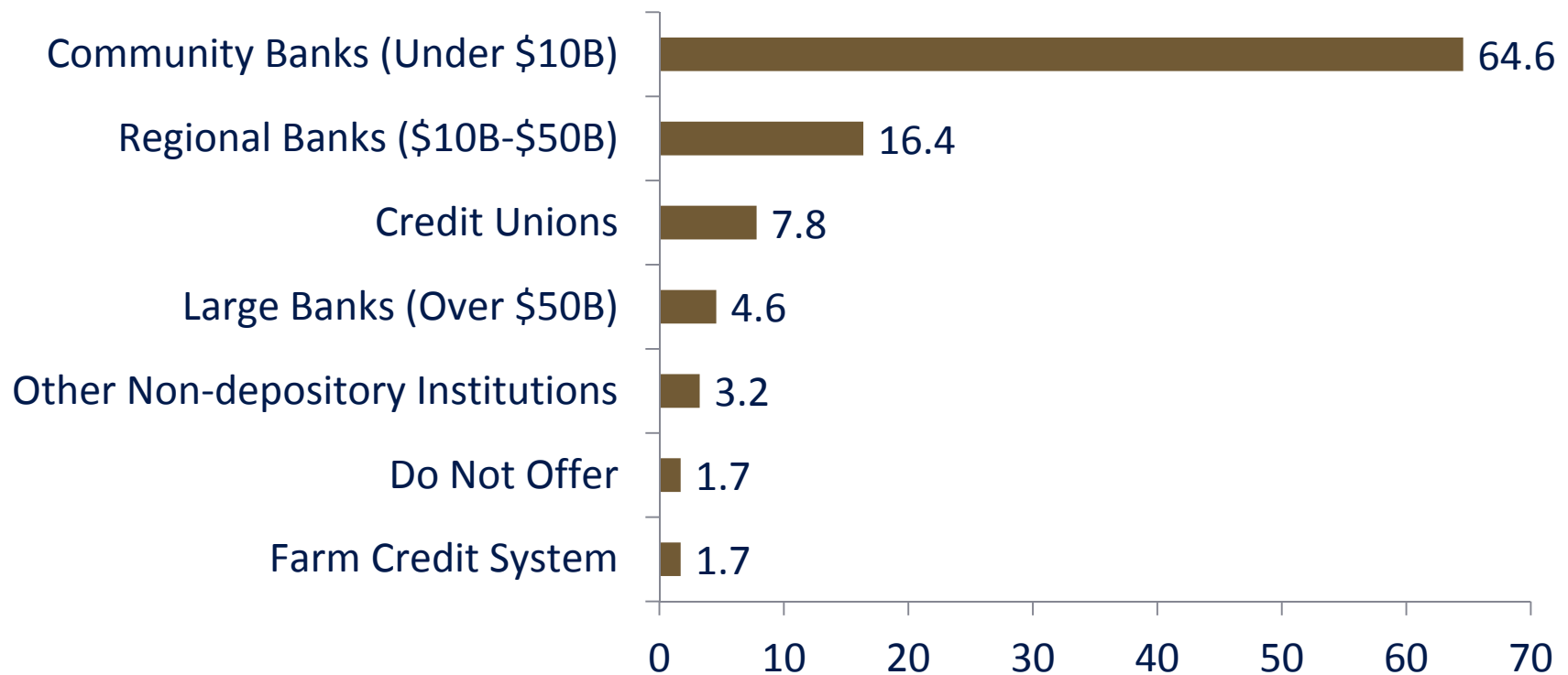
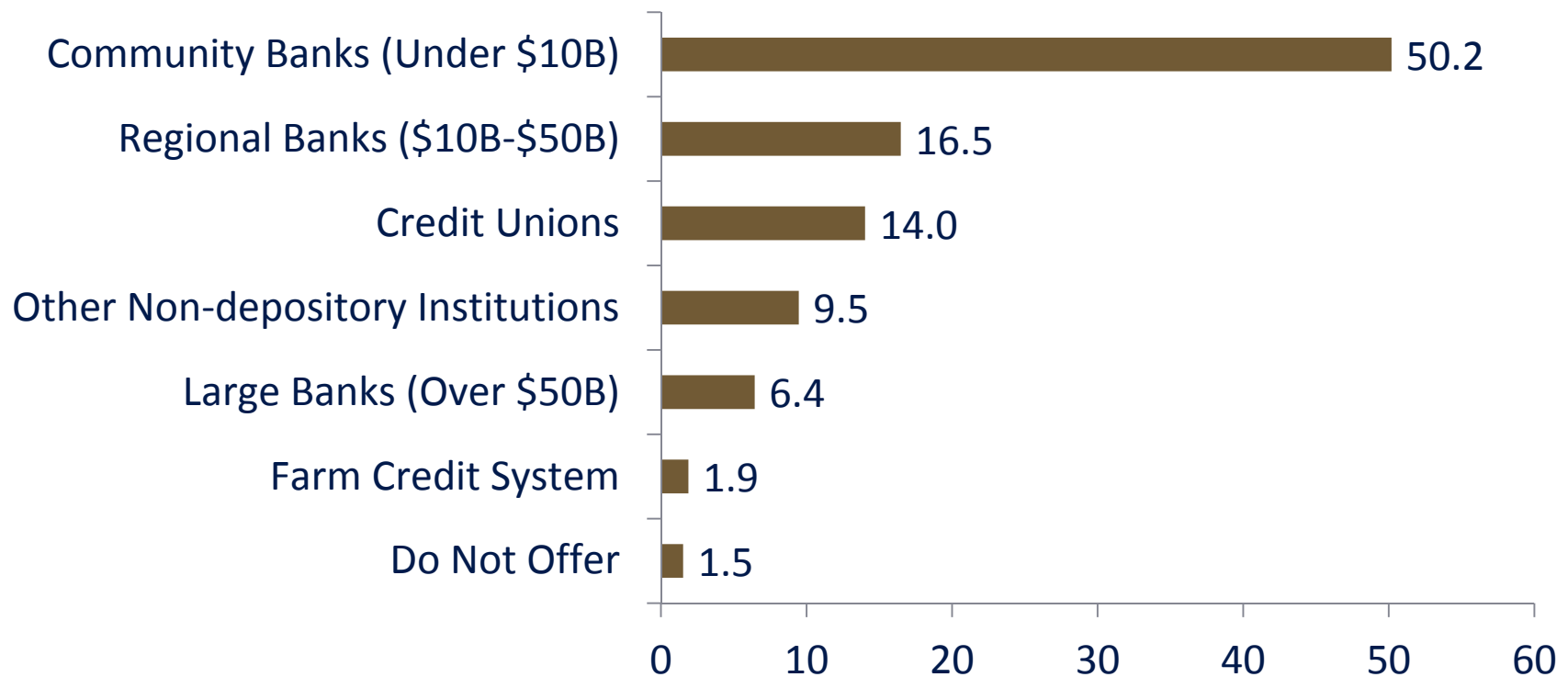




Fig. 17: Identify the single greatest source of **future** competitive pressure for the following products or services: **Small business loans**





# Human Capital: Current State

- Very difficult to hire in rural areas
- Challenging to get specialized skills like IT and compliance
- Commercial lenders are in high demand
- Lack of financial literacy is creating a problem in finding qualified employees
- Board member succession has been difficult
- Takes 5 years to train a new banker, then they leave



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# Human Capital: Solutions

- A strong internship program is the best way to identify new employees
- Hire college students part-time
- Hire high school students as summer interns builds a bond in the community
- More banks looking at shared services
- No shortage of training opportunities
- Hire good people from regional banks
- Sabbatical program (6 weeks, every 5 years)
- Customize work schedules



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Fig. 29: If so, what do you think was the most likely basis for the bidder to have made the acquisition offer? (Choose all that apply.)

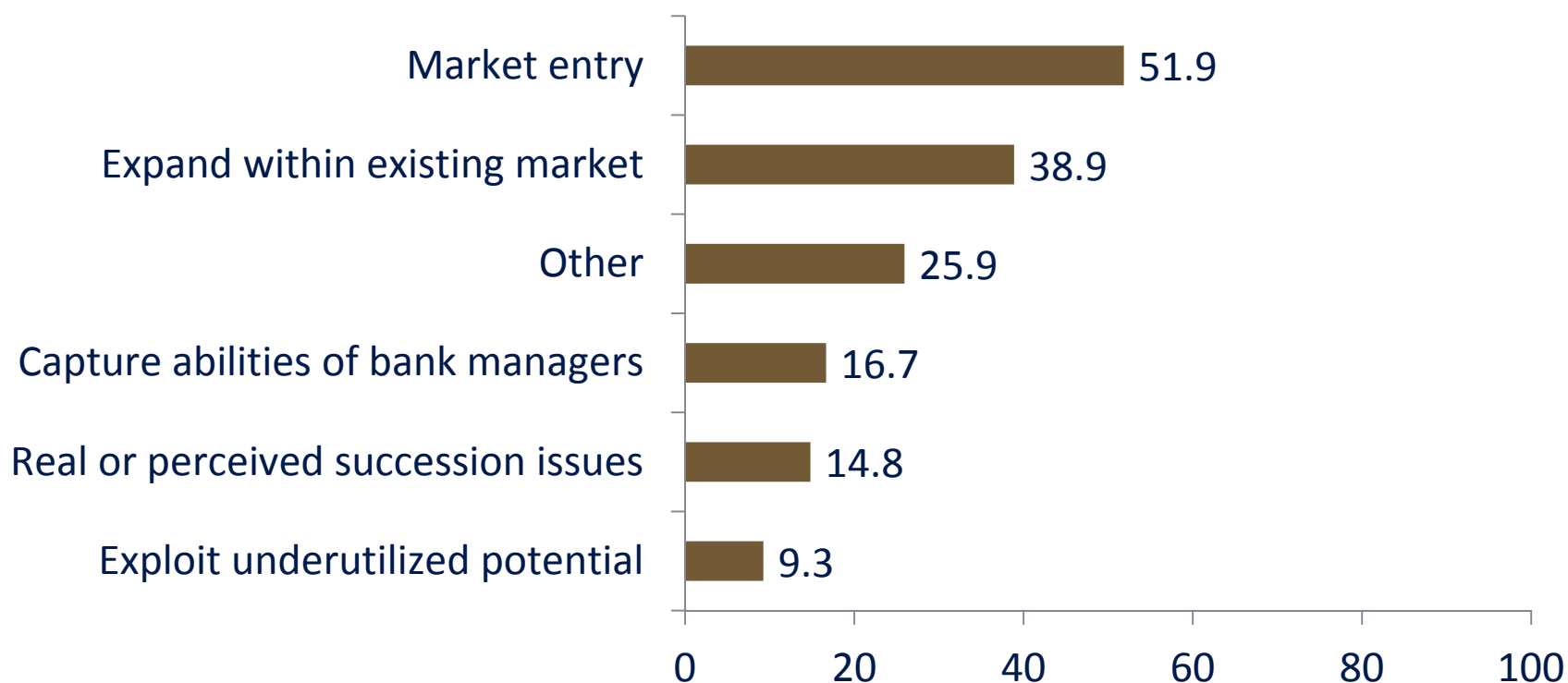
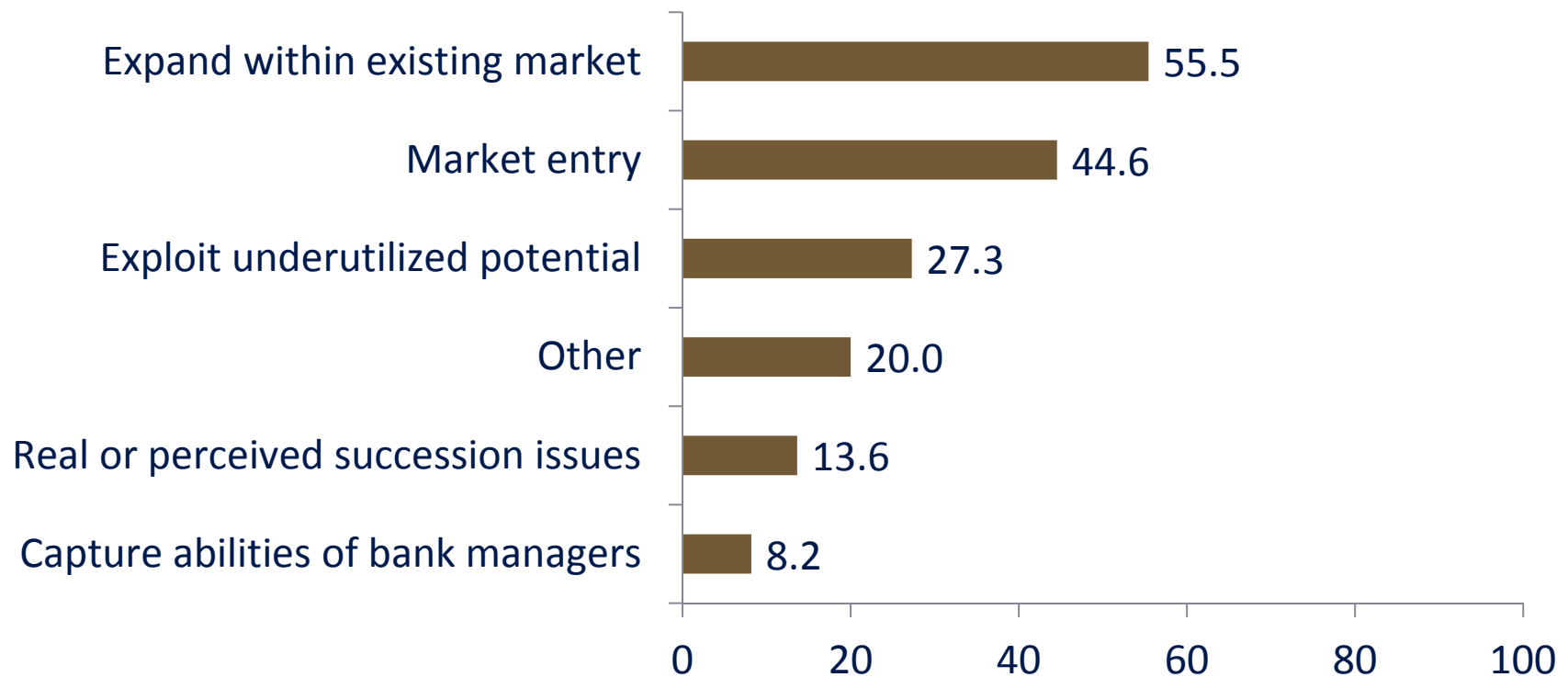




Fig. 31: Your motivation to make the offer was based on: (Choose all that apply.)





# Closing Observations

- Online lenders a more significant presence
- Mortgage lending frustrations continued while some markets may be over-heating
- Human capital issues require thinking differently about hiring, training, work hours, etc.



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# Questions?



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