



2019 National Survey of Community Banks

Michael Stevens, Alisha Sears and
Andrew Meyer

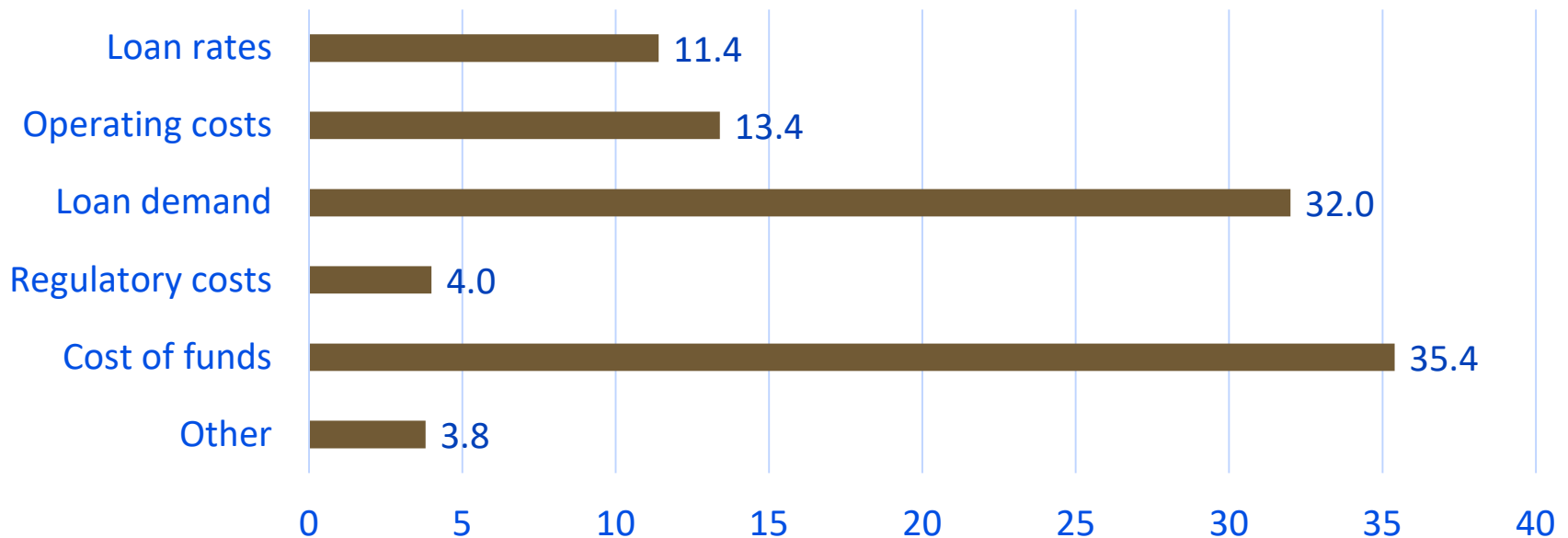
The views expressed are not necessarily those of the Federal Reserve System.





The cost of funds has the biggest perceived influence on profitability. Regulatory cost is way down the list.

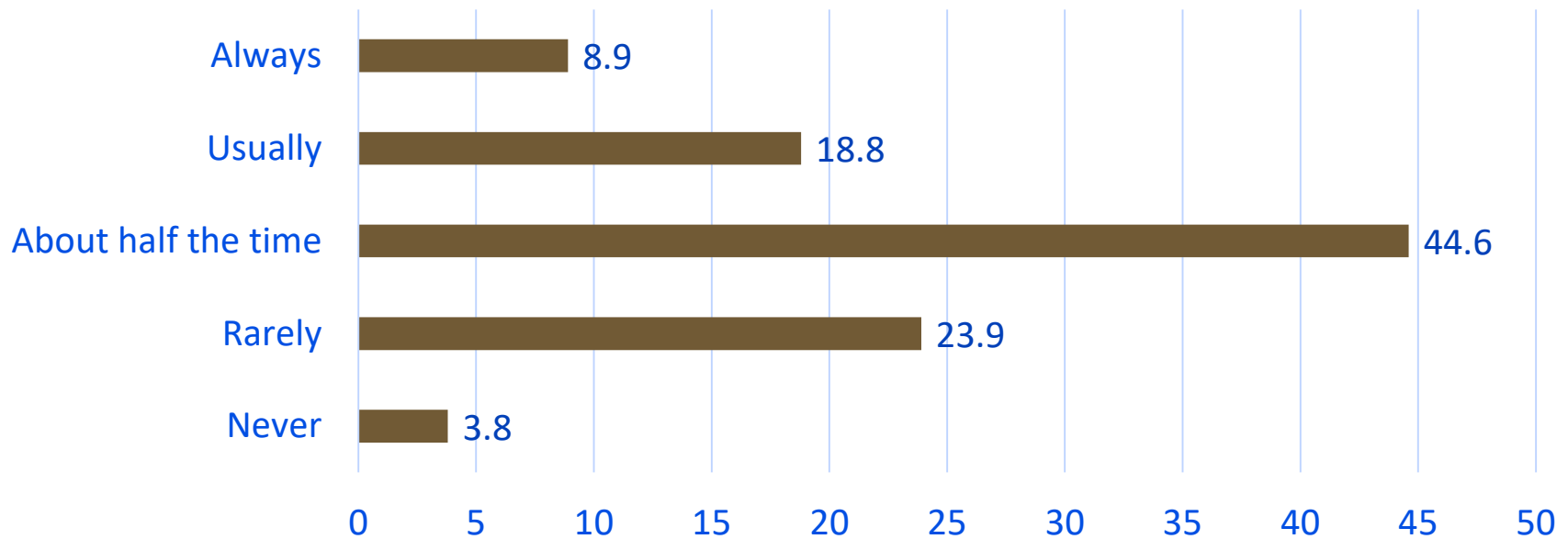
Figure 4: Which of the following is most likely to have the biggest influence on profitability over the next 12 months?





On balance, bankers consider core deposit growth to be as important as loan growth.

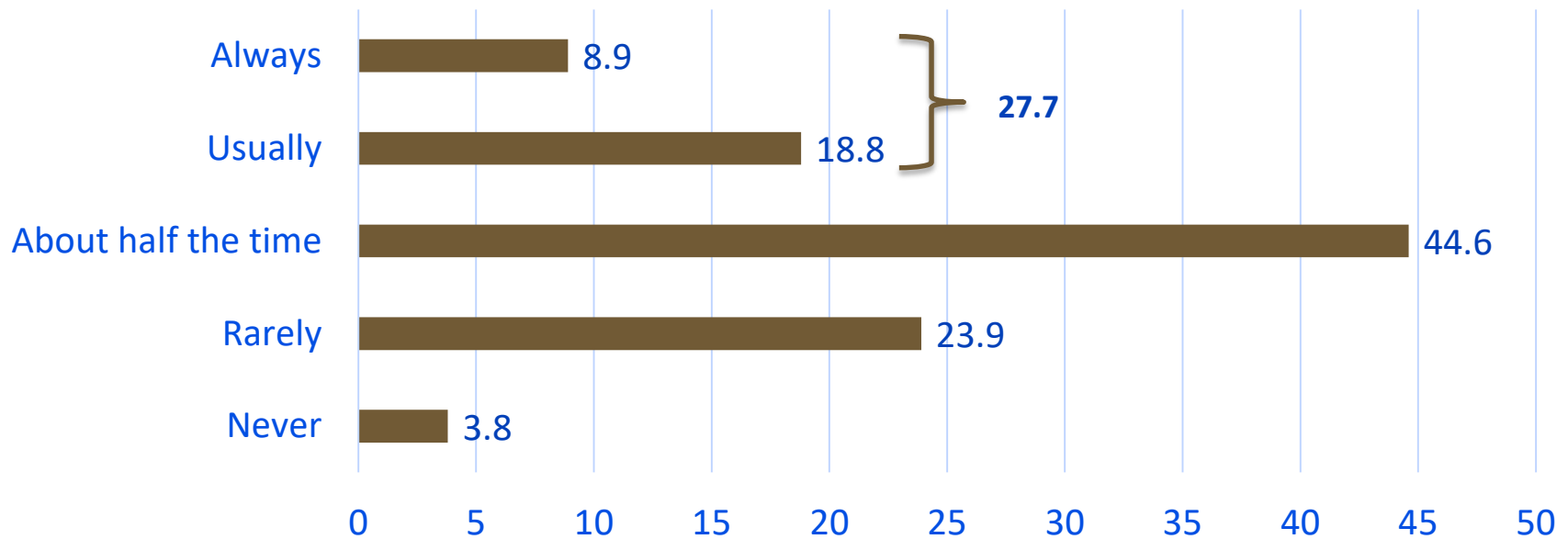
Figure 6: How often is core deposit growth currently prioritized over loan growth?





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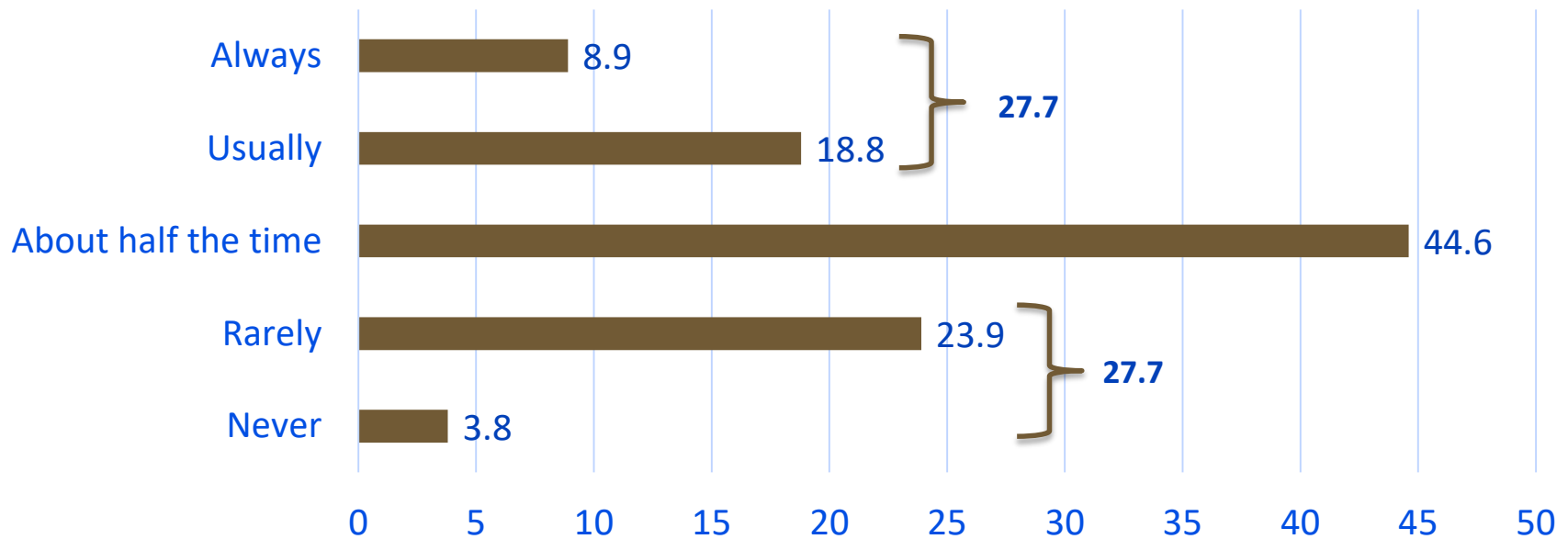
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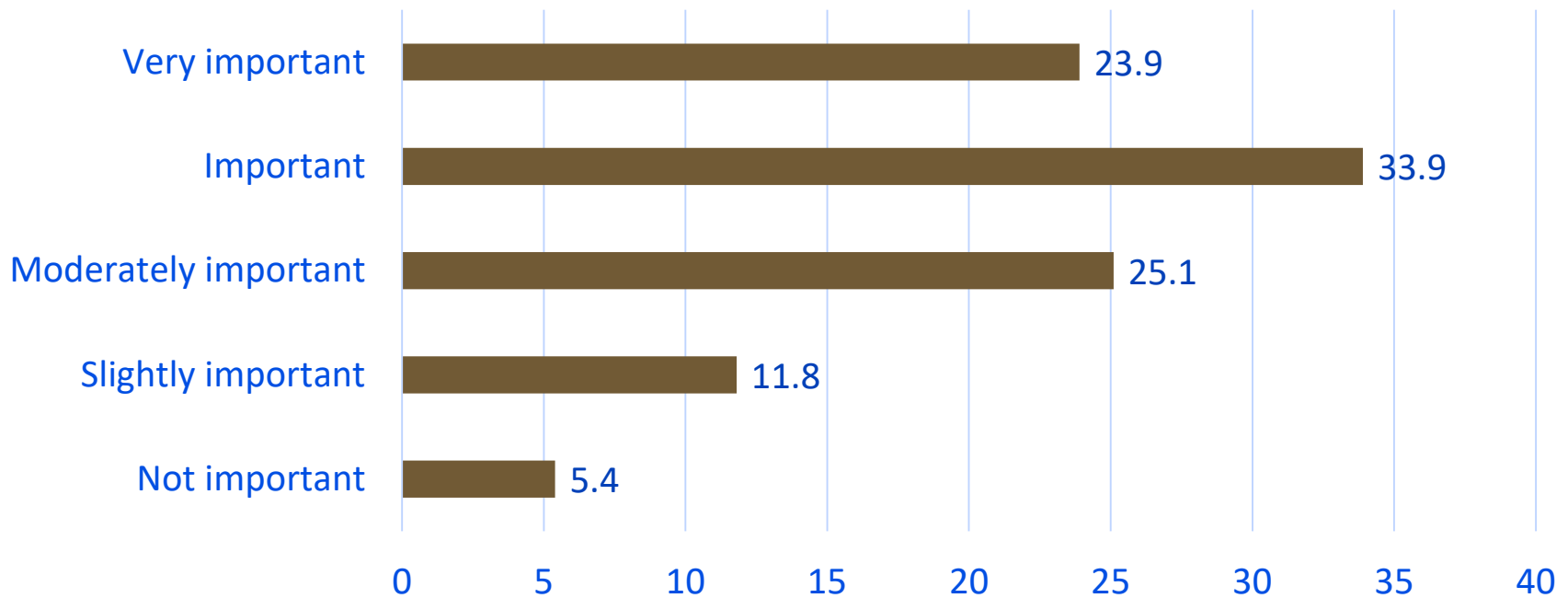
Figure 6: How often is core deposit growth currently prioritized over loan growth?





On a related note, liquidity risk is a major concern . . .

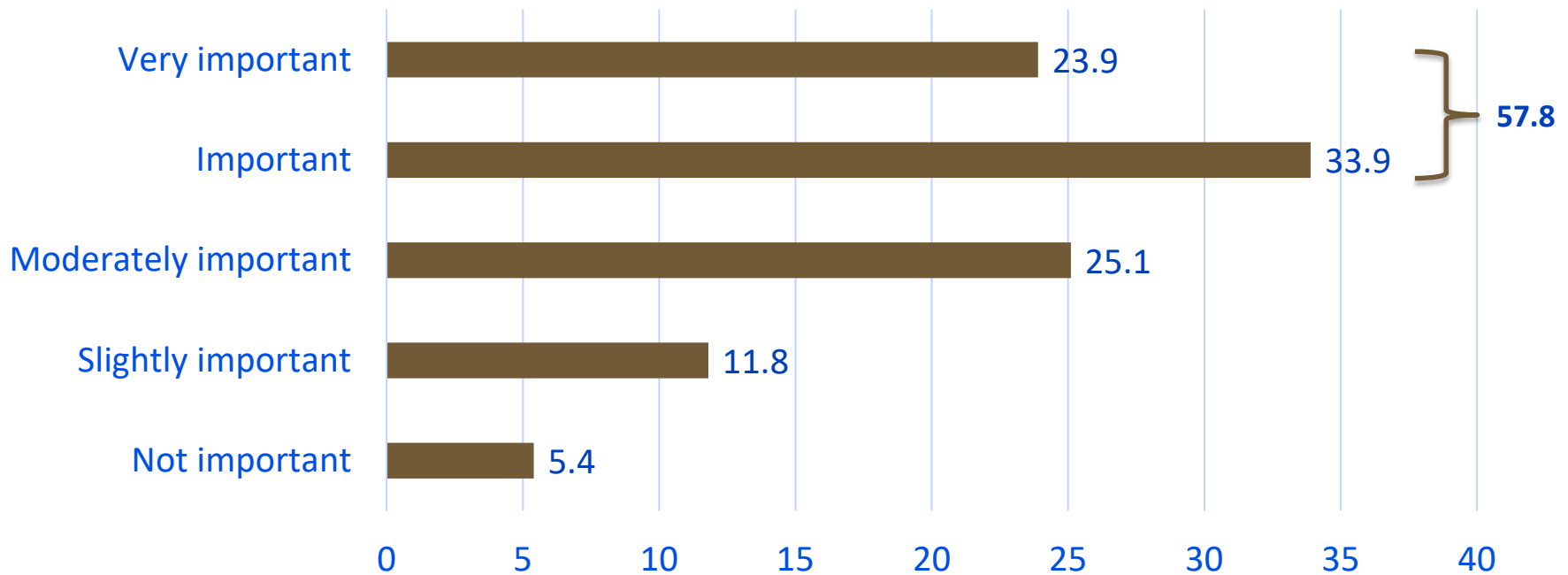
Figure 7: How important is liquidity risk?





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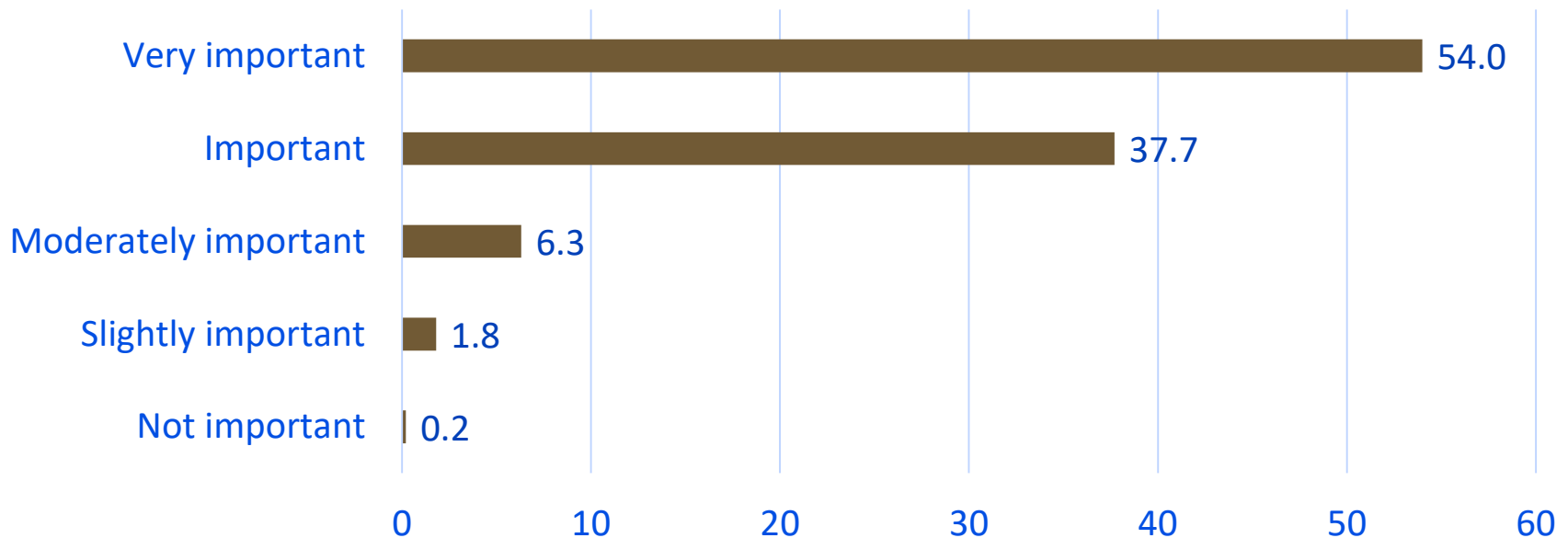
Figure 7: How important is liquidity risk?





... and bankers are deeply concerned about competitors poaching their core deposits.

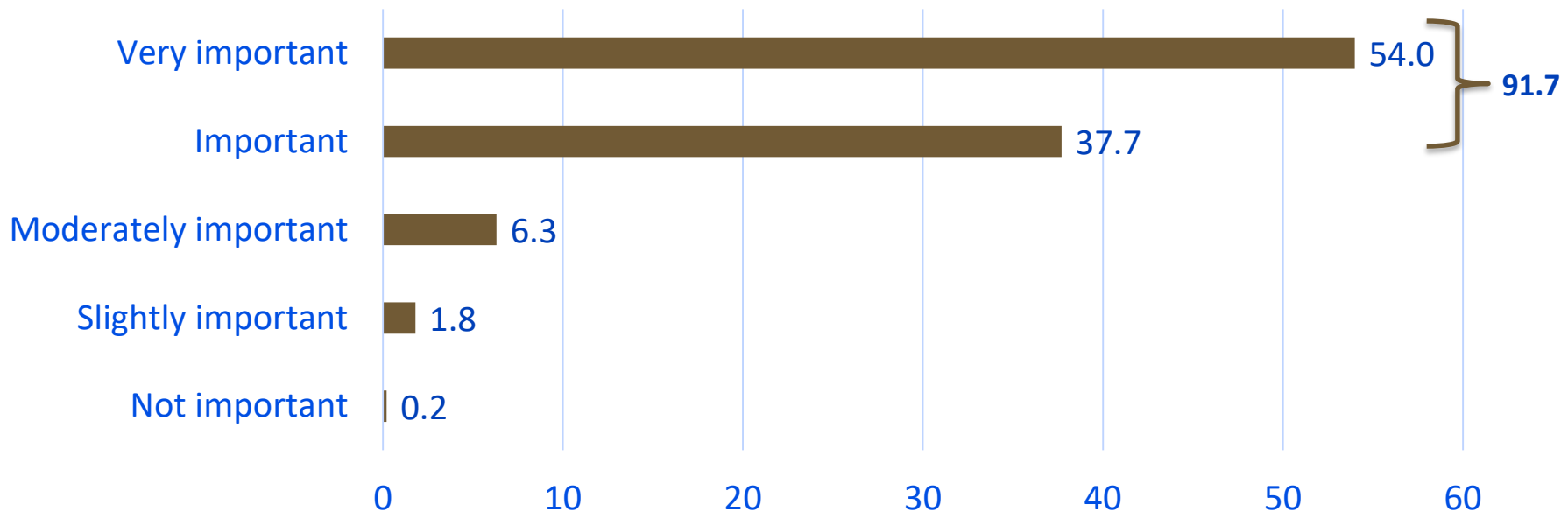
Figure 8: How important is market competition as an impediment to attracting and retaining core deposits?





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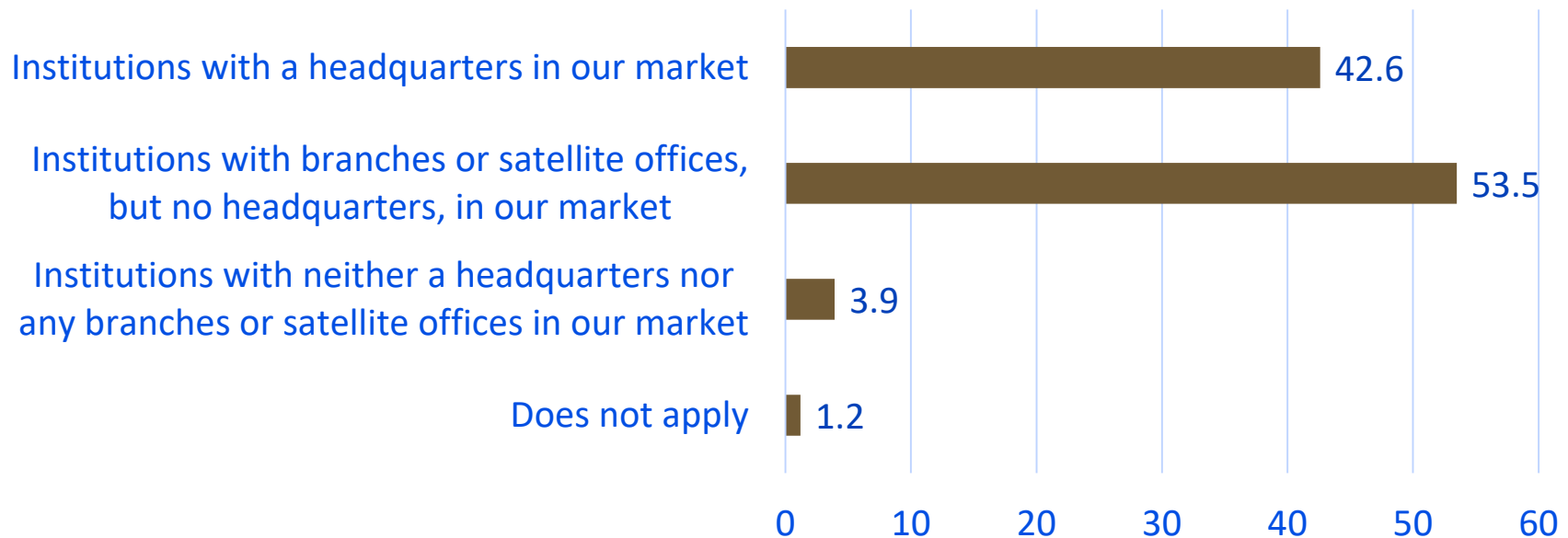
Figure 8: How important is market competition as an impediment to attracting and retaining core deposits?





Most of the competition for checking accounts is from local sources . . .

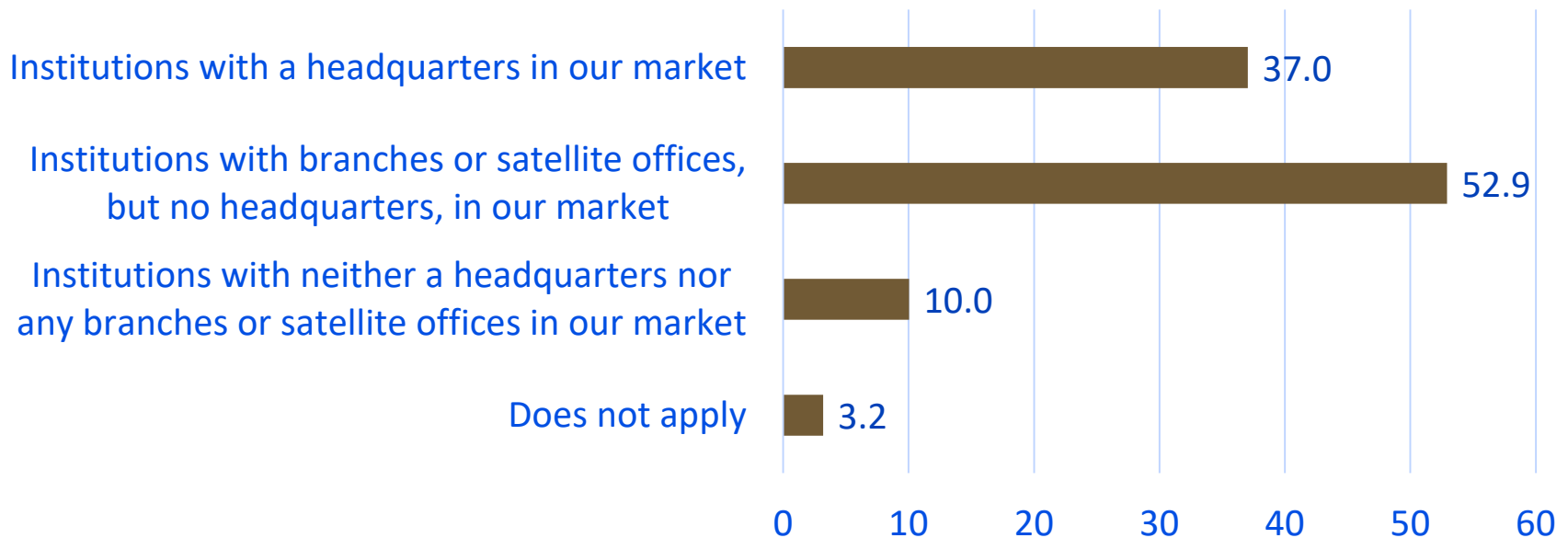
Figure 9: What is your greatest source of competition for transaction deposits?





. . . but a higher percentage of non-transaction deposit competition comes from a distance.

Figure 10: What is your greatest source of competition for non-transaction deposits?





Funding Perspectives

Mixed perspectives but...

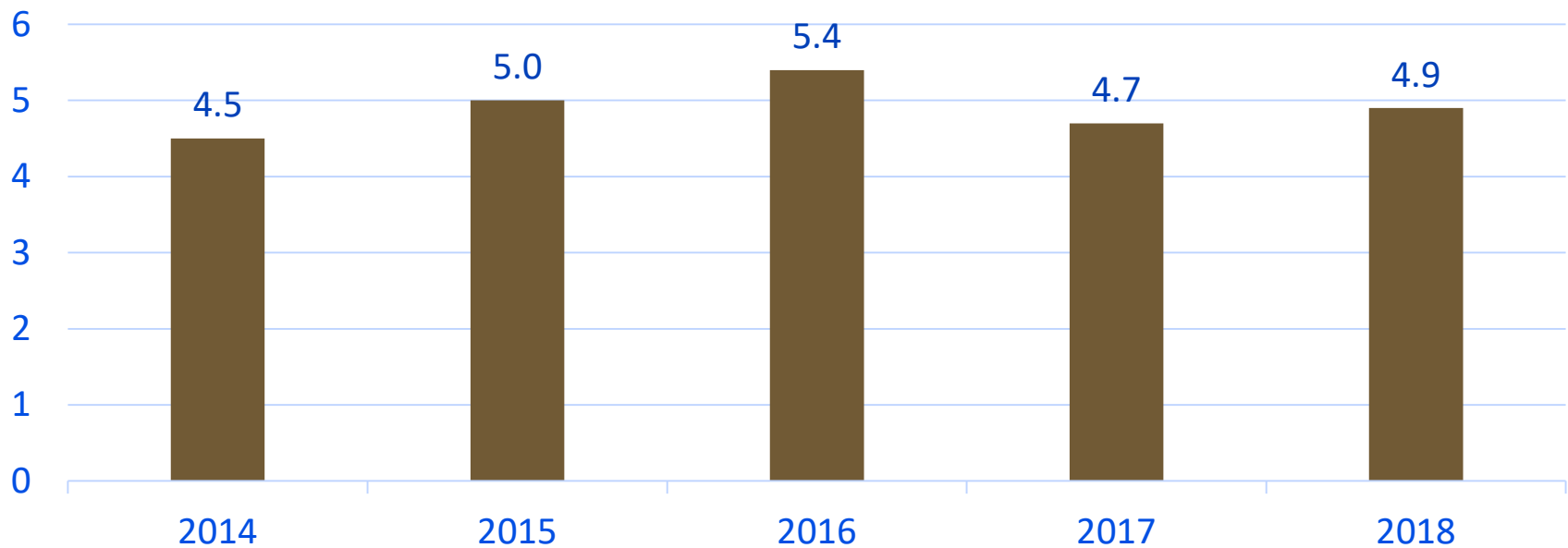
- acknowledgment that difficulty attracting and retaining core deposits is a trend that is expected to continue; and
- overall, more reliance on FHLB advances, brokered, and reciprocal deposits.





After dropping 13% in 2017, compliance costs edged upward 4% in 2018.

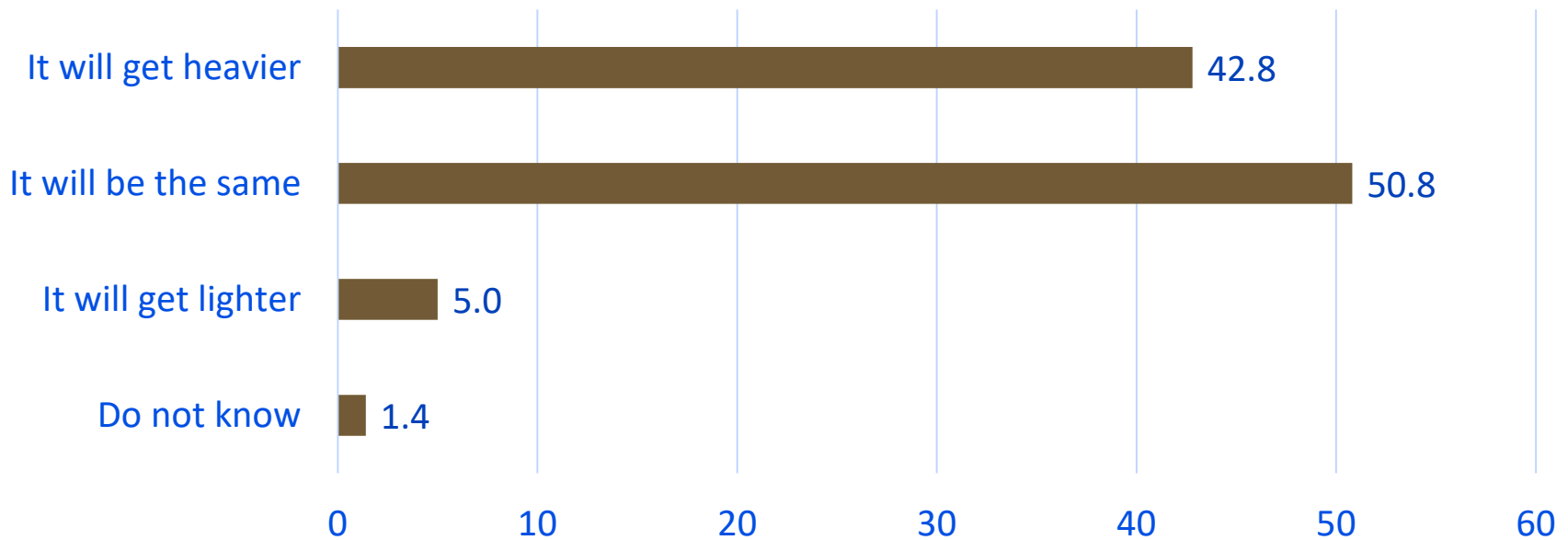
Figure 71: Implied Amounts of Regulatory Costs for all State-Chartered Community Banks and Thrifts (\$billions)





More bankers are pessimistic than optimistic about future regulatory burden, but a majority think it will remain stable.

Figure 72: How do you expect the regulatory burden on your bank to change over the next 12 months?





Thoughts on the Economic Growth, Regulatory Relief and Consumer Protection Act's (S.2155) Impact

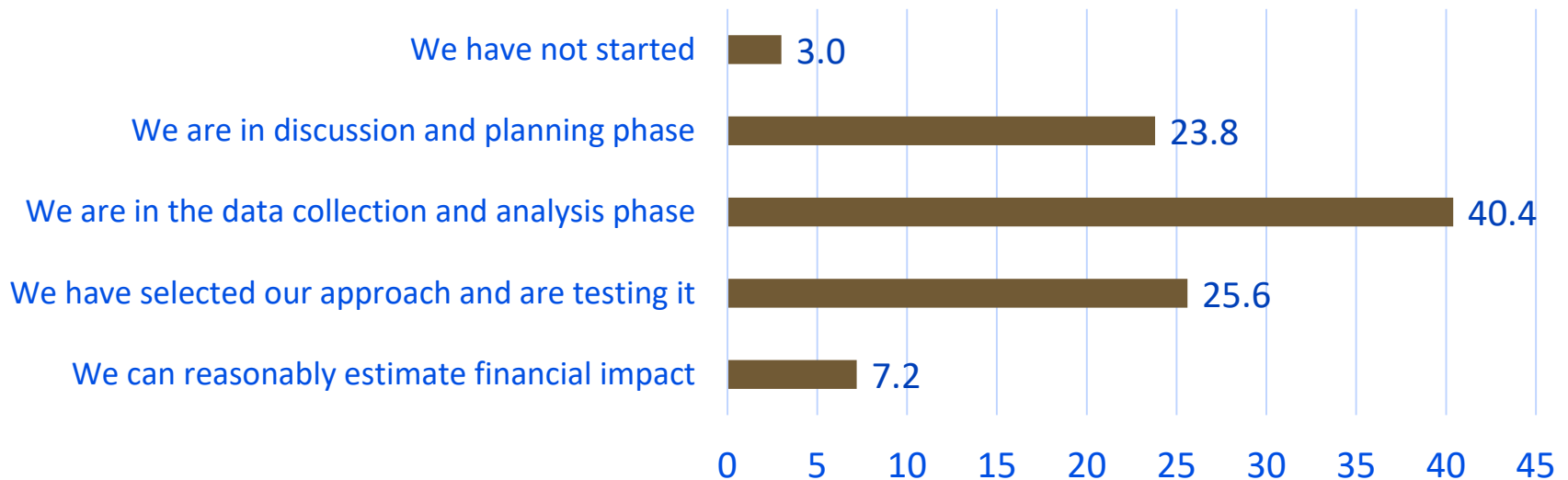
- “Neutral about the benefits”
- “Provides minimal relief”
- “Misses the mark as far as creating measurable change”
- “Step in the right direction but it should have, and could have, done more”
- “Helps larger banks more than smaller banks”





Bankers continue to make progress toward the implementation of CECL . . .

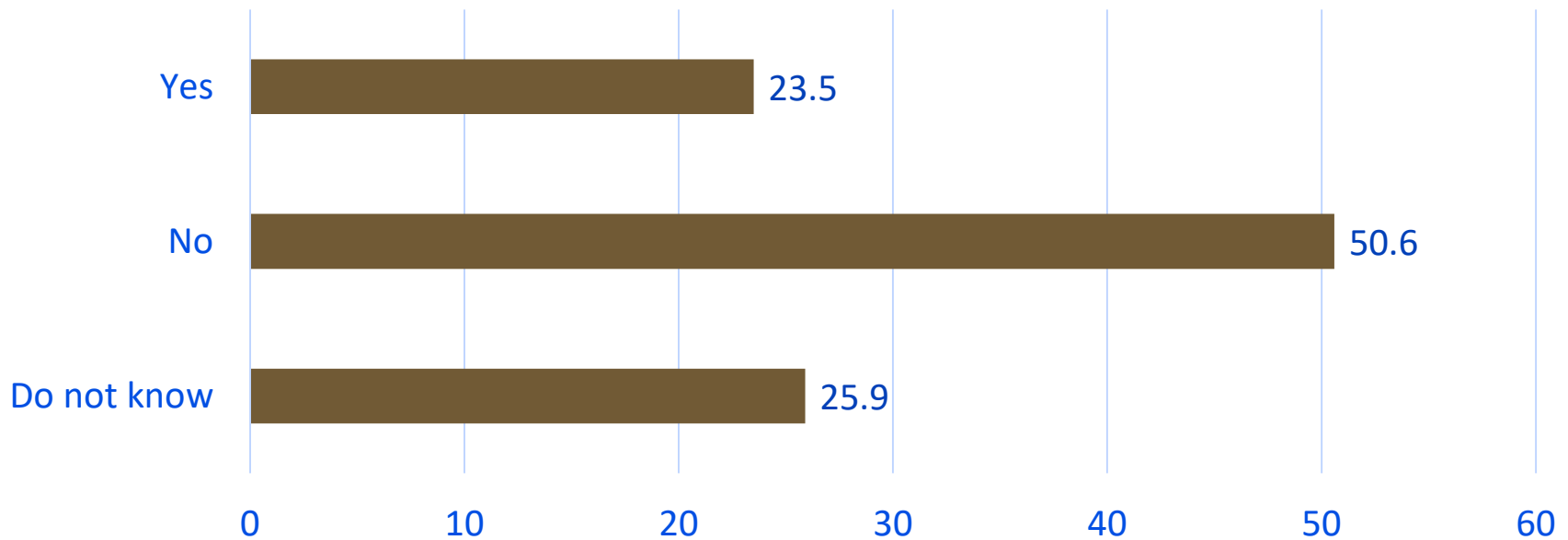
Figure 29: Which of the following most closely describes the current status of your efforts for transitioning to the Current Expected Credit Loss (CECL) methodology?





... but a many of them think that a larger staff will be necessary ...

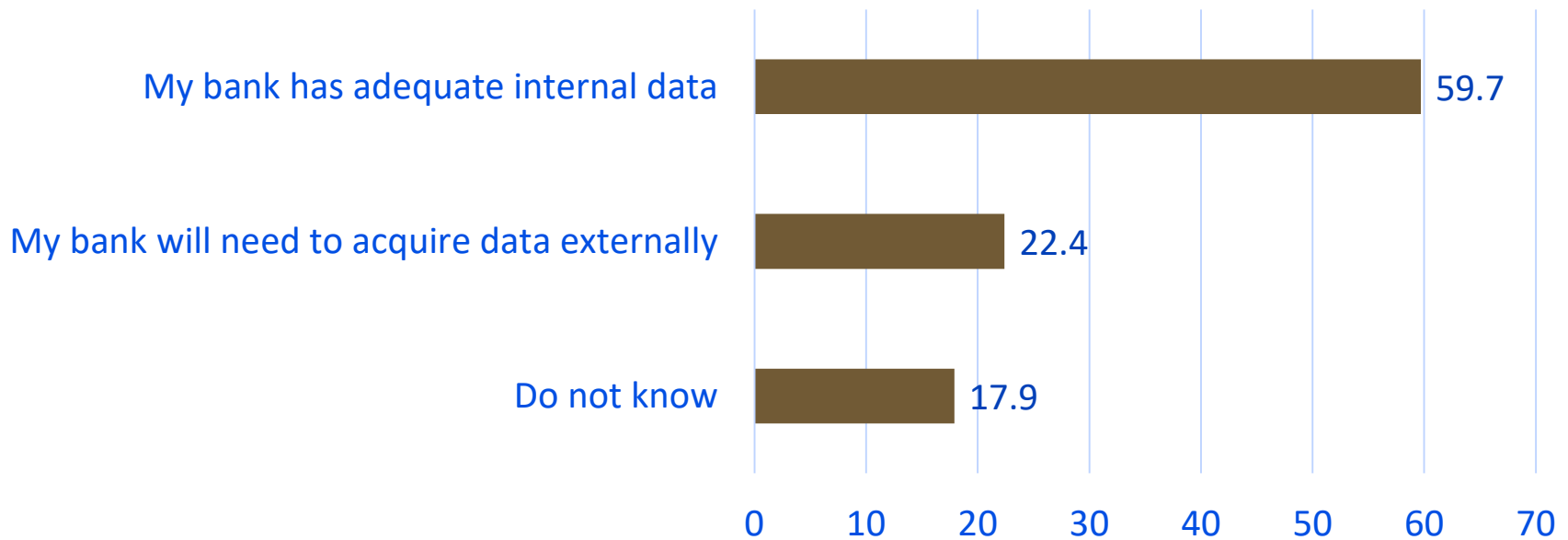
Figure 30: Will the implementation of CECL require you to employ a larger staff than you would need in the absence of CECL?





... and a similar number think that they'll need more data.

Figure 31: Which statement best describes your data needs regarding the implementation of CECL?





Technology Words of Wisdom

- Improve secure transfer of documents
- More off-site ability is a “double-edged sword”
- Use technology and data to better risk-focus examinations
- Greater transparency and faster notifications when breaches occur





Cyber Risk Is Significant But...

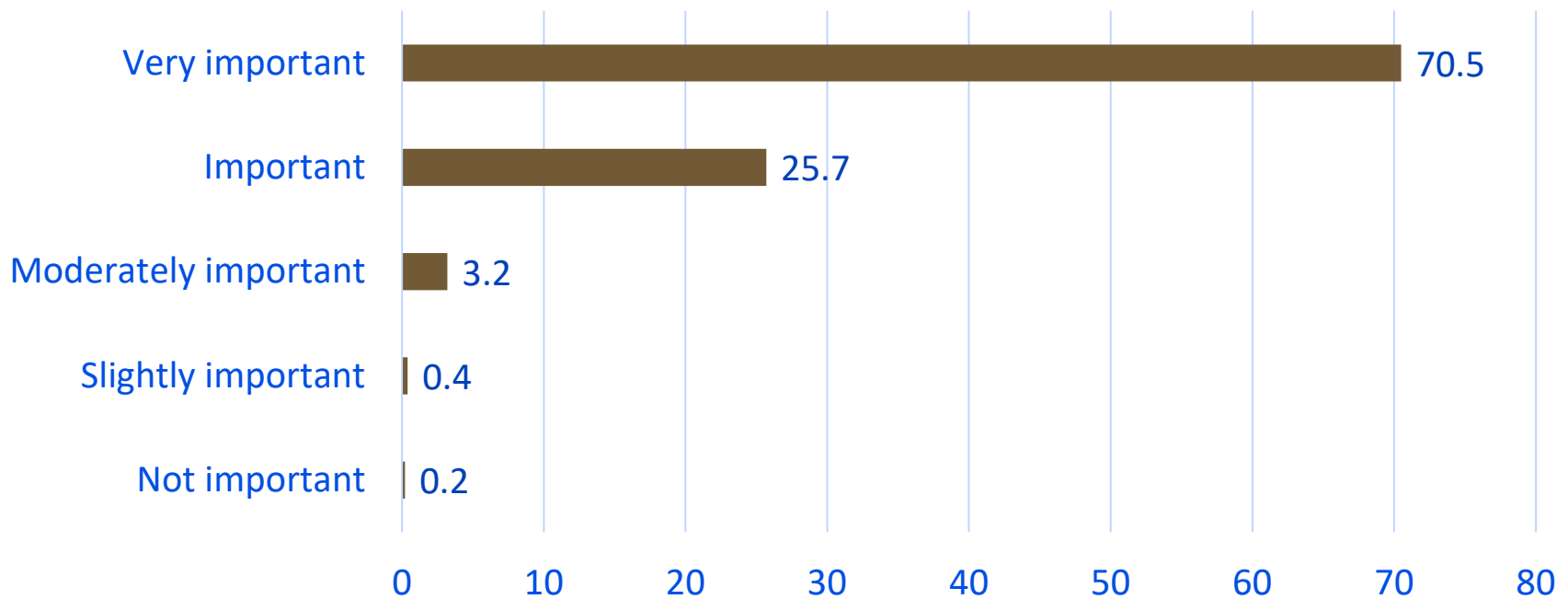
- “Leading edge, not bleeding edge”
- “Fast adopters of technology, not necessarily innovators”
- “Second phase adopters”
- “Slow follower strategy”





Almost all bankers think that cybersecurity risk is either important or very important.

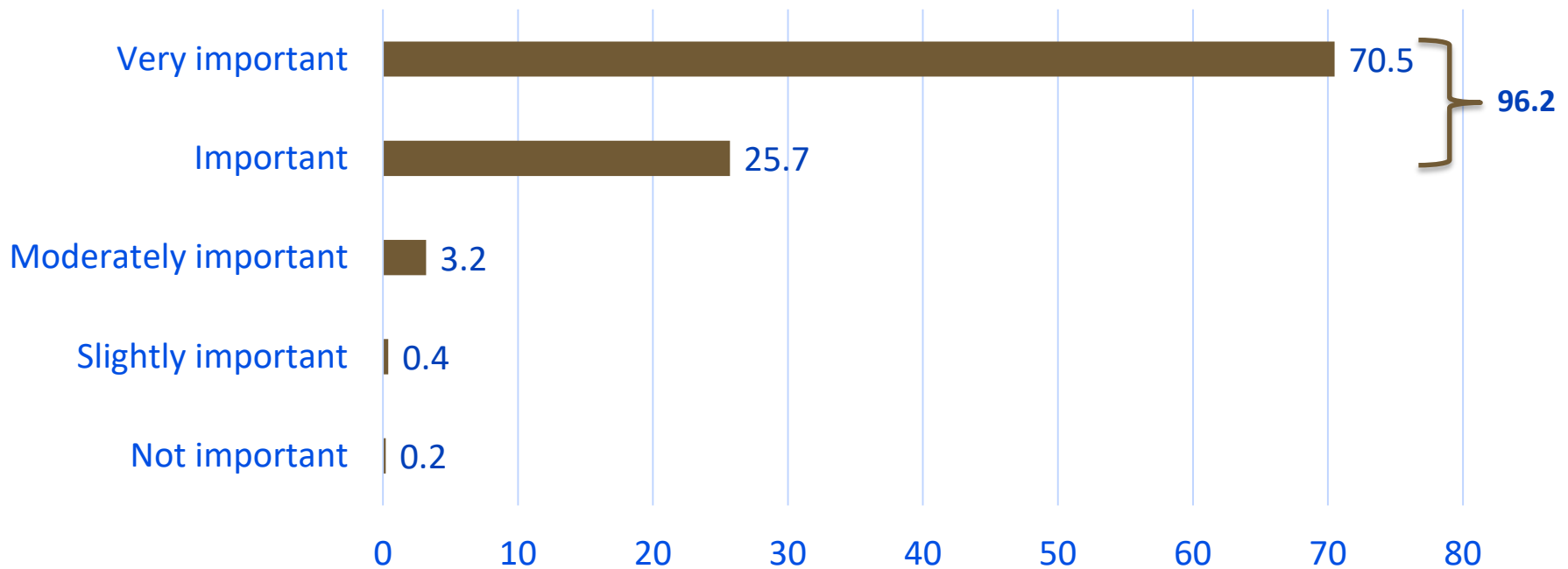
Figure 75: How important is cybersecurity risk?





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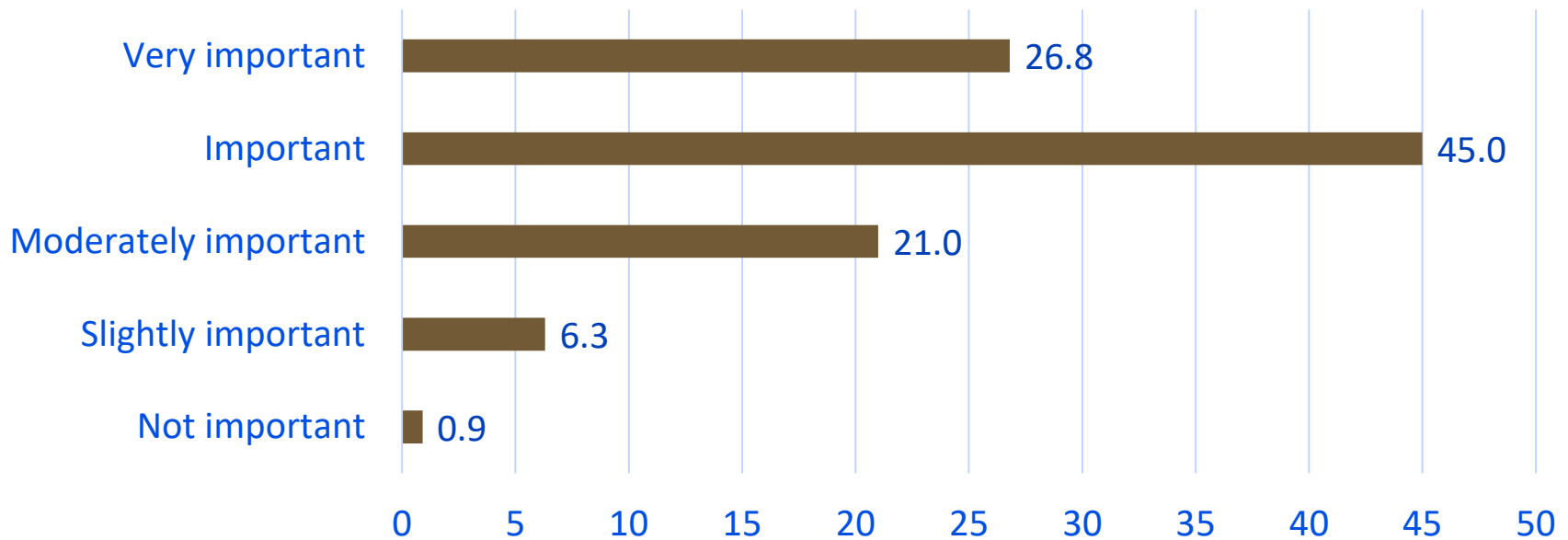
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And a large majority believe it is important to keep up with new or emerging technology . . .

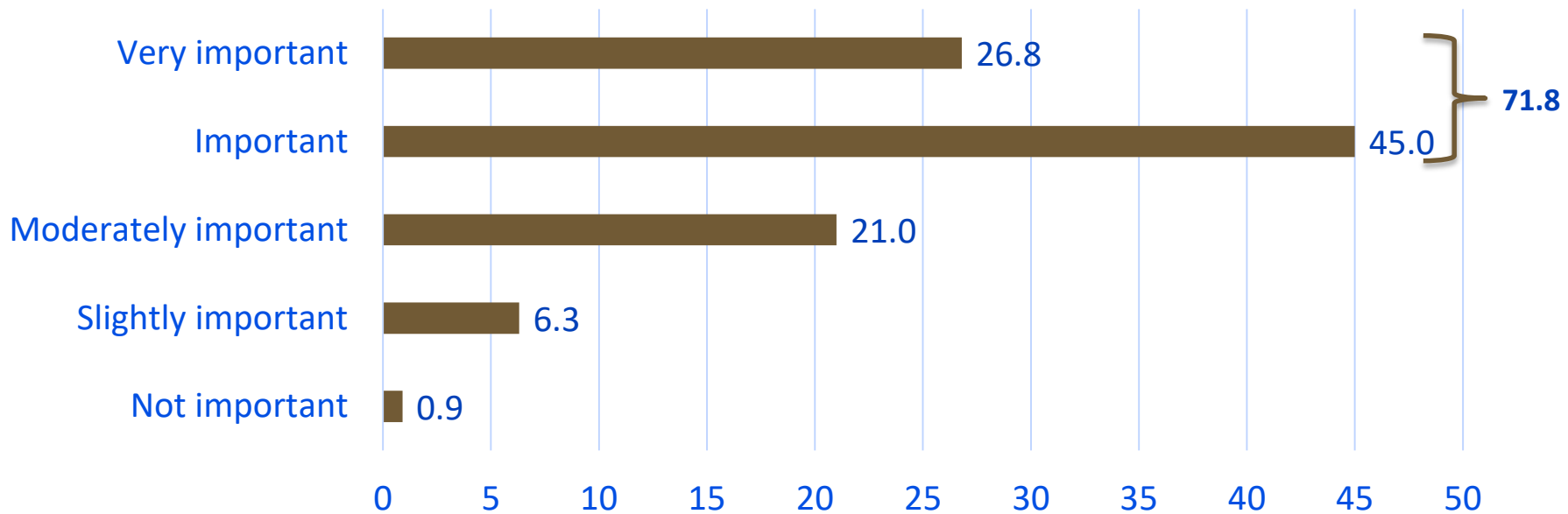
Figure 42: How important is the adoption of new or emerging technologies to meet customer demand in your market?





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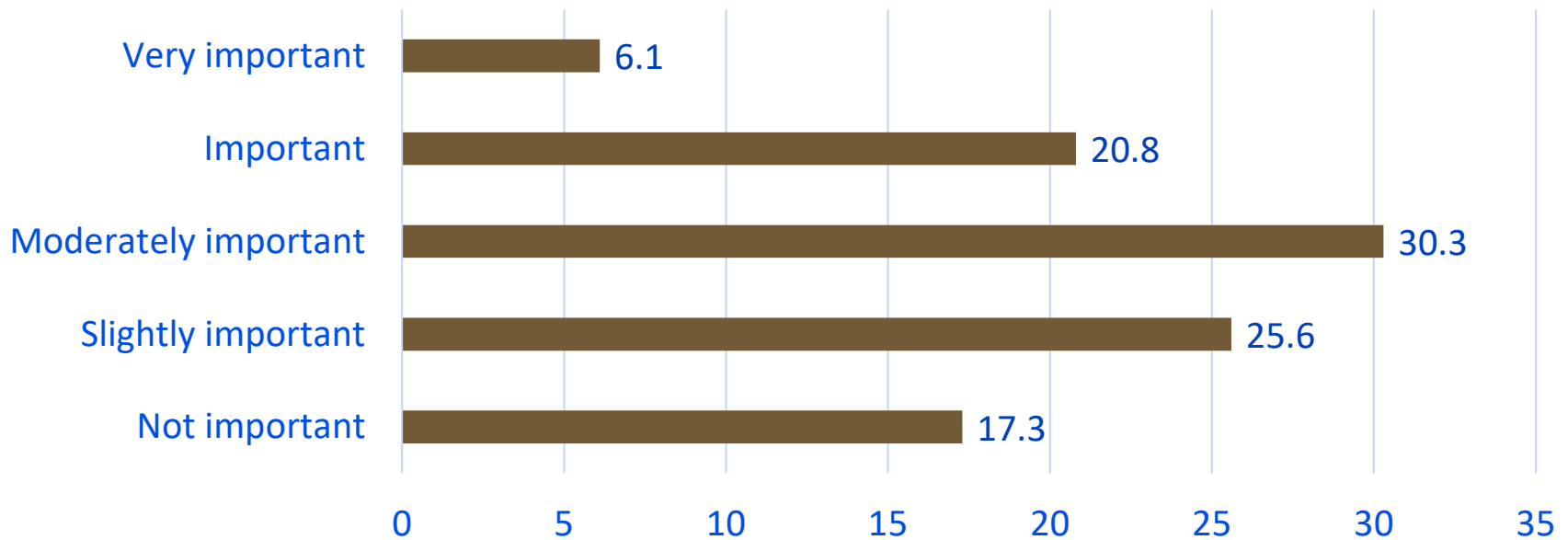
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... but a smaller number of bankers want to be a leader in new technology adoption.

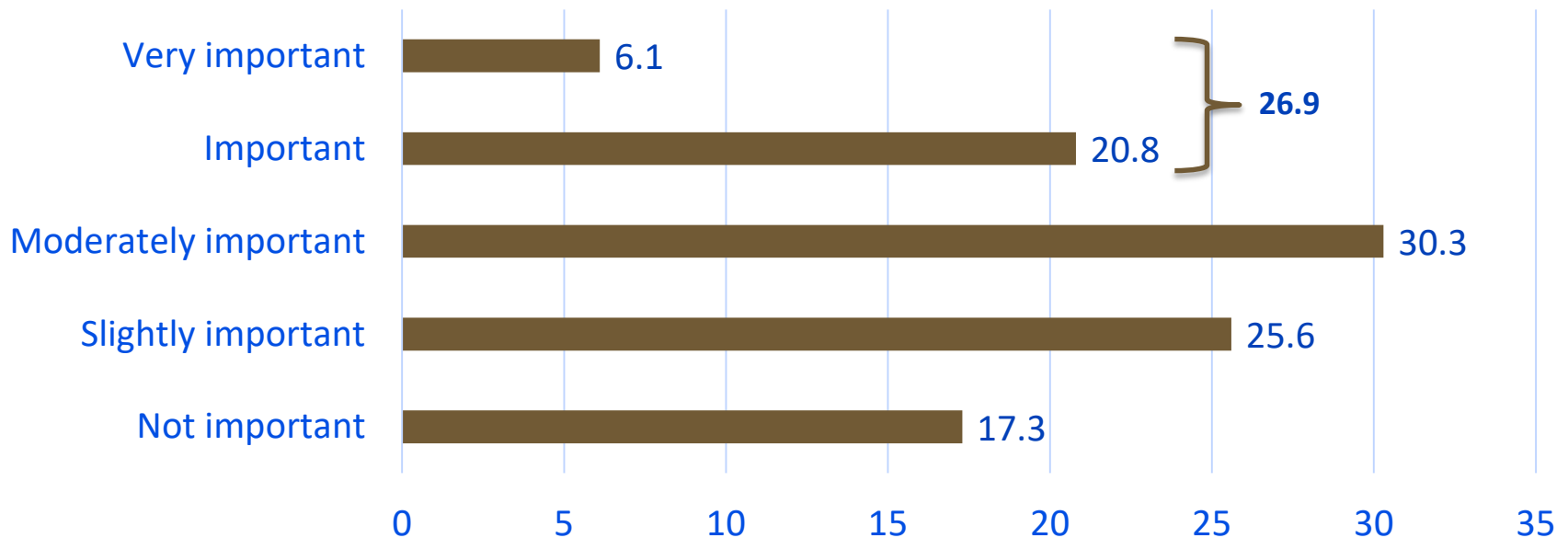
Figure 43: How important is it to be a leader in new or emerging technology adoption to meet customer demand in your market?





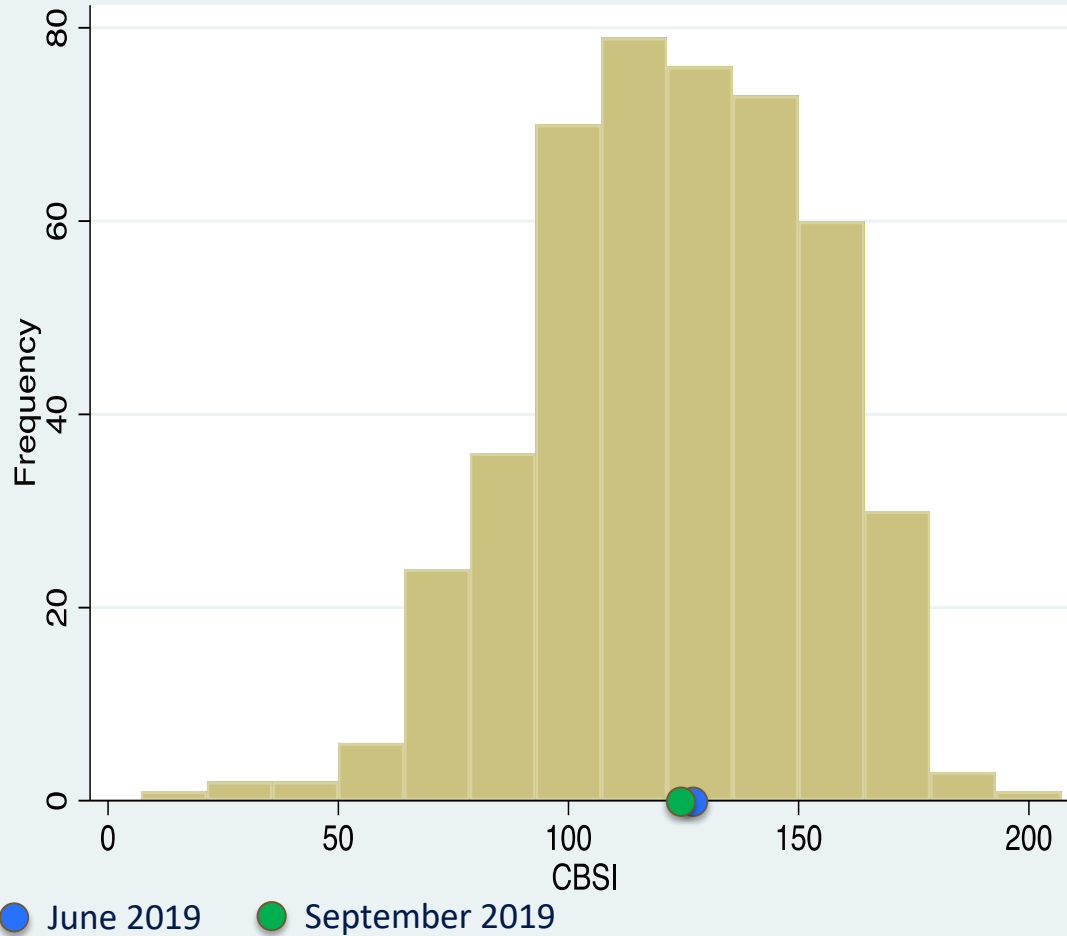
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Community Bank Sentiment Index



Notable shifts from *better* to *same*

Business Conditions
Profitability
Franchise Value

Next observation period:

December 1 to 31, 2019

Register to participate:

index@csbs.org





Discussion of the 2019 CSBS National Survey of Community Banks

Presenters: **Michael Stevens**, Senior Executive Vice President, Conference of State Bank Supervisors

Alisha Sears, Senior Analyst , Conference of State Bank Supervisors

Andrew Meyer, Senior Economist, Federal Reserve Bank of St. Louis

*Additional copies of the conference volume publication are available at the **Hospitality Desk***

