



# 2020 National Survey of Community Banks

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





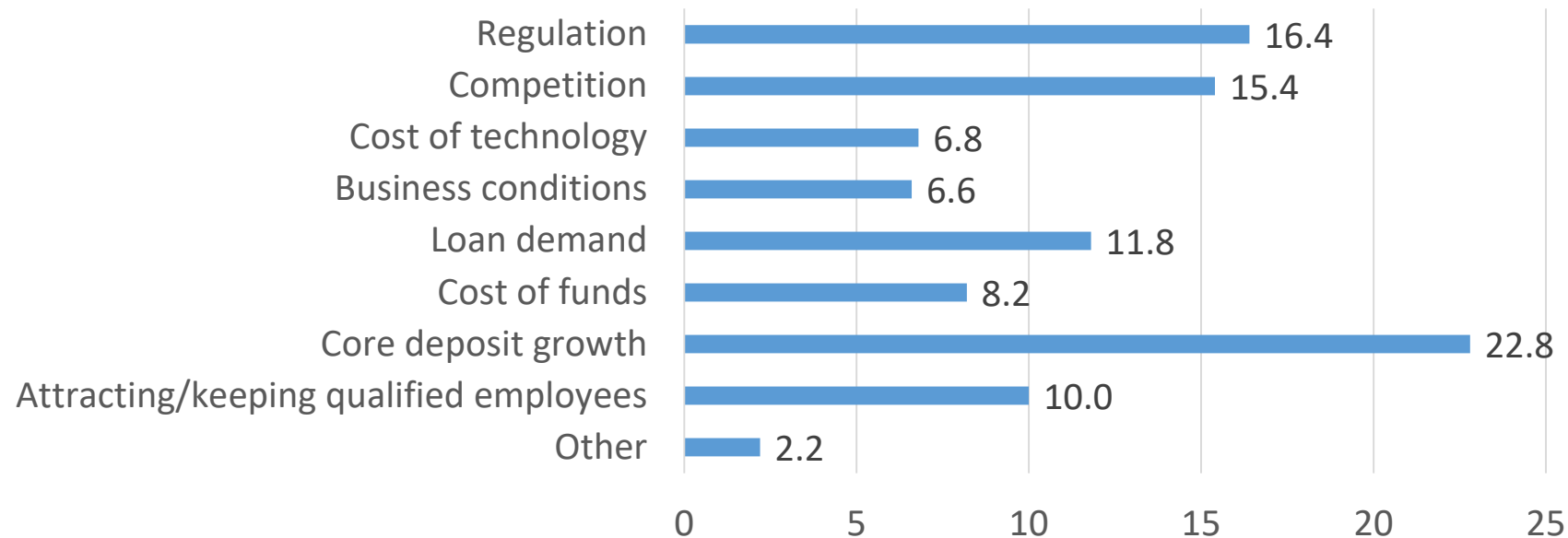
# COVID-19 Issues





# Last year, the greatest challenge facing banks was funding . . .

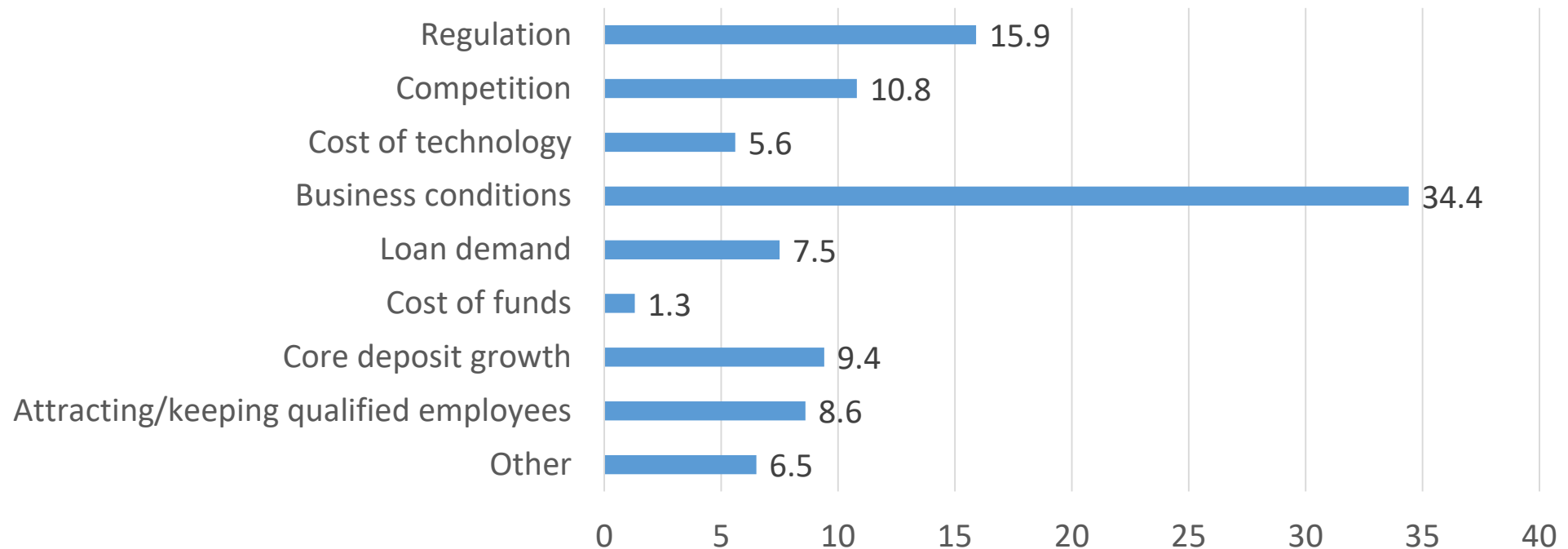
What is the single greatest challenge facing your bank today (in 2019)?





... but this year, business conditions are by far the greatest concern.

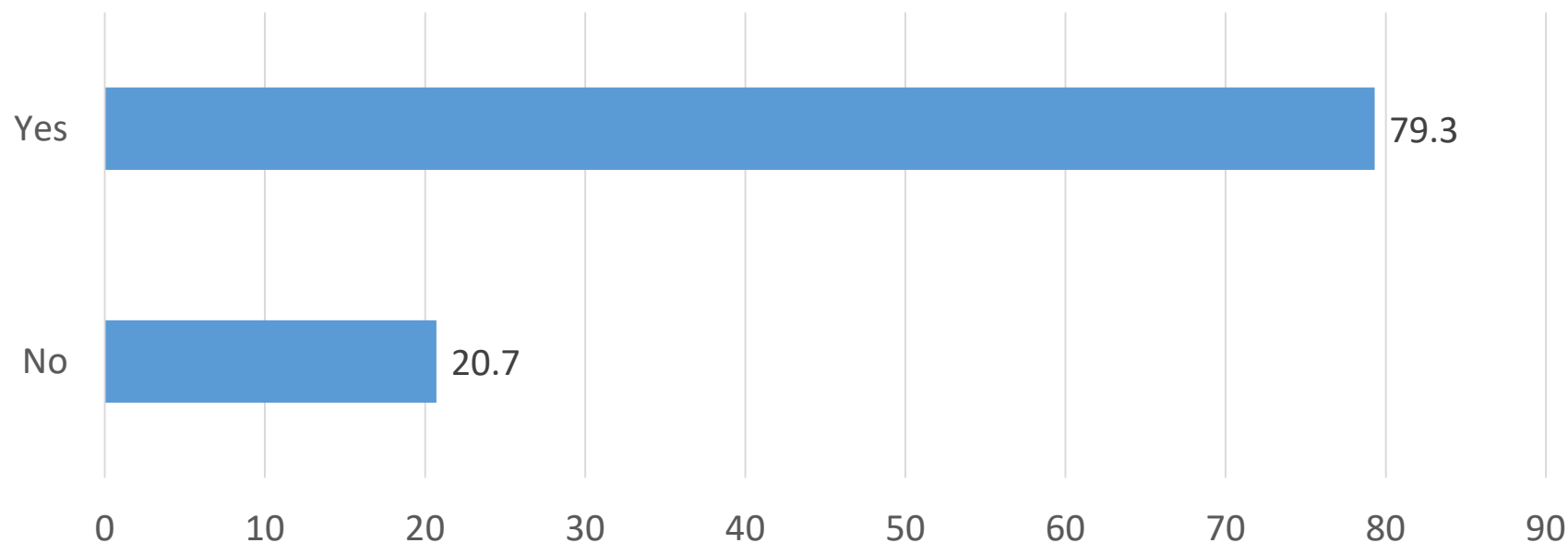
Figure 4: What is the single greatest challenge facing your bank today (in 2020)?





# Banks clearly stepped in to help small businesses that were hit by the pandemic . . .

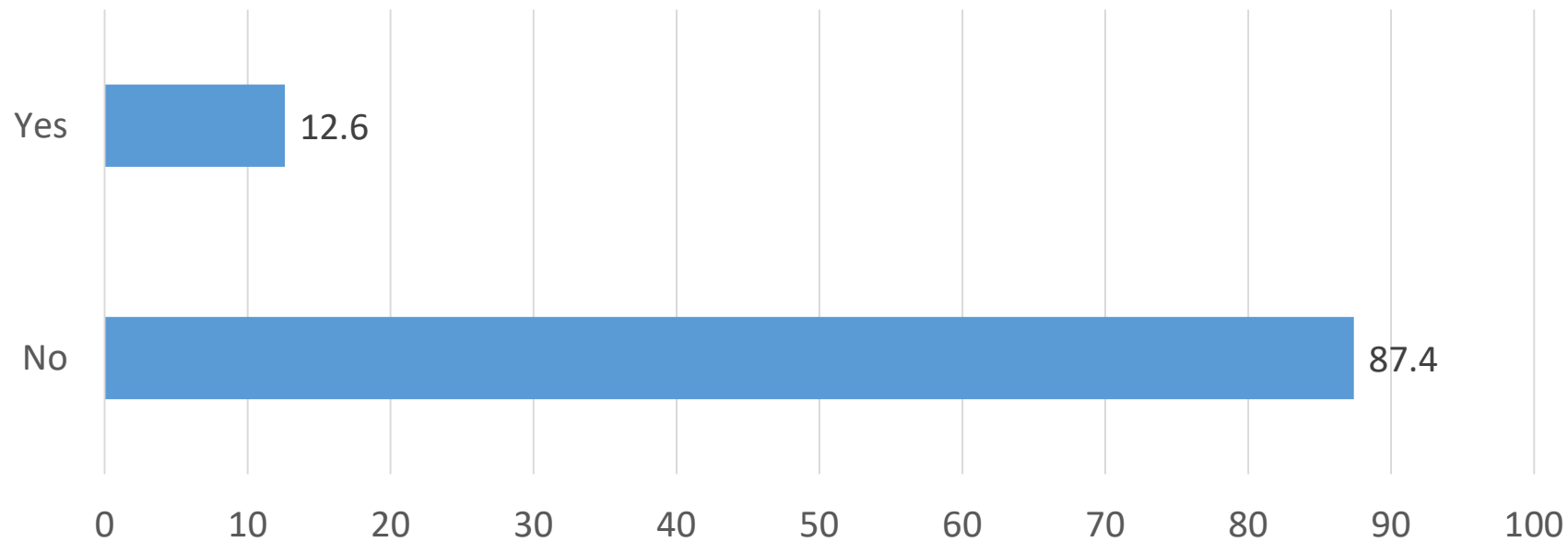
Figure 6: Did you increase lending to small businesses and farms in response to the COVID-19 pandemic ?





. . . but the pandemic did not cause an increase other types of lending.

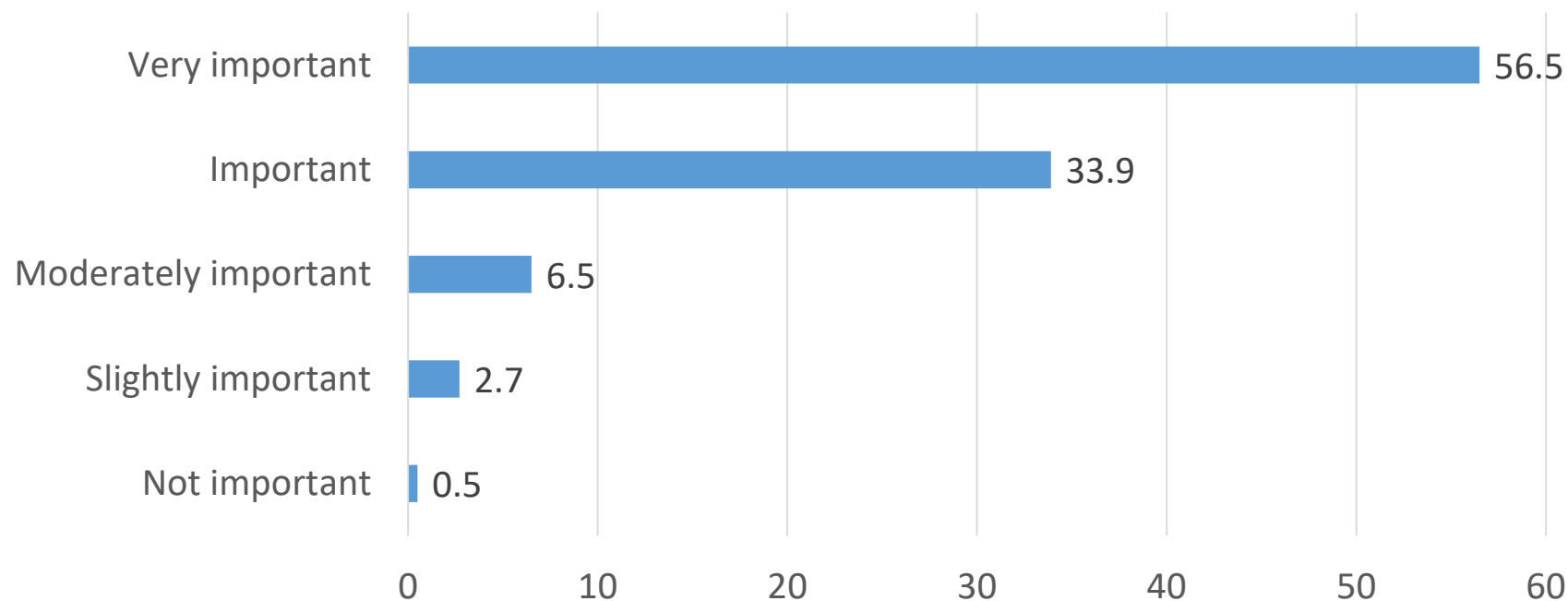
Figure 7: Did you increase non-businesses lending in response to the COVID-19 pandemic ?





## Even with all of the government guarantees, bankers closely monitor credit risk . . .

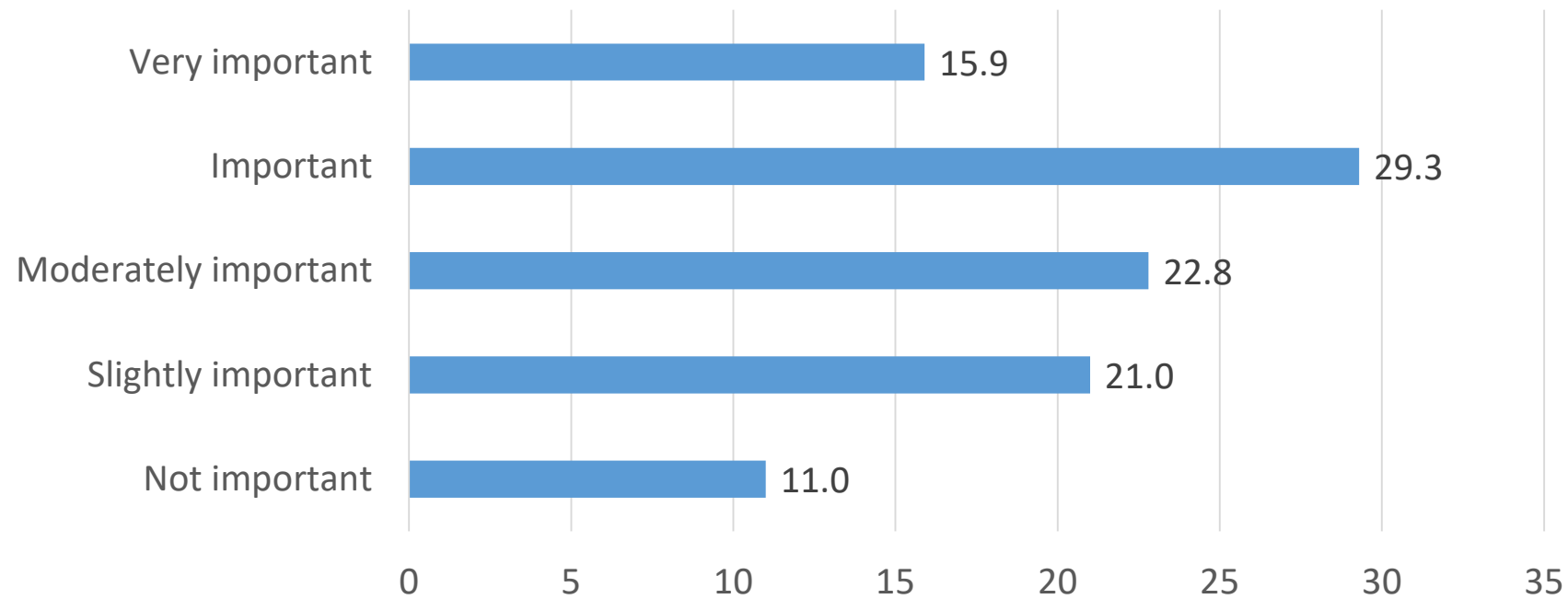
Figure 8: How important is credit risk to your bank?





... but they are much less concerned about liquidity.

Figure 9: How important is liquidity risk to your bank?

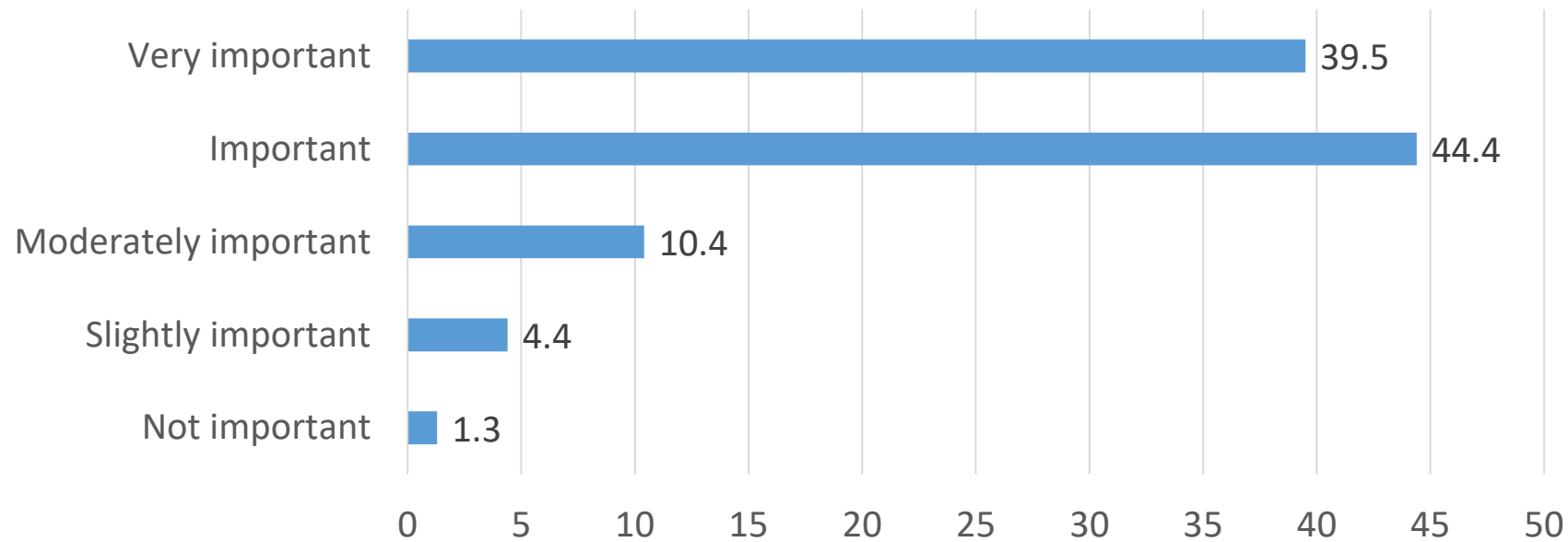






# Competition for deposits is just as important as ever . . .

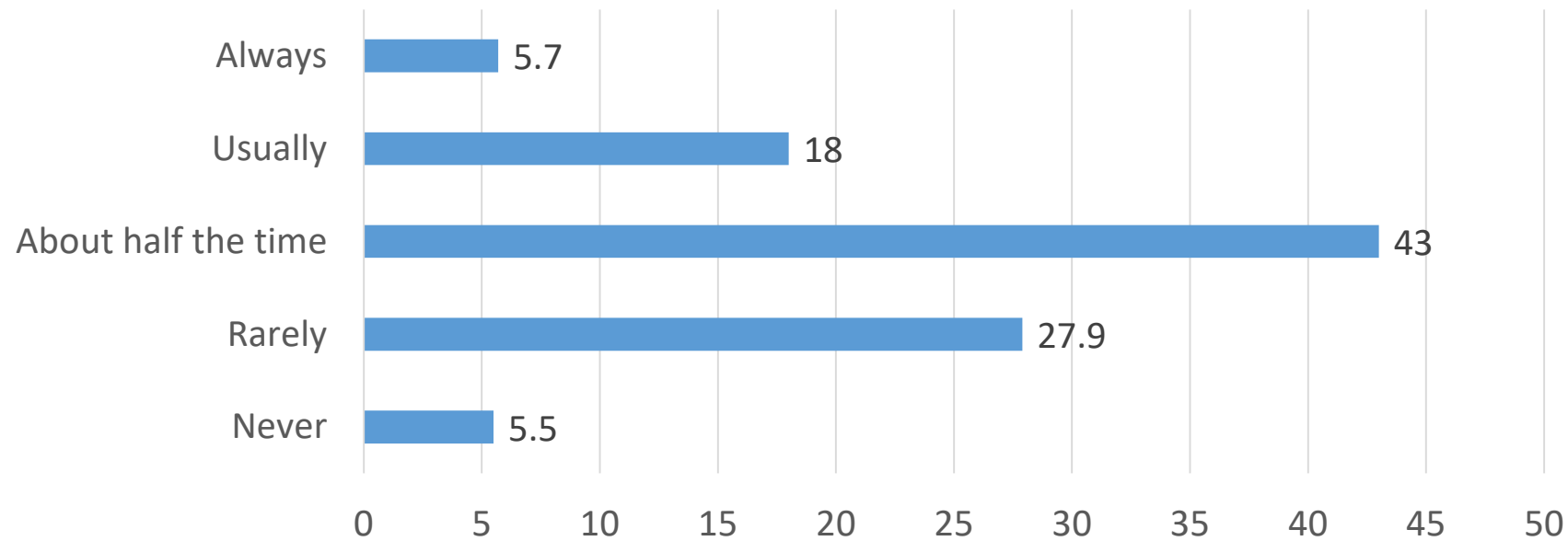
Figure 10: How important is market competition as an impediment to attracting and retaining core deposits?





... but core deposit growth is less of a priority.

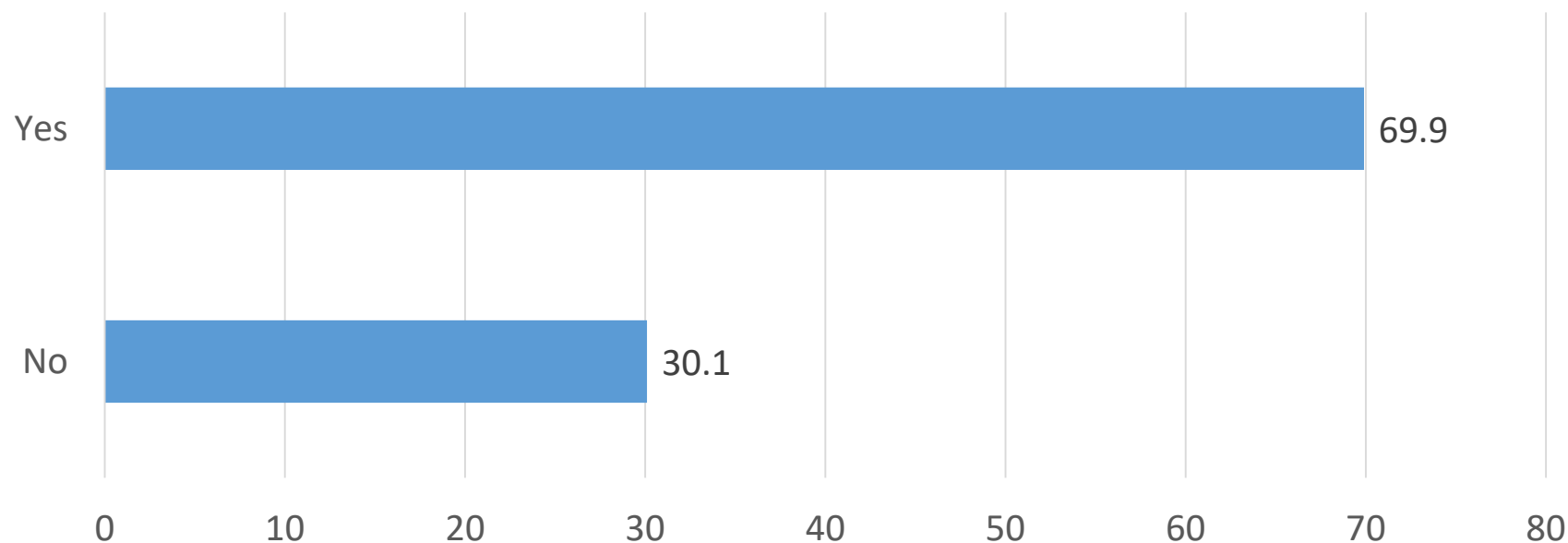
Figure 11: How often is core deposit growth currently prioritized over loan growth?





## Most banks implemented work-from-home policies to protect employees and customers . . .

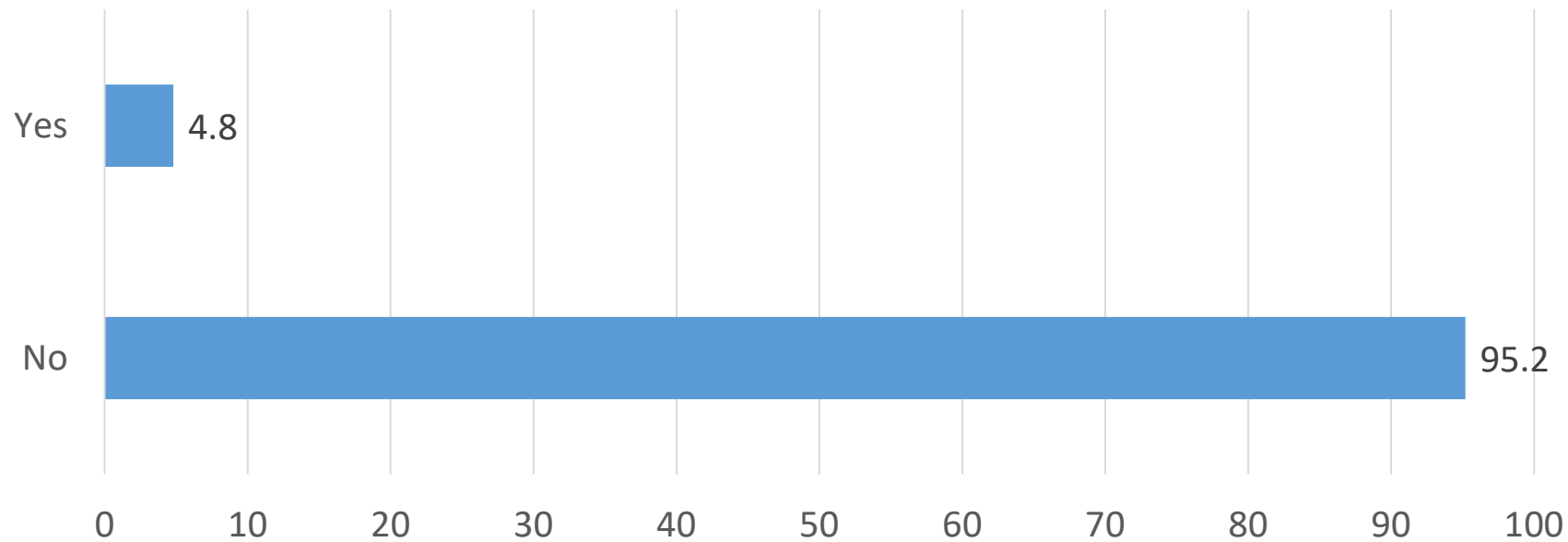
Figure 15: Did you implement a work-from-home policy for nonessential staff in response to the COVID-19 pandemic?





... but fortunately, there were very few lay-offs.

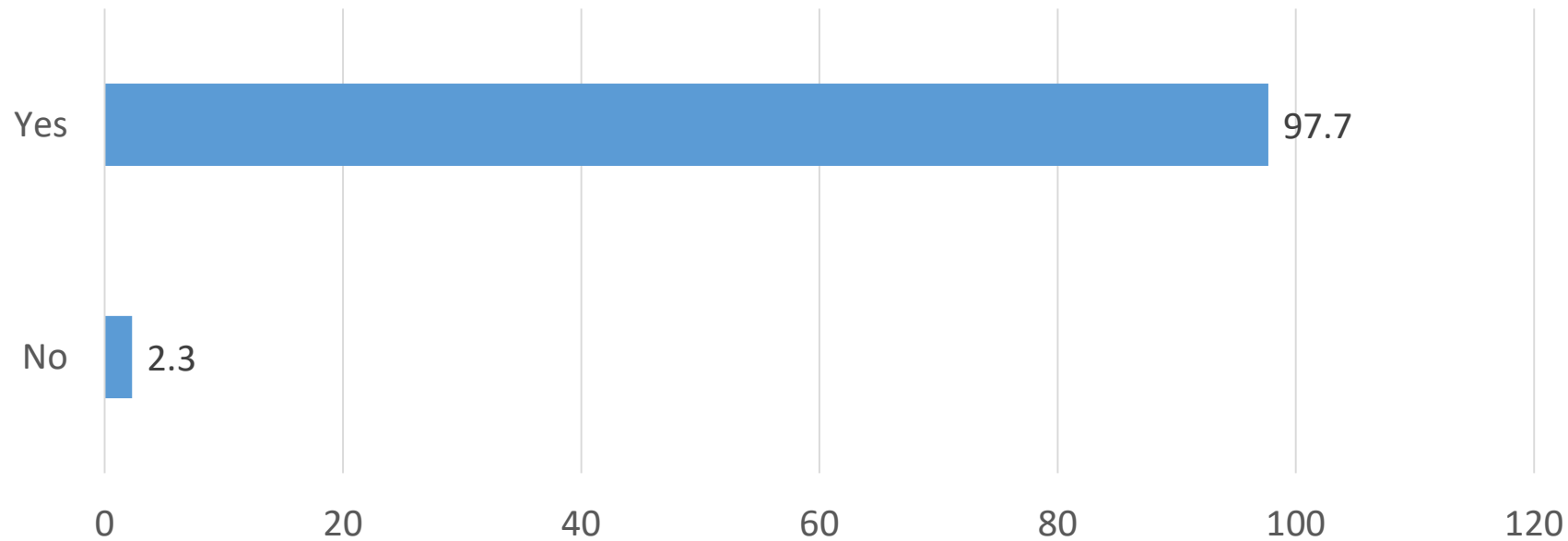
Figure 18: Did you reduce your full-time equivalent staff in response to the COVID-19 pandemic?





## Bankers also sought to protect employees and customers by restricting lobby usage . . .

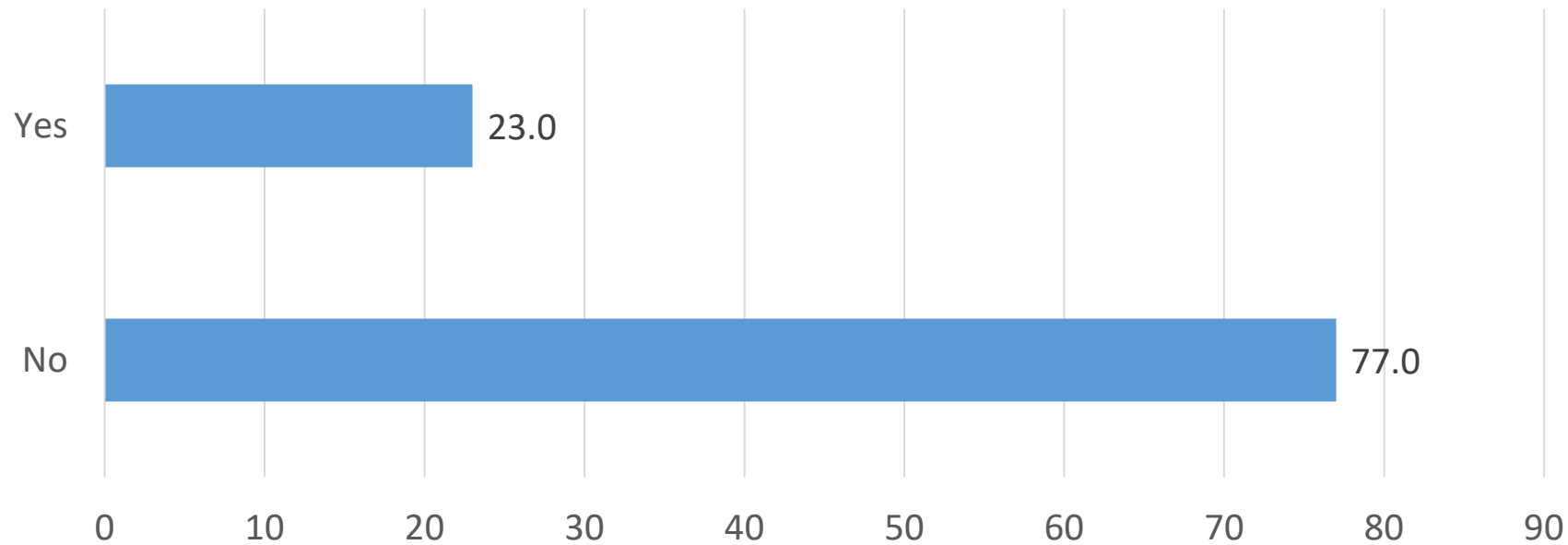
Figure 19: Did you restrict your lobby usage in response to the COVID-19 pandemic?





... but few banks closed branches, outright.

Figure 20: Did you close one or more branches (at least temporarily) in response to the COVID-19 pandemic?





- A renewed focus on the high-touch, relationship model
- Individualized/tailored relief for customers
- Feeling both proud and overwhelmed
- An appreciation of the “nimbleness” of community banks







# Core Service Providers

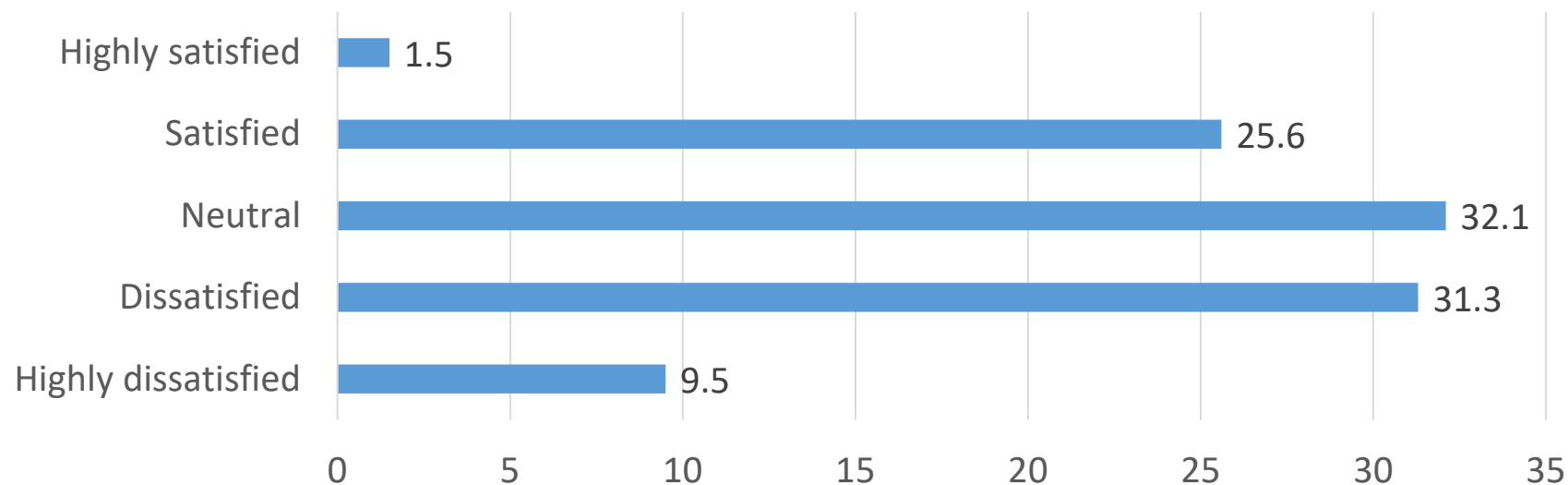






## There is a deep dissatisfaction with the cost of core service providers . . .

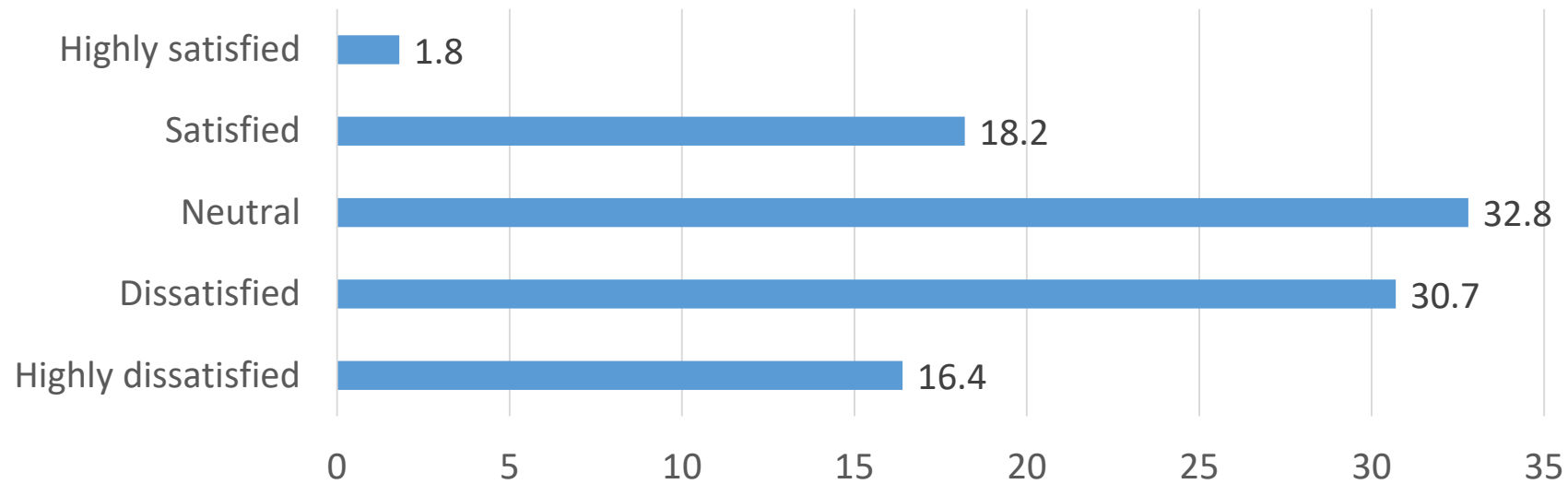
Figure 66: Regarding core processing services at your bank, whether in-house or through an external provider, how satisfied are you with cost?





## ... and bankers aren't happy with their flexibility.

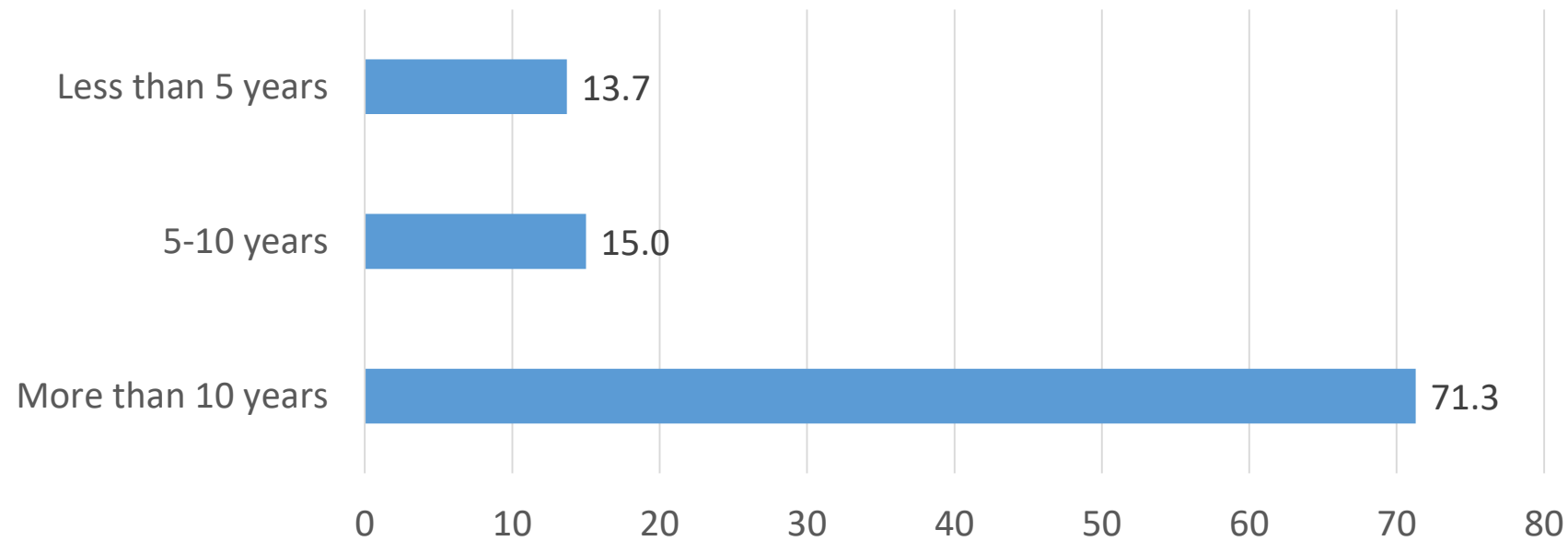
Figure 67: Regarding core processing services at your bank, whether in-house or through an external provider, how satisfied are you with their flexibility?





## However, there is remarkably little turnover in core service providers . . .

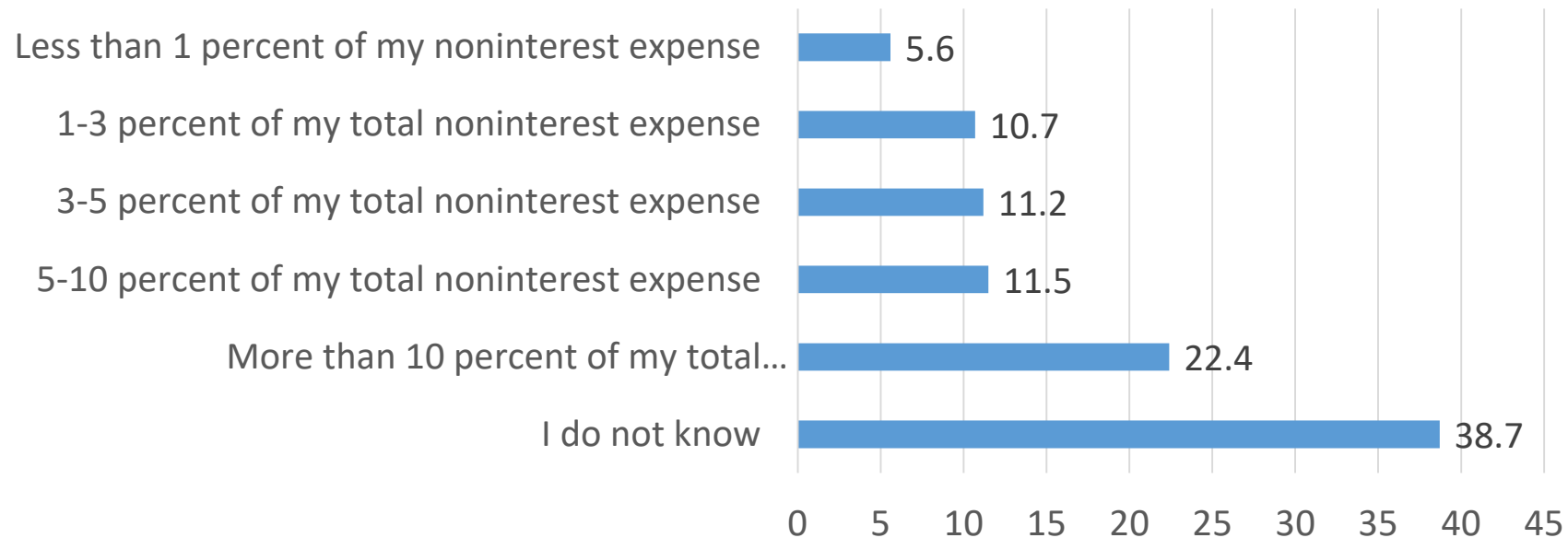
Figure 68: How long have you been with your core service provider?





... in part because of the cost of switching providers.

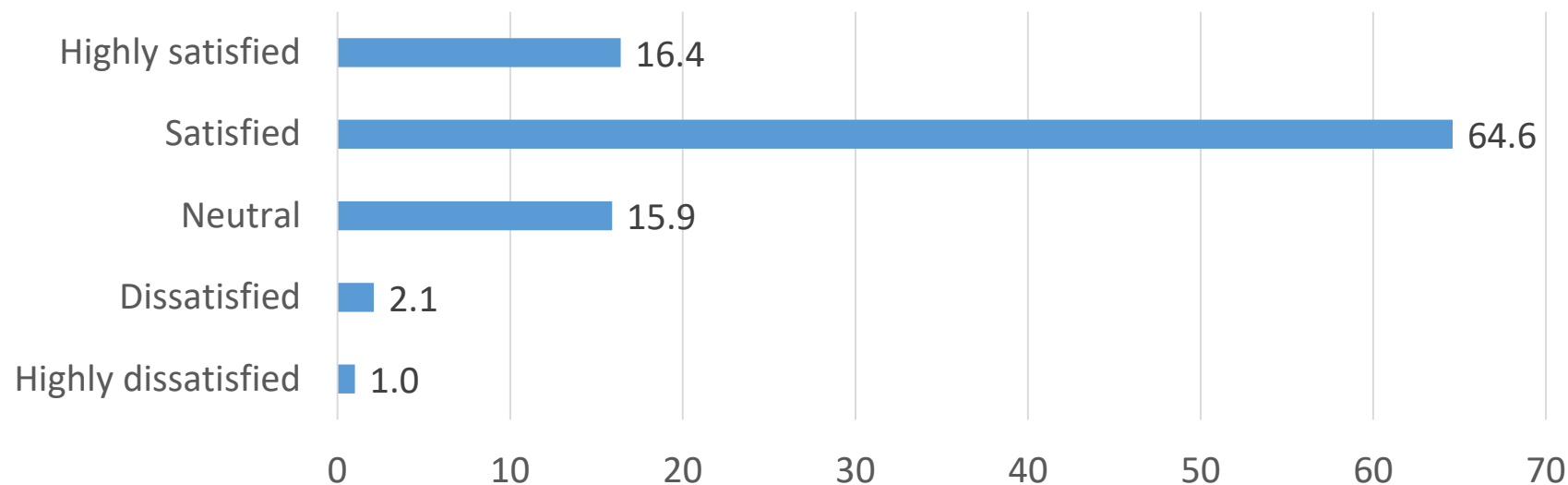
Figure 69: How much would it cost to terminate your contract with your core service provider tomorrow?





## Bankers are generally satisfied with their core service providers' security . . .

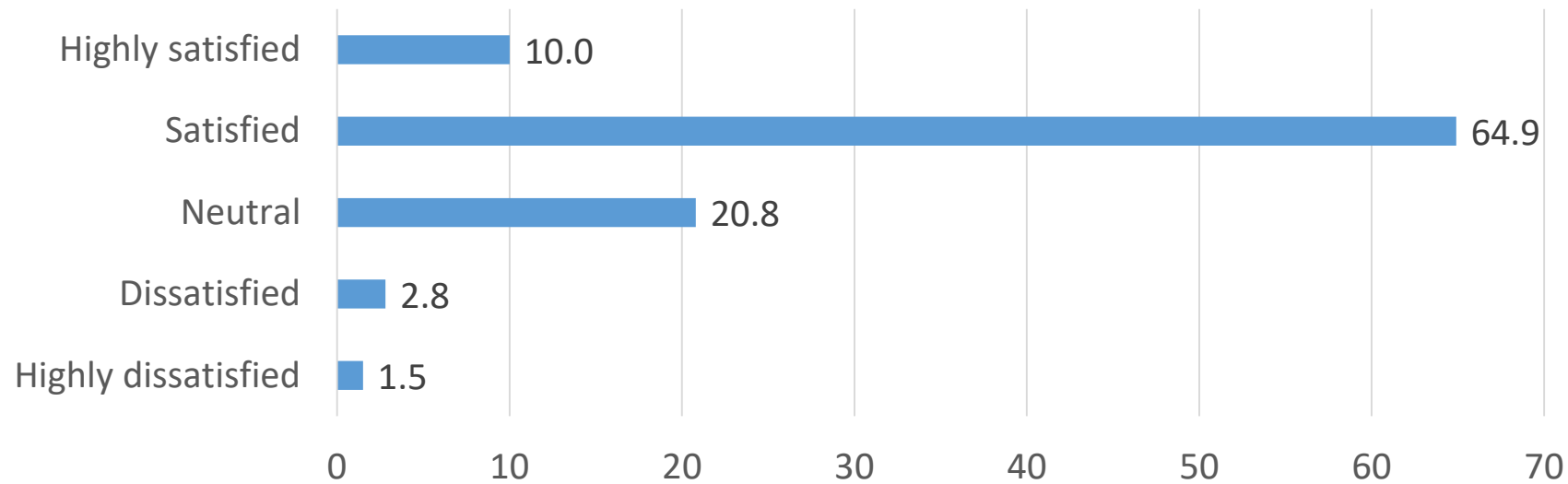
Figure 73: Regarding core processing services at your bank, whether in-house or through an external provider, how satisfied are you with security?





... and with their risk management practices.

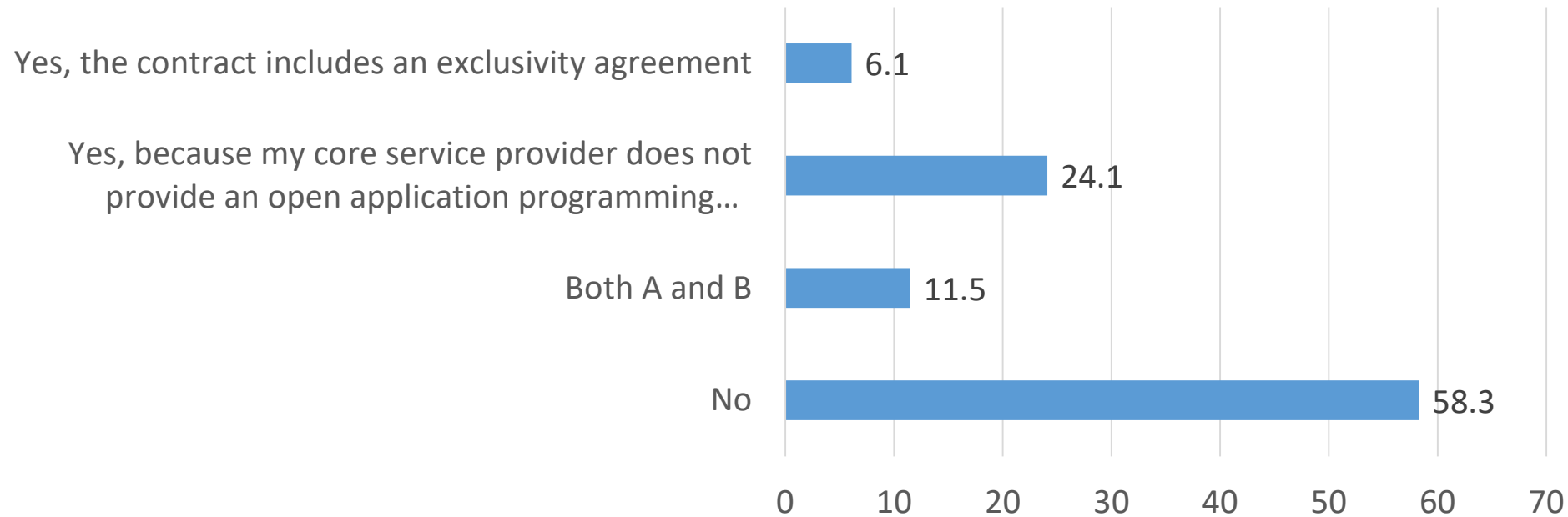
Figure 74: Regarding core processing services at your bank, whether in-house or through an external provider, how satisfied are you with risk management?





## Banks are finding ways to innovate, but there are some hurdles.

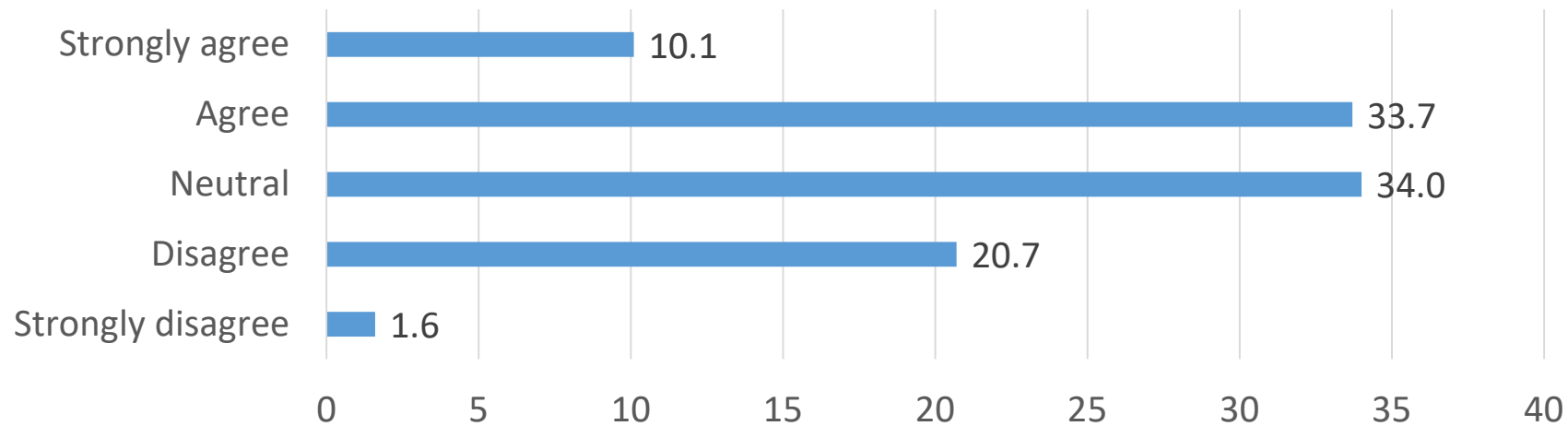
Figure 78: Is your relationship with your core service provider an impediment to entering into a partnership with a fintech company?





## Due diligence requirements are a barrier to new third-party relationships . . .

Figure 79: How strongly do you agree with this statement?  
*Supervisory expectations for due diligence of a third-party provider are an impediment to establishing new third-party relationships.*

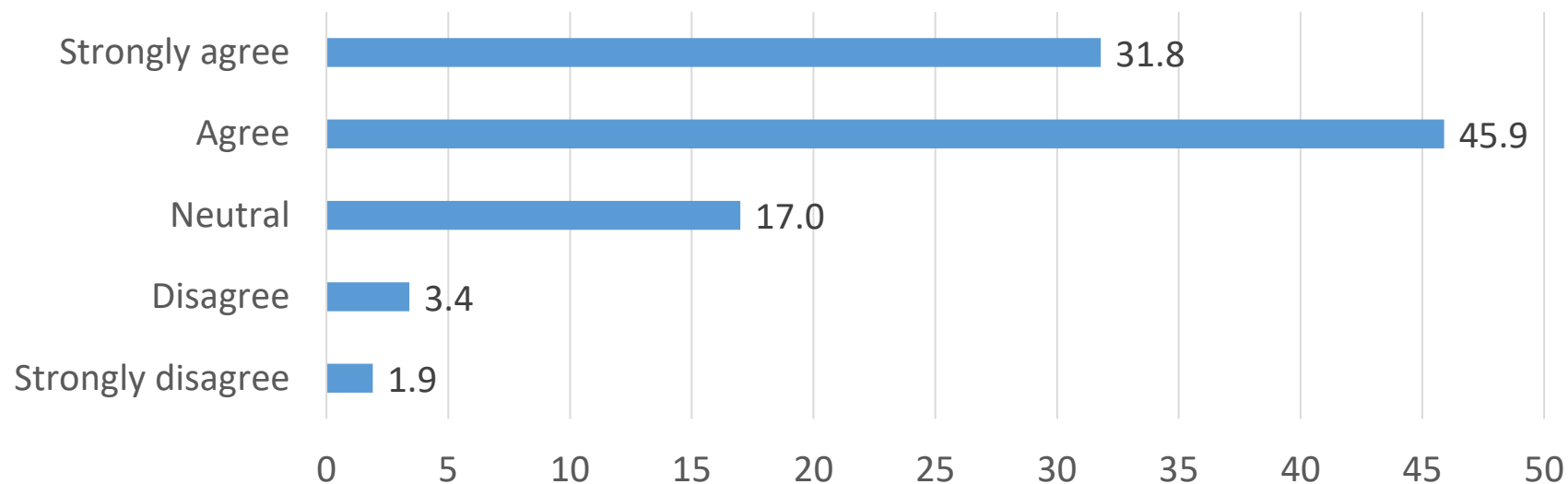






... and bankers would like more information from regulators.

Figure 80: How strongly do you agree with this statement?  
*Having more information about my core service provider from the  
banking agencies that supervise it would be helpful.*





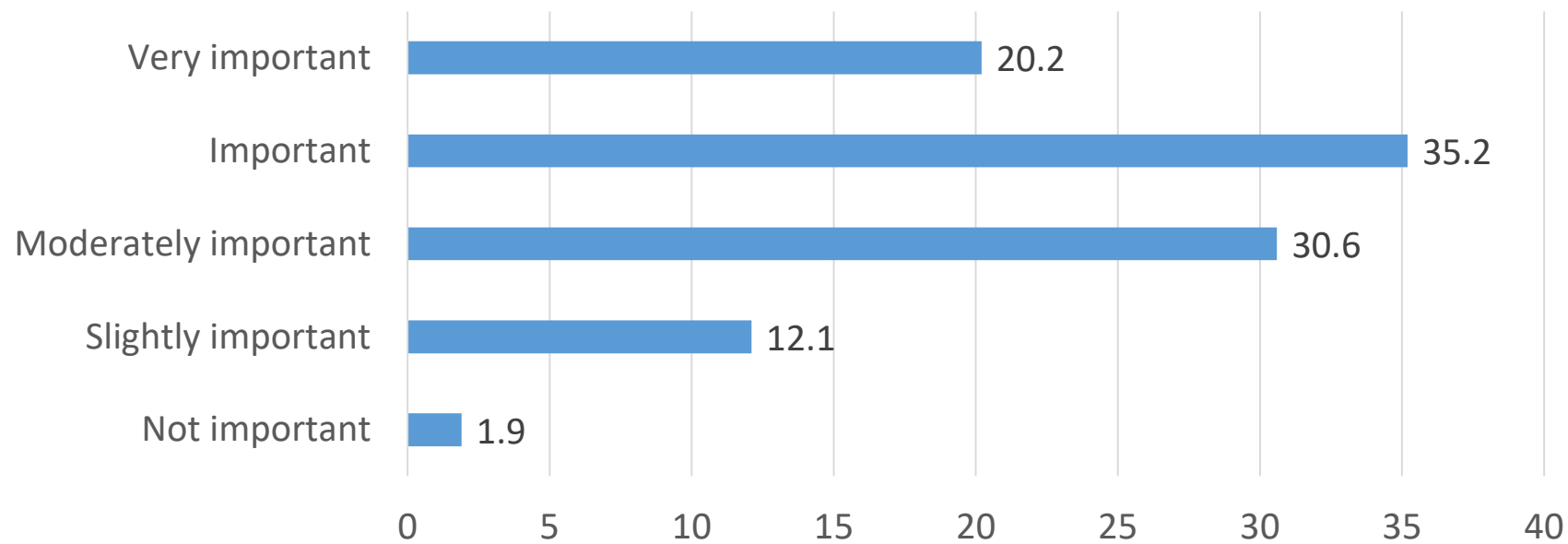
# BSA Issues





# The Bank Secrecy Act remains a major concern for bankers . . .

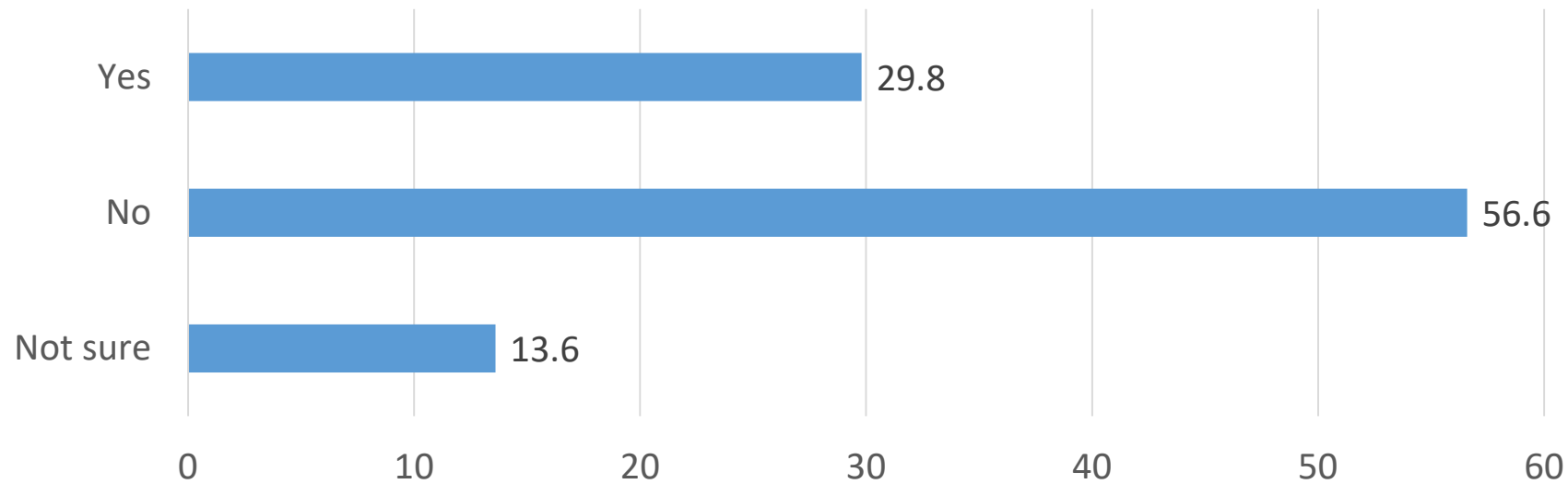
Figure 25: How important is Bank Secrecy Act (BSA) risk to your bank?





... but most banks don't experience follow-up from law enforcement.

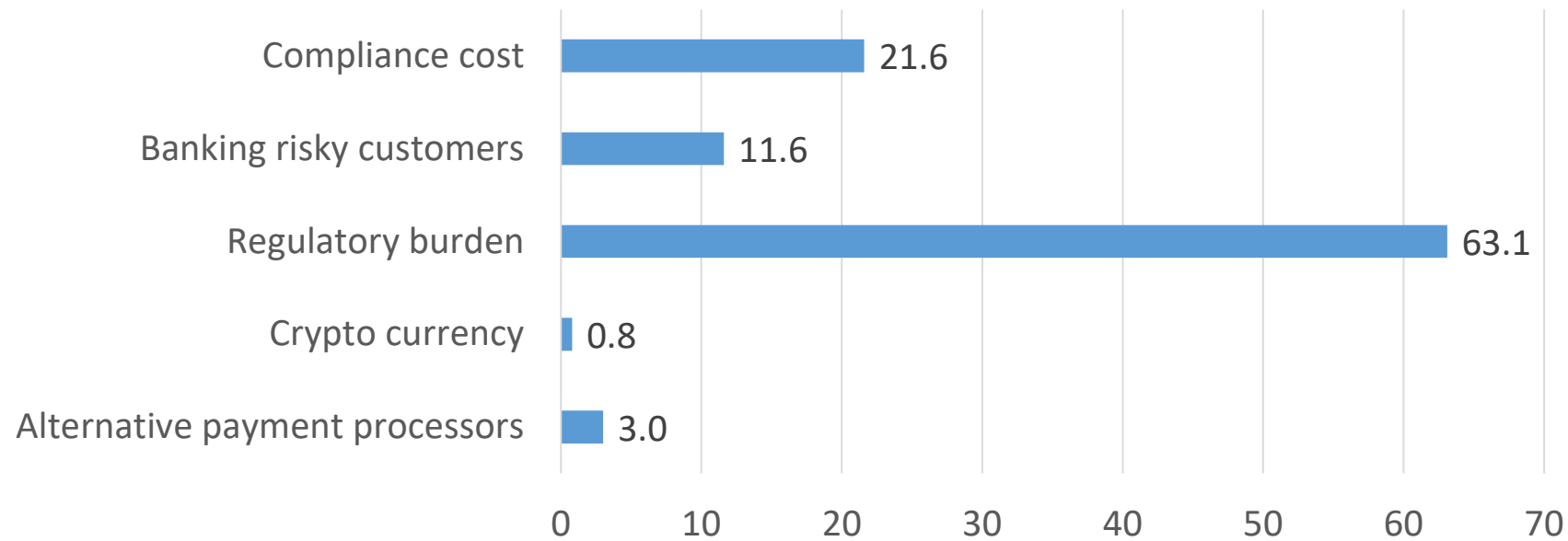
Figure 26: Have you been contacted in the last two years by law enforcement related to a Suspicious Activity Report (SAR) or Currency Transaction Report (CTR) filed by your bank?





## Reg burden is the greatest BSA concern . . .

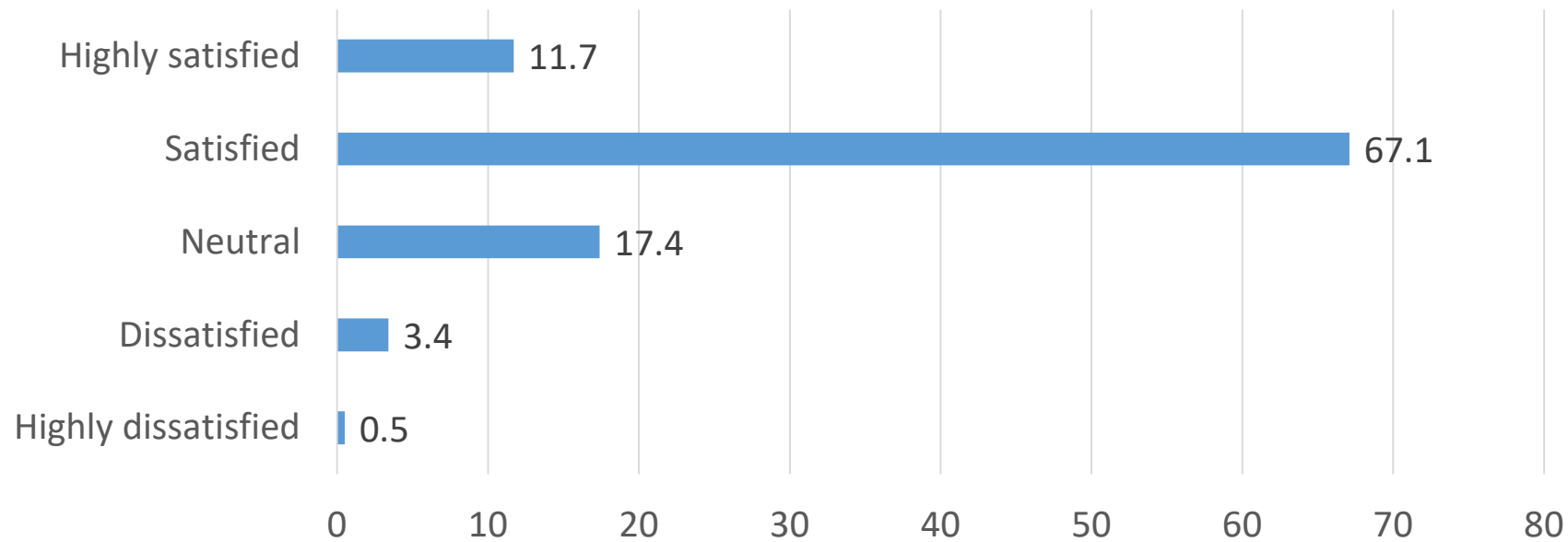
Figure 27: What Bank Secrecy Act/Anti-Money Laundering (BSA/AML) issue concerns you the most?





... but bankers are generally satisfied with their BSA technology.

Figure 60: How satisfied are you with the effectiveness of your bank's technology in the area of BSA compliance?

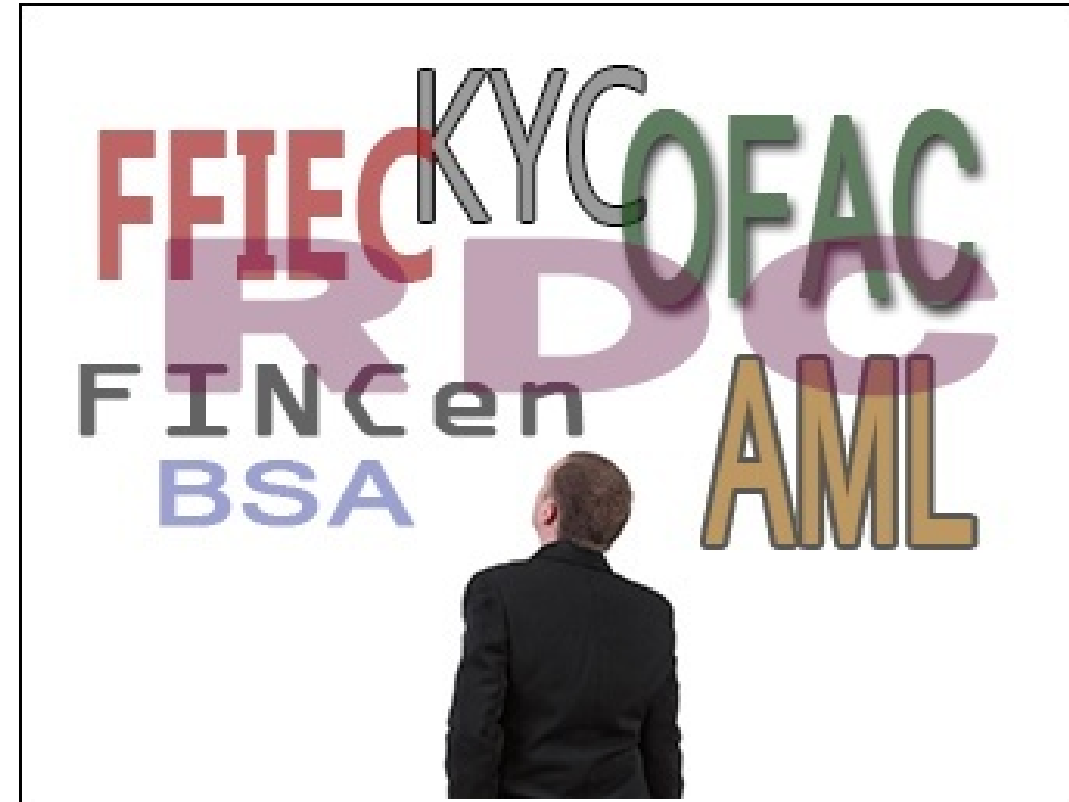




# The BSA/AML “one-size-fits-all” approach

Bankers expressed burdens associated with:

- Time and resources spent
- Lack of transparency, information sharing, and timely feedback
- Collection of beneficial ownership





# The Future Outlook

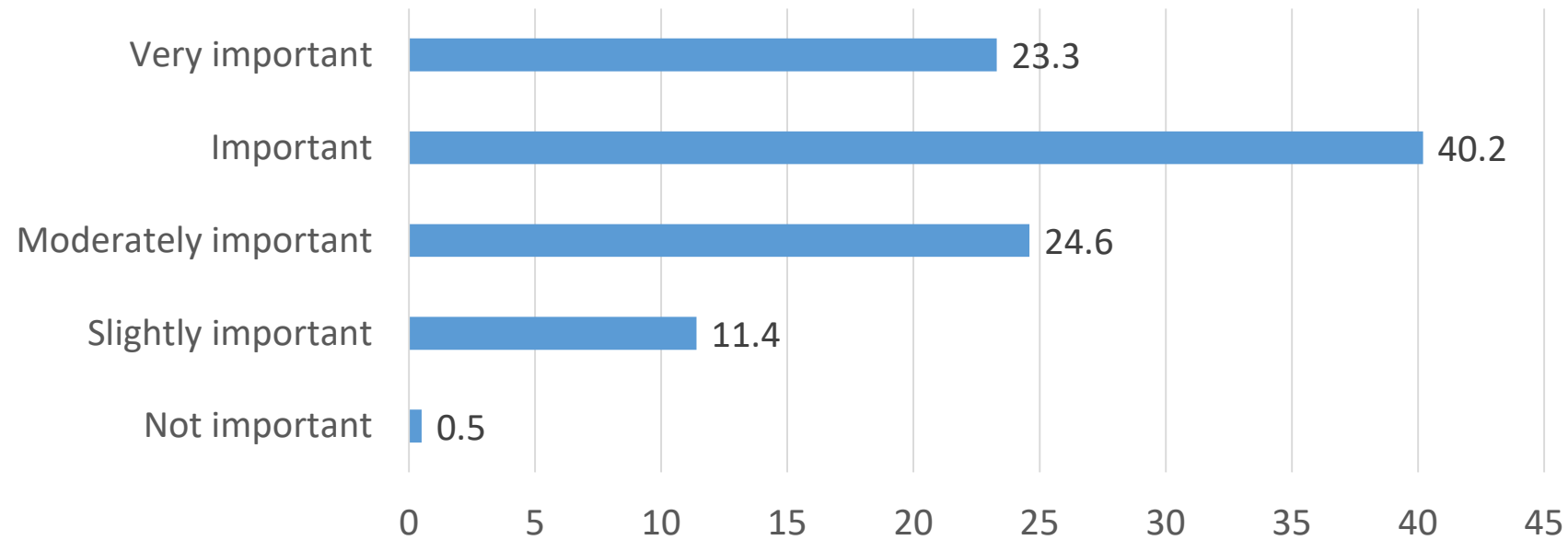






## Bankers believe strongly in using new technology . . .

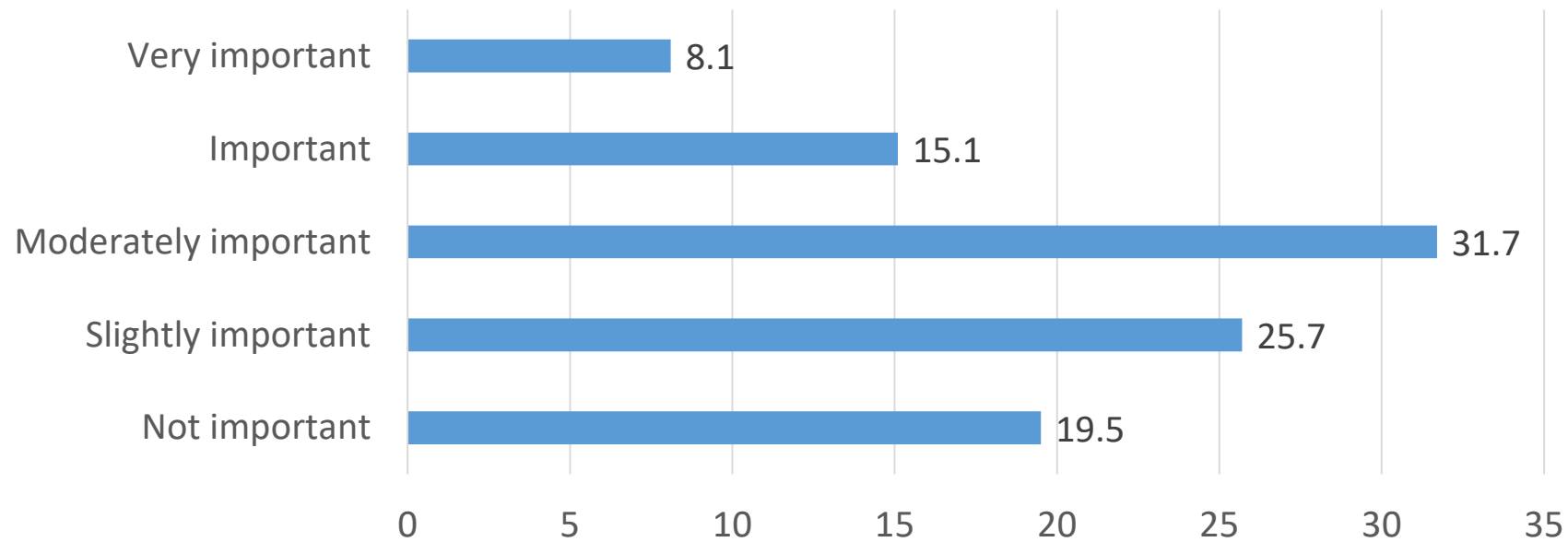
Figure 58: How important is the adoption of new or emerging technologies to meet customer demand in your market?





... but don't necessarily want to be first adopters.

Figure 59: How important is it to be a leader in new or emerging technology adoption to meet customer demand in your market?





# What will Community Banking Look Like in 10 years?

Hard to predict but...

- the role of technology will continue to expand
- geography and branching dynamics will change
- there will be an increased focus on the impact of pandemics, natural disasters, extreme weather events, and other climate-related changes





Quarterly indicator of how bankers, as local drivers of economies, feel about the future.

- Attitudinal Questions
- Business conditions
- Monetary policy
- Regulatory burden
- Expansion
- Profitability
- Franchise value

Register: [index@csbs.org](mailto:index@csbs.org)

**COMMUNITY BANK SENTIMENT INDEX**

**CBSI** COMMUNITY BANK SENTIMENT INDEX®

The Community Bank Sentiment Index is an index derived from quarterly polling of community bankers across the nation. As community bankers answer questions about their outlook on the economy, their answers are analyzed and compiled into a single number. An index reading of 100 indicates a neutral sentiment, while anything above 100 indicates a positive sentiment, and anything below 100 indicates a negative sentiment.

The Quarter 2 2020 **Community Bank Sentiment Index** Number is:

**90**

This represents a significant negative reading in economic sentiment by community bankers, coming in one point lower than the First Quarter 2020 index of 91 and 32-points lower than last year's Second Quarter 2019 index of 122. Community banker sentiment from the COVID-19 pandemic and the subsequent economic lockdown continues to take a toll.

**Key Highlights:**

- Five of the seven CBSI components declined in Q2 2020 relative to Q1 2020, although the index stayed roughly the





## Sector Outlook

