



# 2021 CSBS National Survey of Community Banks: Key Findings

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





## What Remained About the Same

- Despite the positive attitudes bankers had about regulators' COVID-19 response, 90% of bankers viewed regulatory risk as “important” or “very important.”
- Among banks with a significant exposure to LIBOR, 62% have a plan in place for replacing it, while more than 10% of bankers said they have already made the transition.
- Community bankers are not rushing to convert to the Current Expected Credit Loss (CECL) model. Nearly two-thirds of them are planning to defer implementation to 2023.





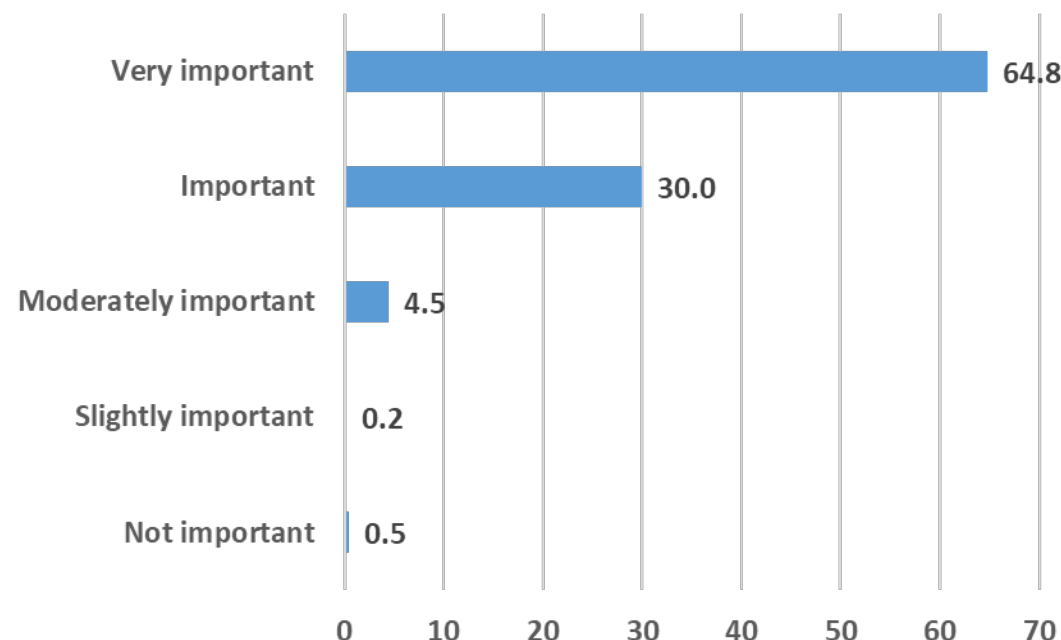
# Net Interest Margins





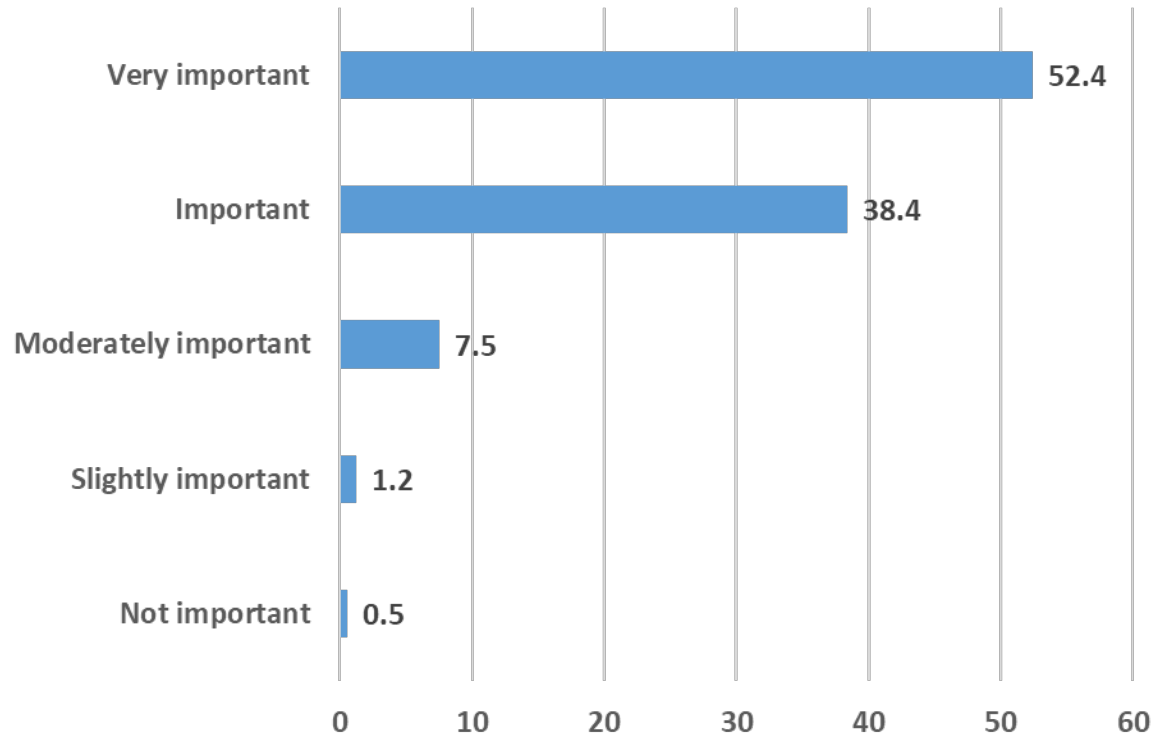
# Key Finding #1: Maintaining and growing net interest margins are problematic for most bankers.

How important are net interest margins?

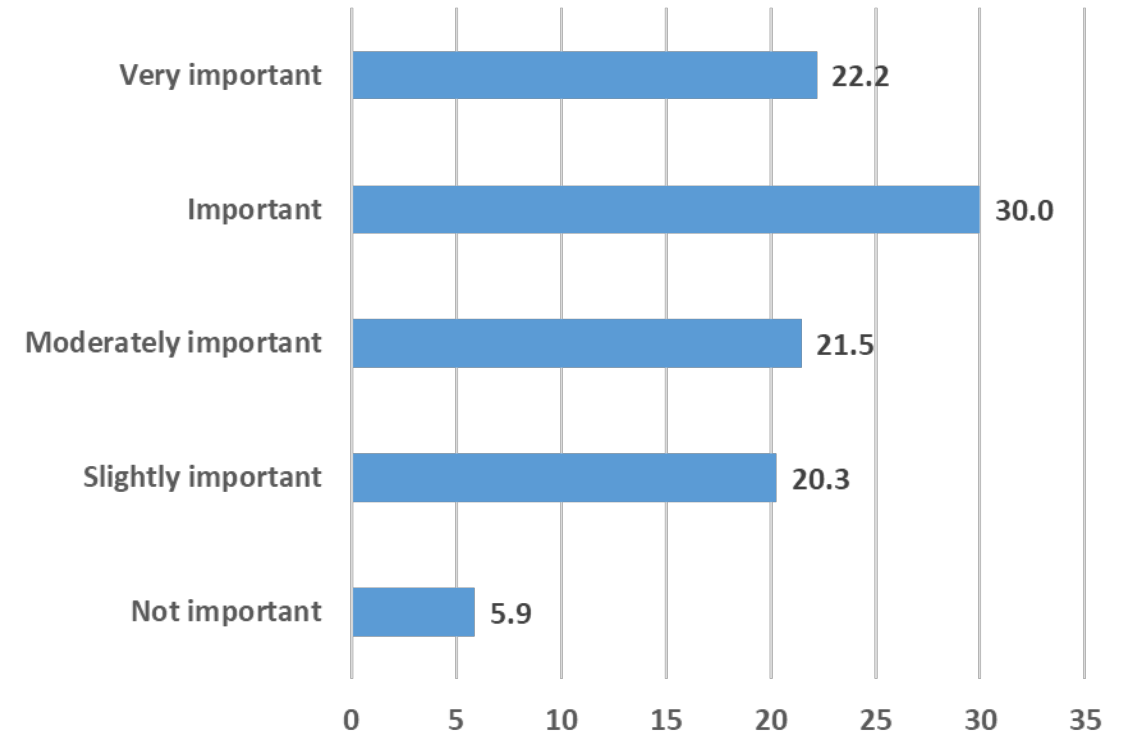




### How important is loan demand?



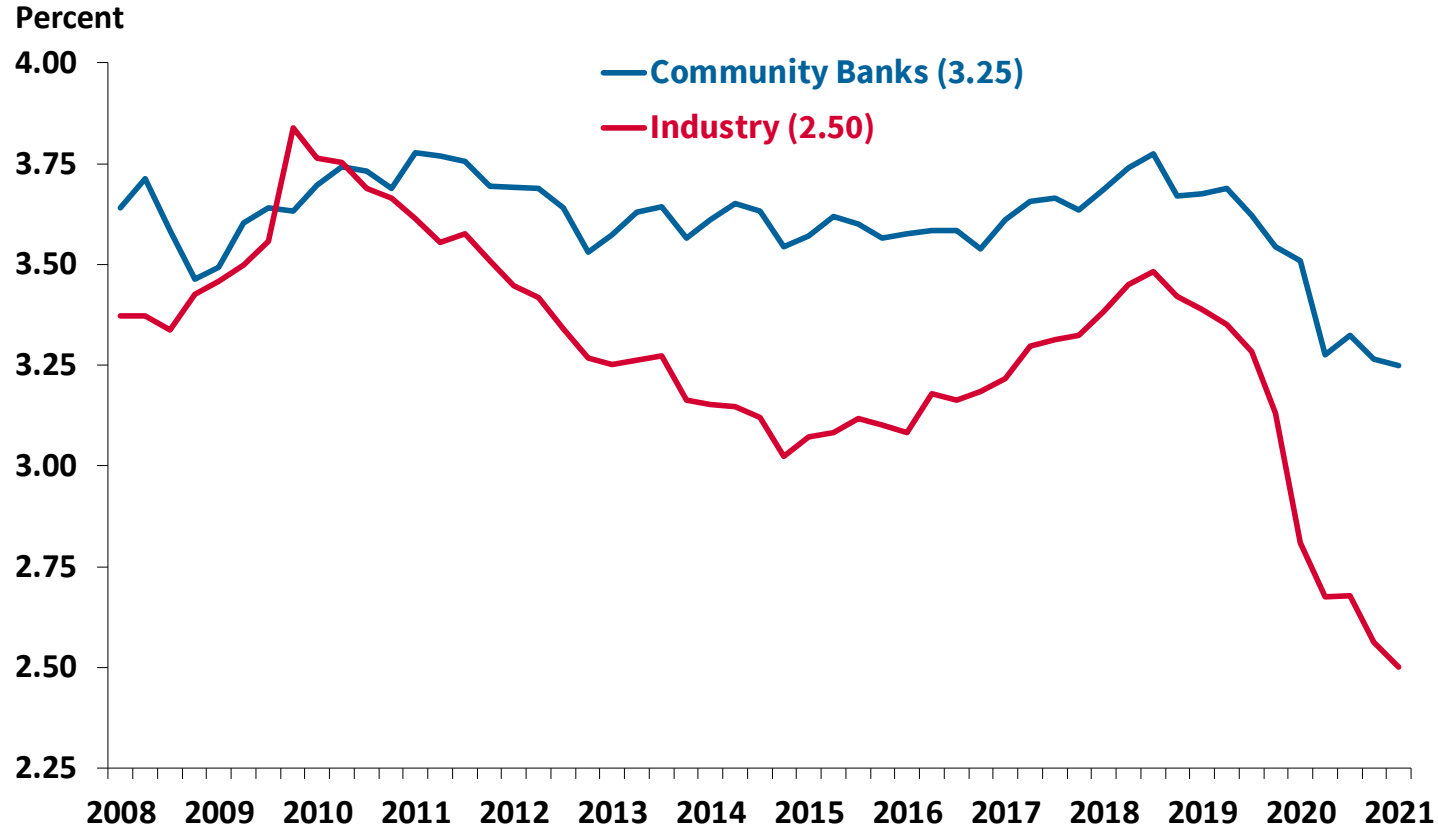
### How important is cost of funds?





# Net interest margins have narrowed significantly...

## Net Interest Margin



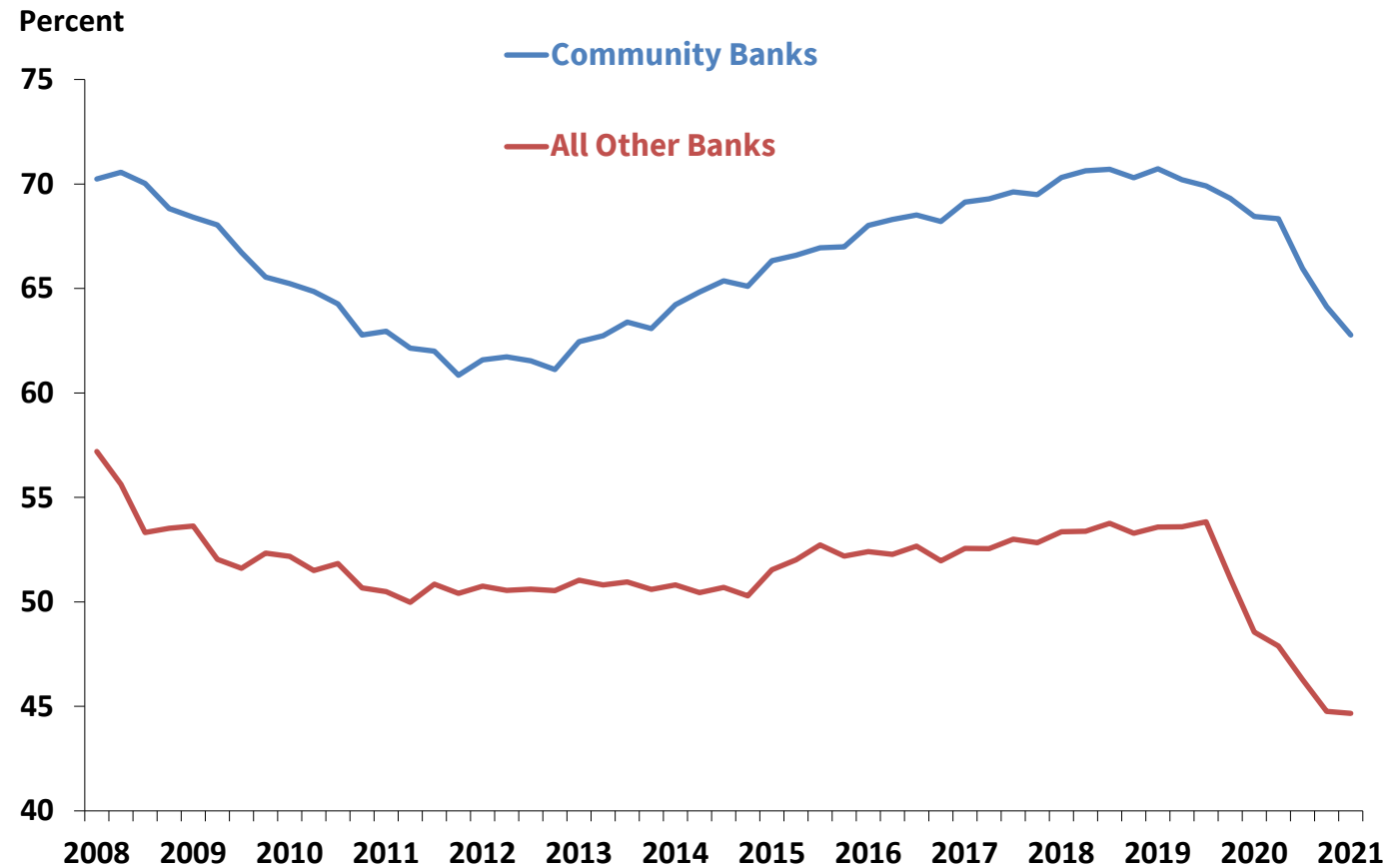
Source: FDIC.





...and when combined with a significant decline in loan demand...

Net loans & Leases as a Percent of Total Assets



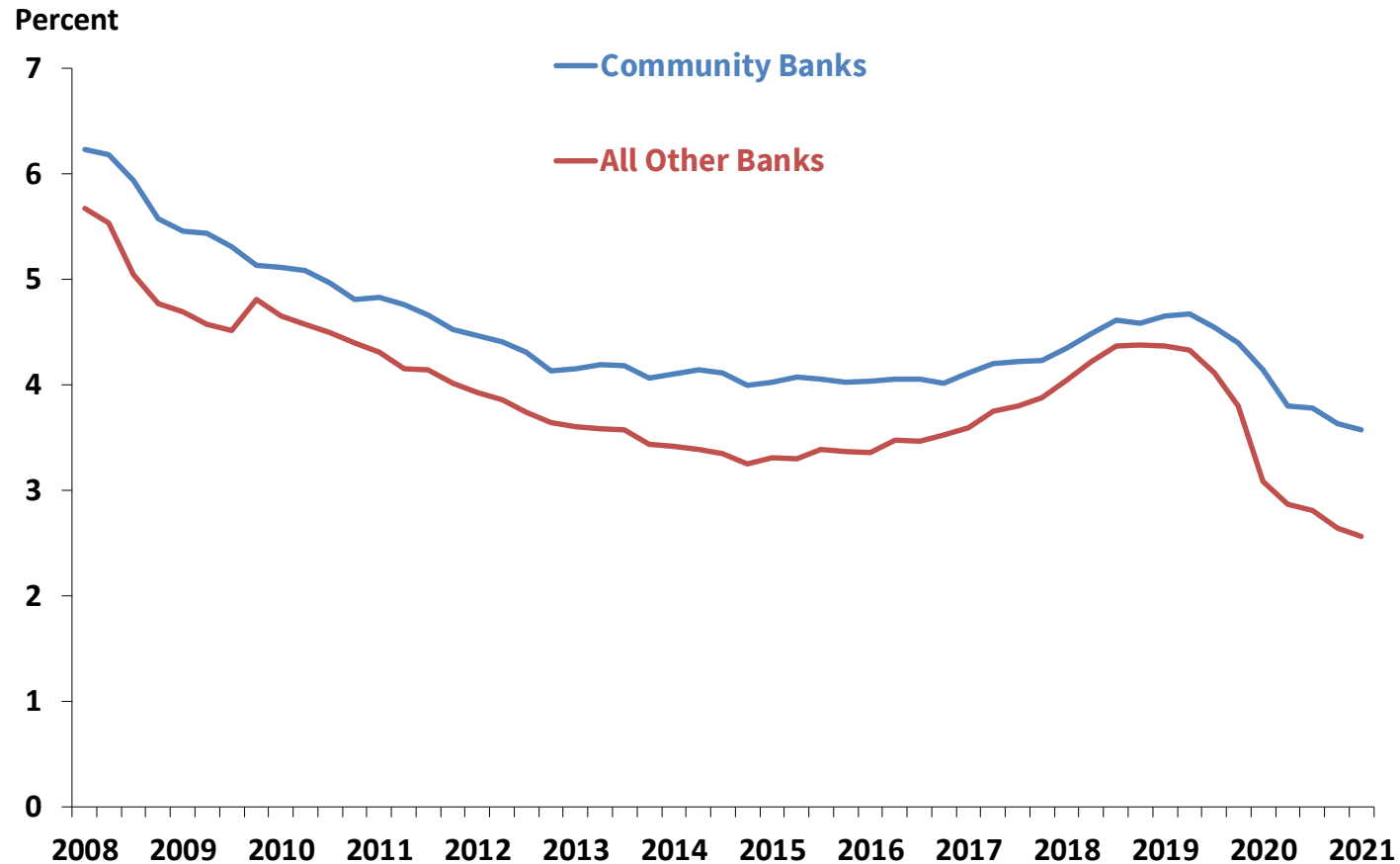
Source: FDIC.





...banks are clearly concerned about where they will earn profits.

Quarterly Average Yield on Earning Assets



Source: FDIC.

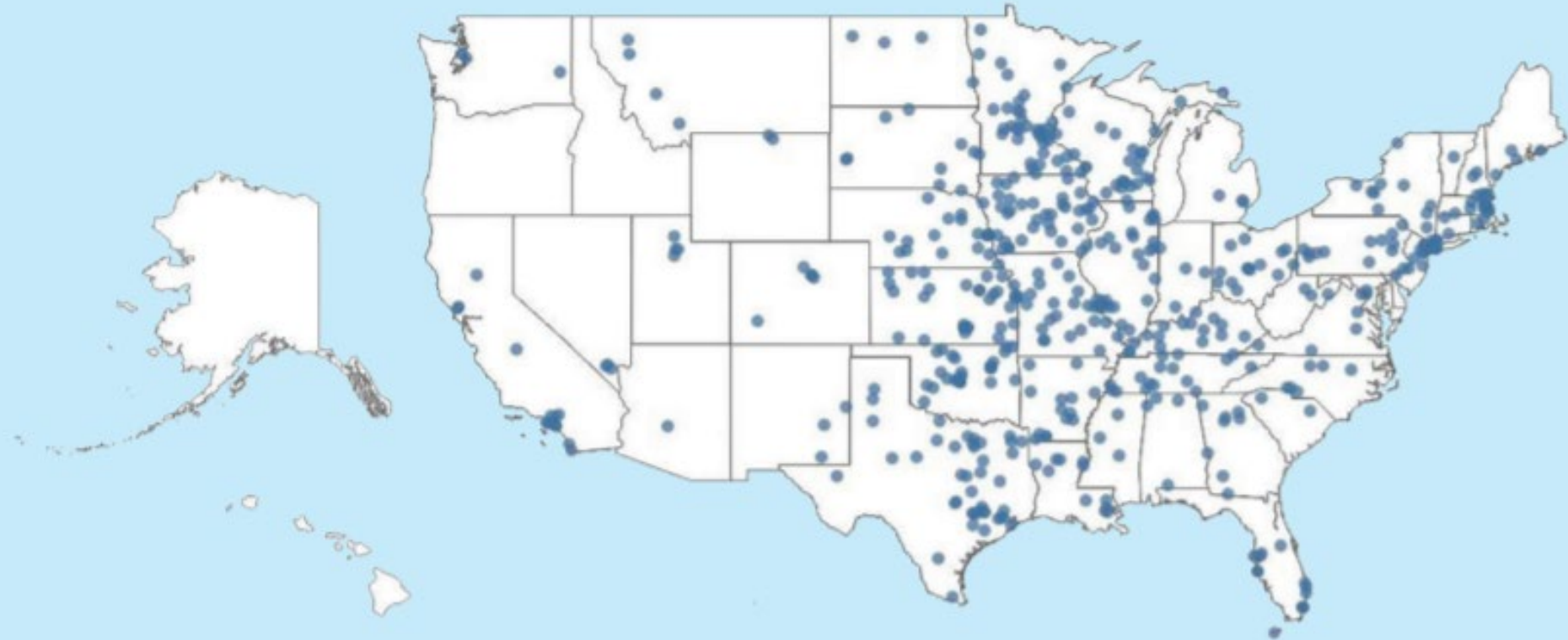






## Banks With NIM Compression Above the 80th Percentile

Dots on map show the distribution of banks with average year-over-year NIM compression of 37 basis points, which ranked in the 80th percentile or higher.



Source: FDIC.





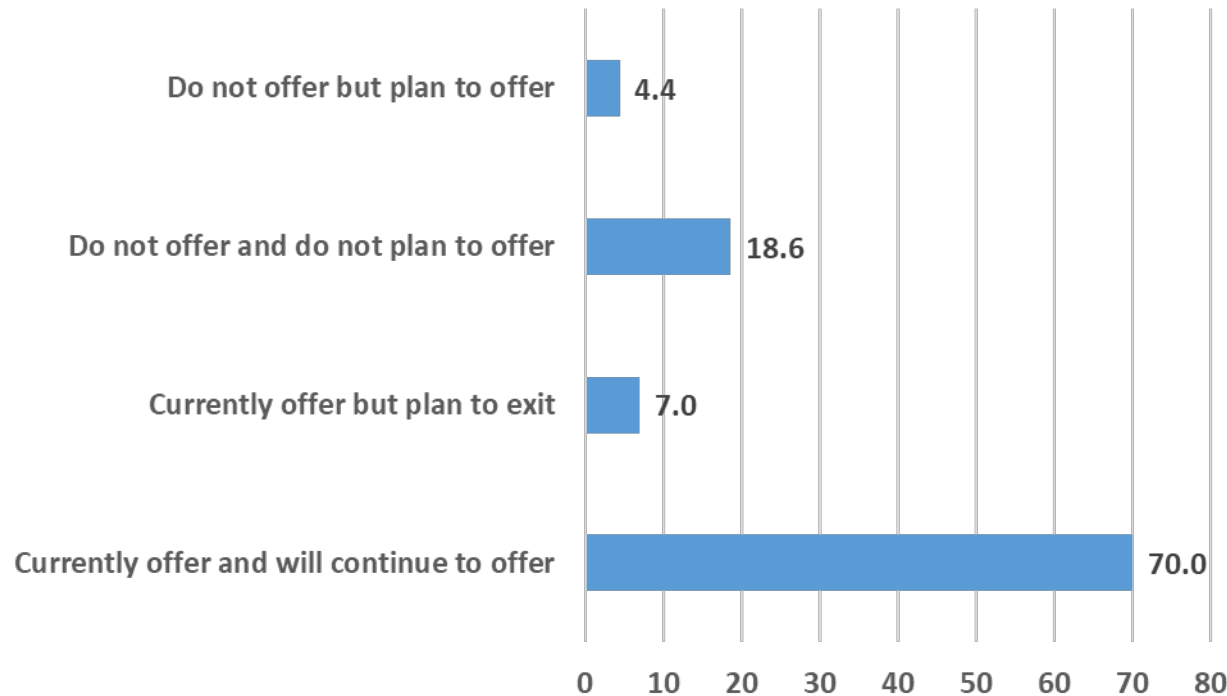
# Paycheck Protection Program (PPP)





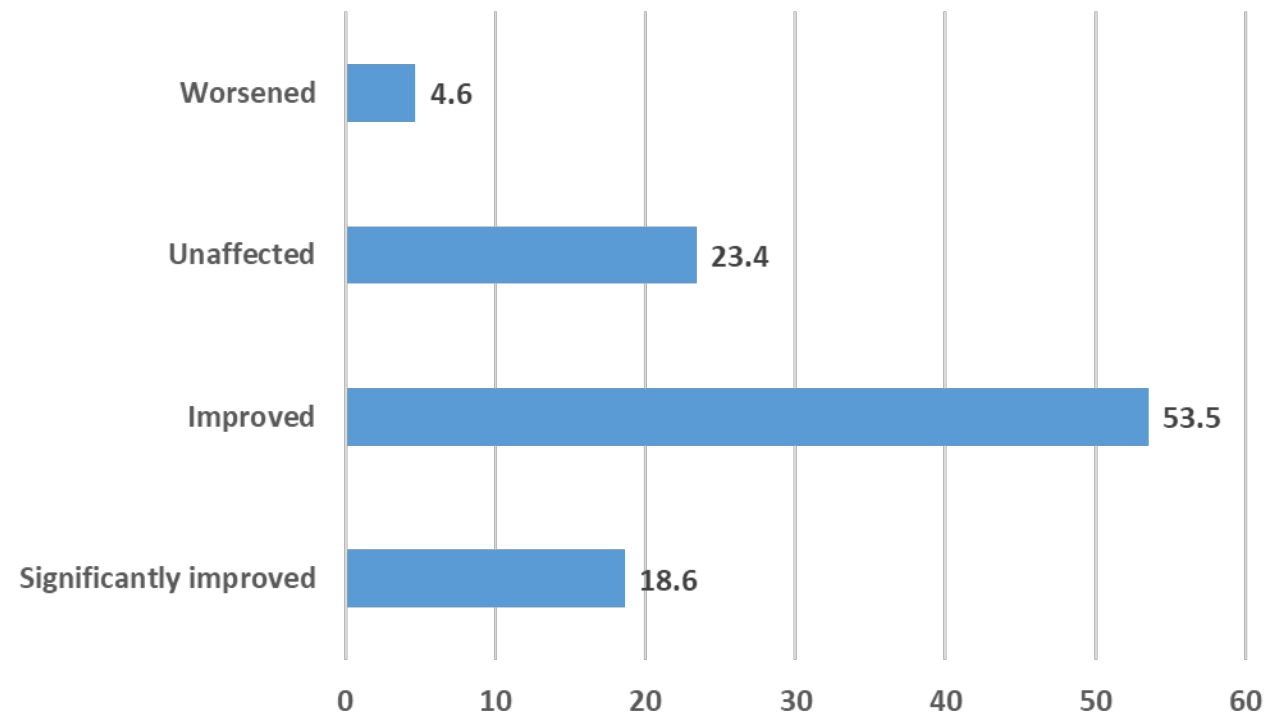
## Key Finding #2: The PPP increased propensity for credit risk and lending activity in the short- and long-term.

What are your intentions regarding SBA loans?



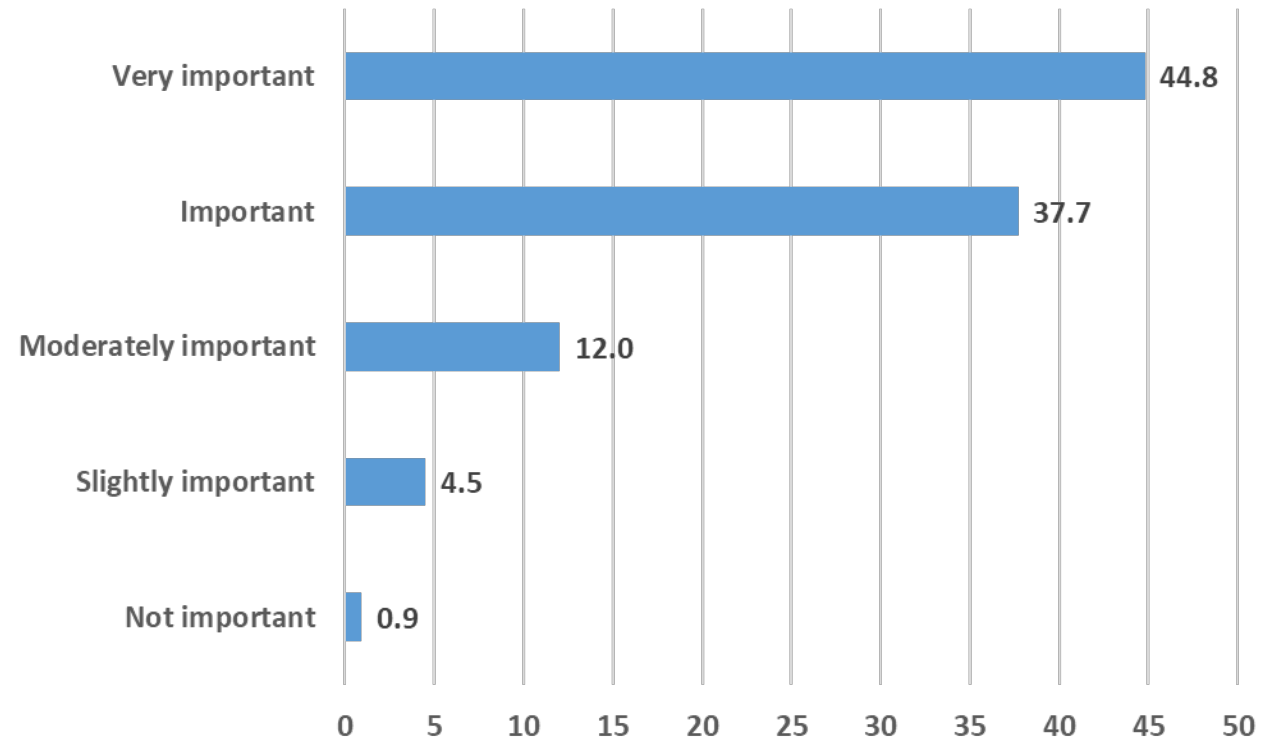


## What were the effects of COVID-19 on bank prospects for long-term small business lending?





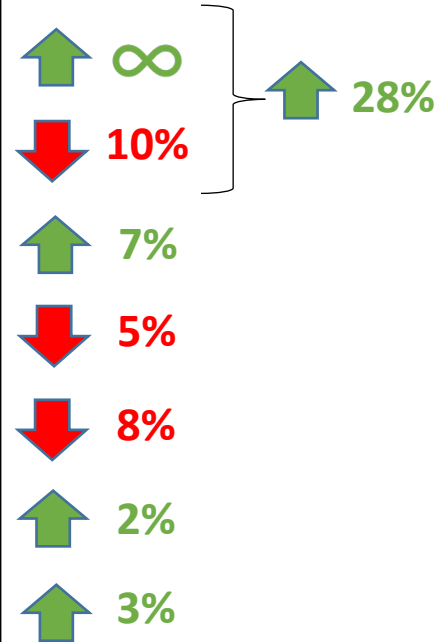
### How important is credit risk at your bank?





## Loans by community banks

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2020</u>	<u>June 30, 2021</u>
Paycheck Protection Program	0	144.6	111.3
Commercial and industrial	290.7	266.4	261.8
Consumer	86.0	85.6	91.8
Agricultural	142.8	136.8	135.7
Residential real estate	537.6	511.6	495.7
Commercial real estate	640.9	639.6	648.4
<b>Total</b>	<b>1,697.99</b>	<b>1,784.53</b>	<b>1,744.69</b>



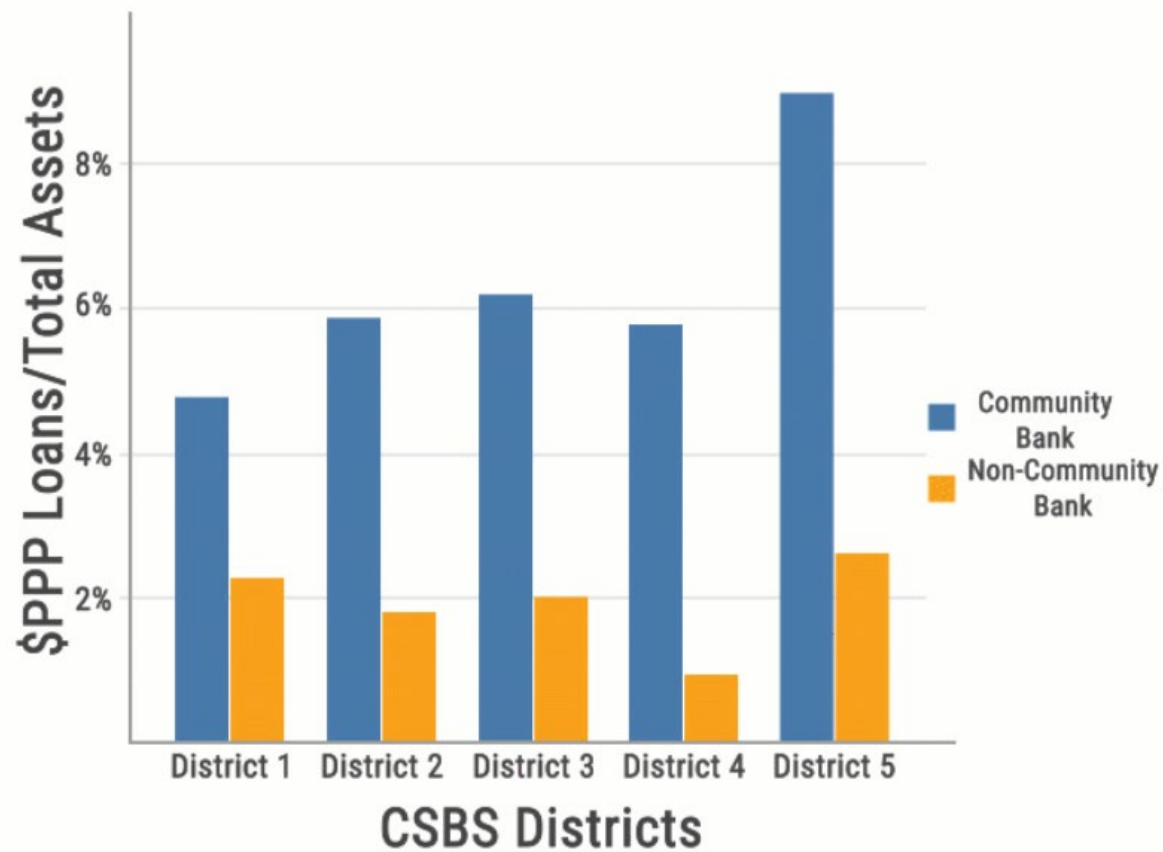
Notes: Amounts are in billions. Data are obtained on community banks from Call Reports published by the Federal Financial Institutions Examination Council. Commercial and industrial loans exclude PPP lending.







## Community banks played an outsized role in distributing PPP funds.



Source: "Community Banks Play Outsized Role in PPP Lending," CSBS Blog, December 11, 2020 by Cordova, Samowitz, and Siems





# M&A Activity

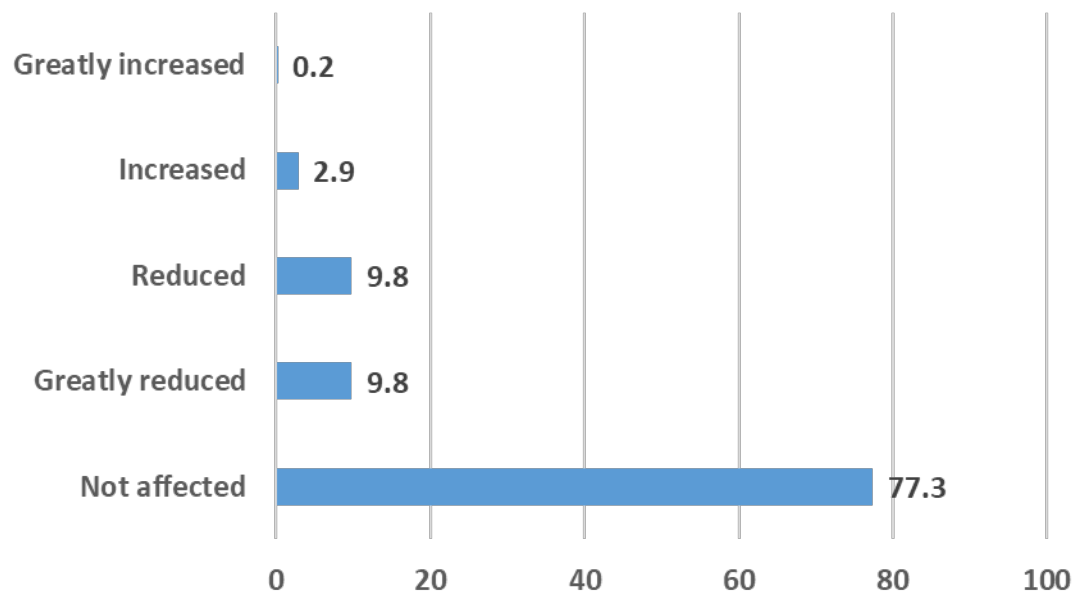




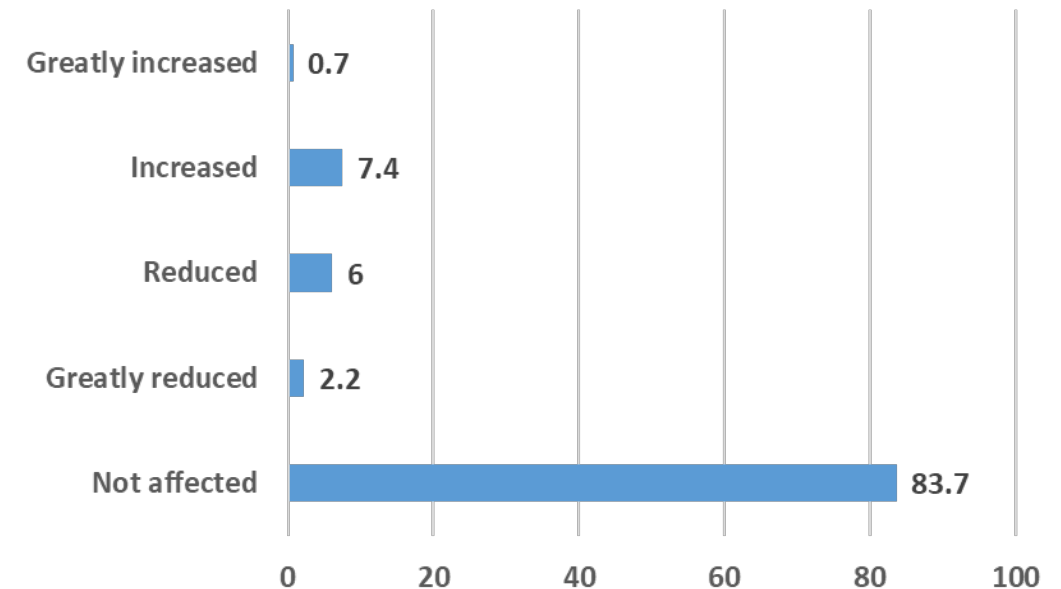


## Key Finding #3: The appetite for M&A has resumed, creating greater issues for competition.

In 2020, what was the effect of COVID-19 on interest in making an acquisition or in being acquired?

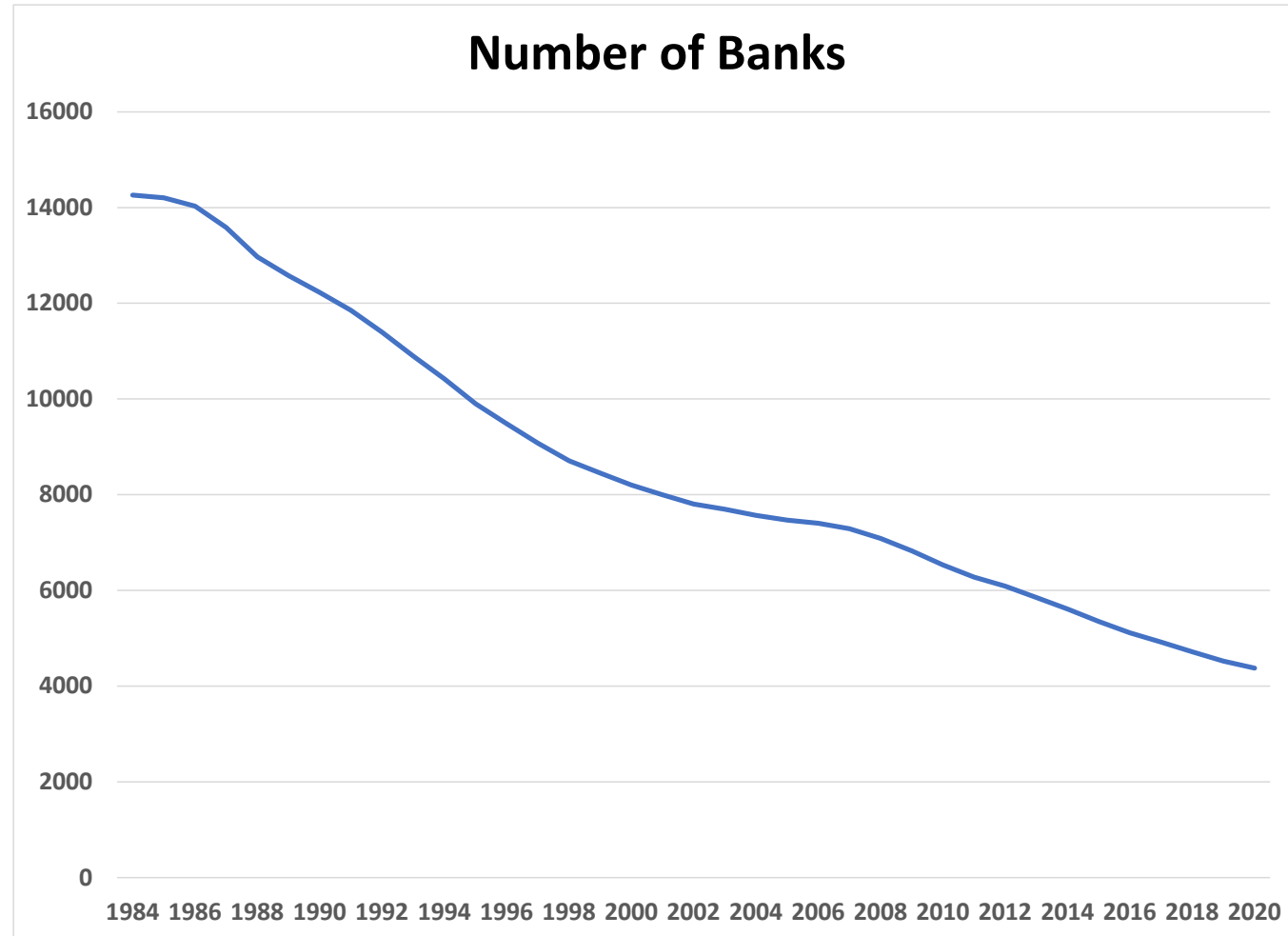


In 2021, what was the effect of COVID-19 on interest in making an acquisition or in being acquired?



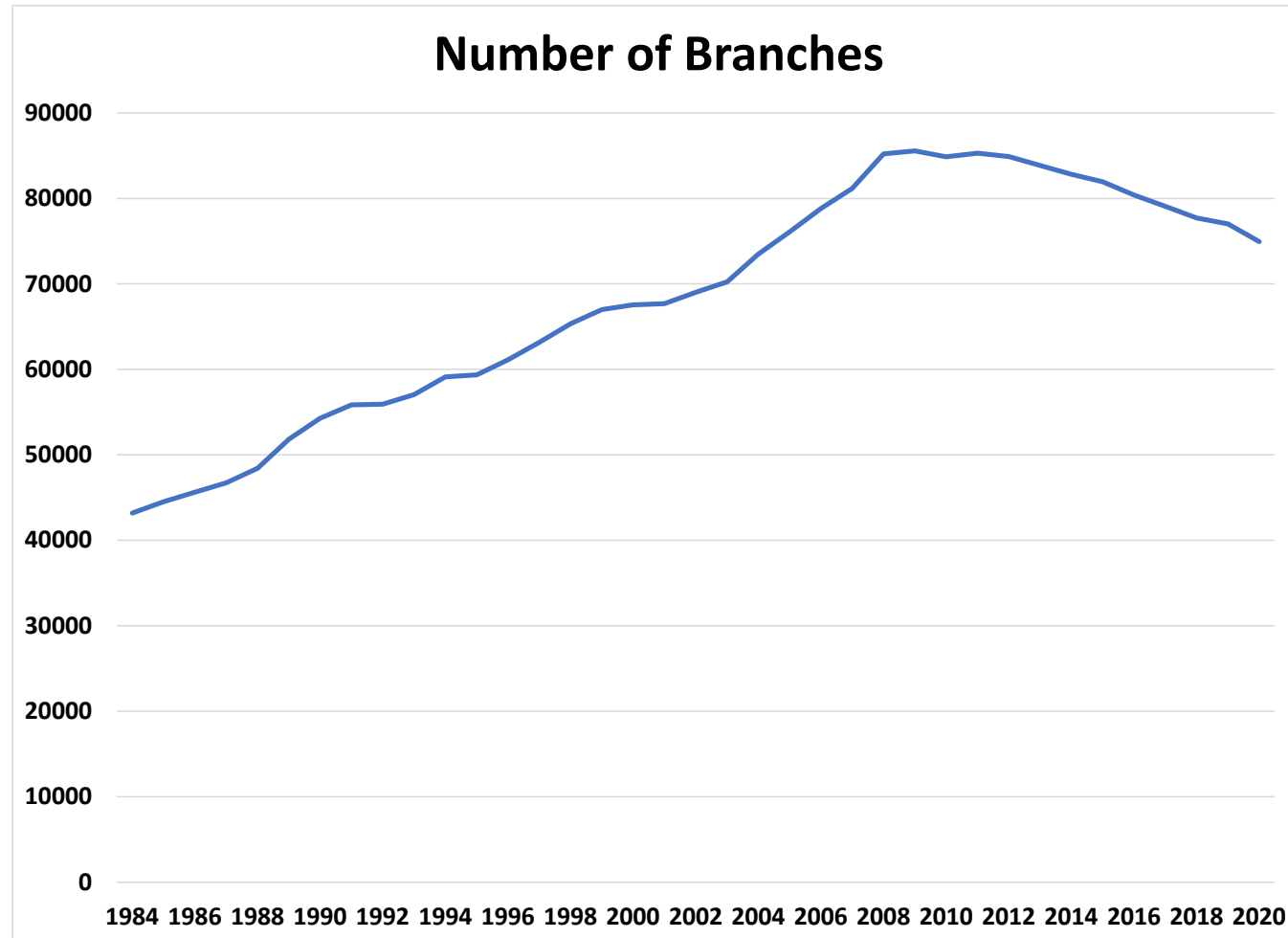


# Bank consolidation has been going on for a long time...



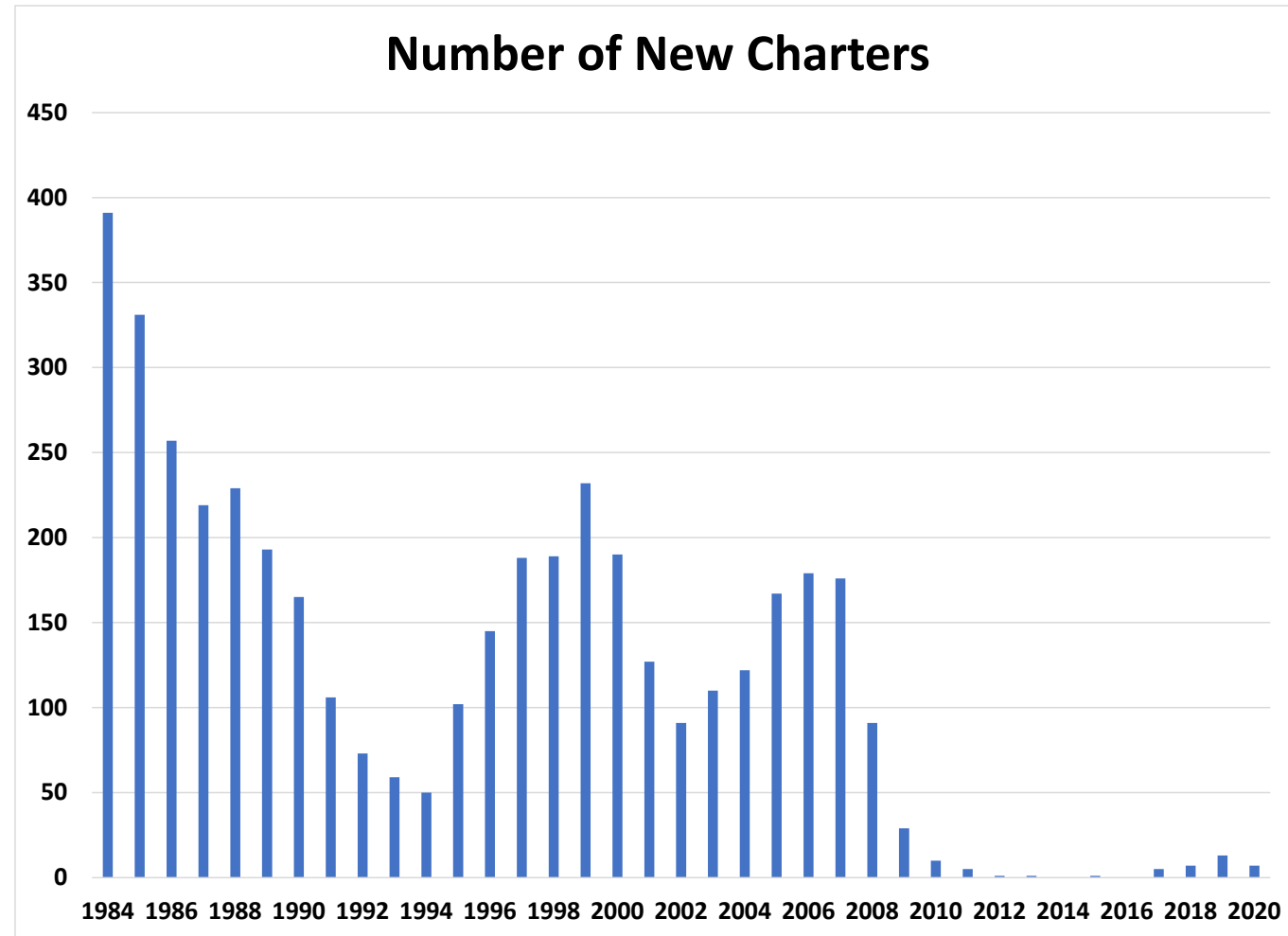


...while the number of branches peaked in 2009...





...about the same time new charters slowed to a crawl.





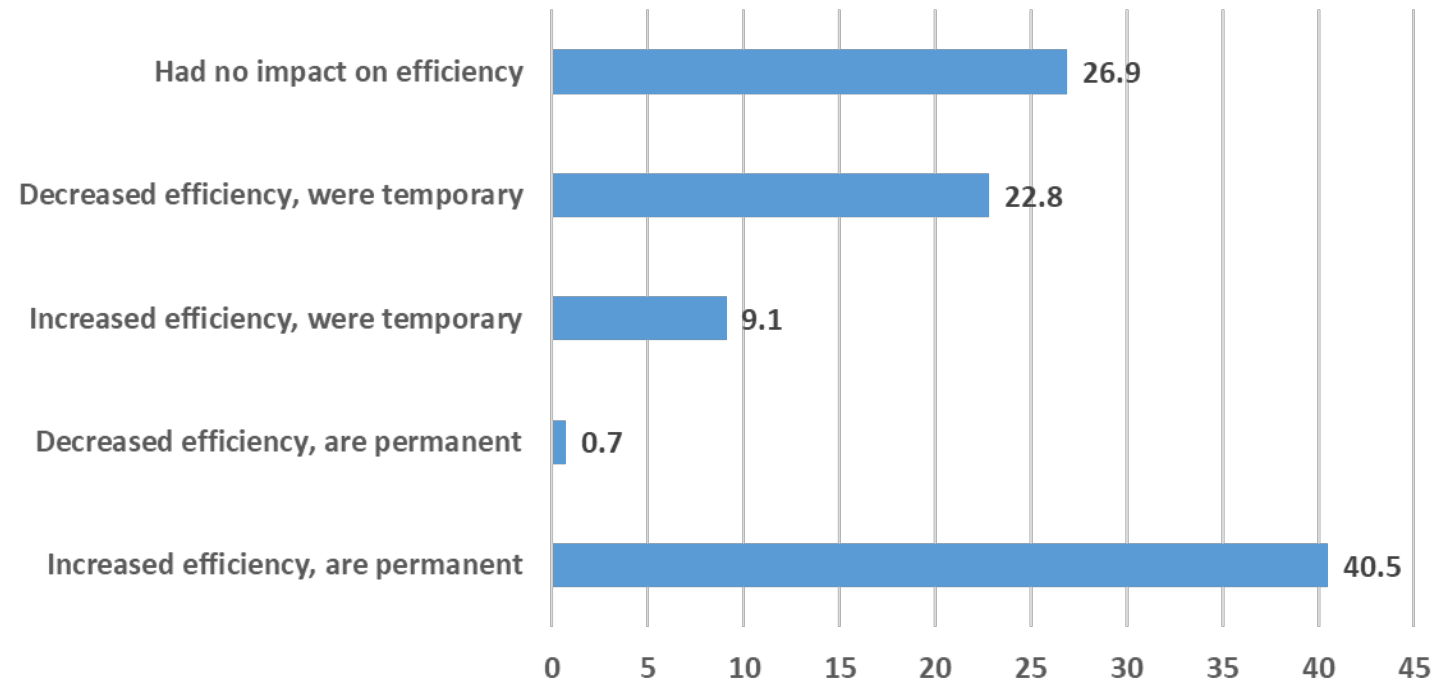
# Technology & Operations





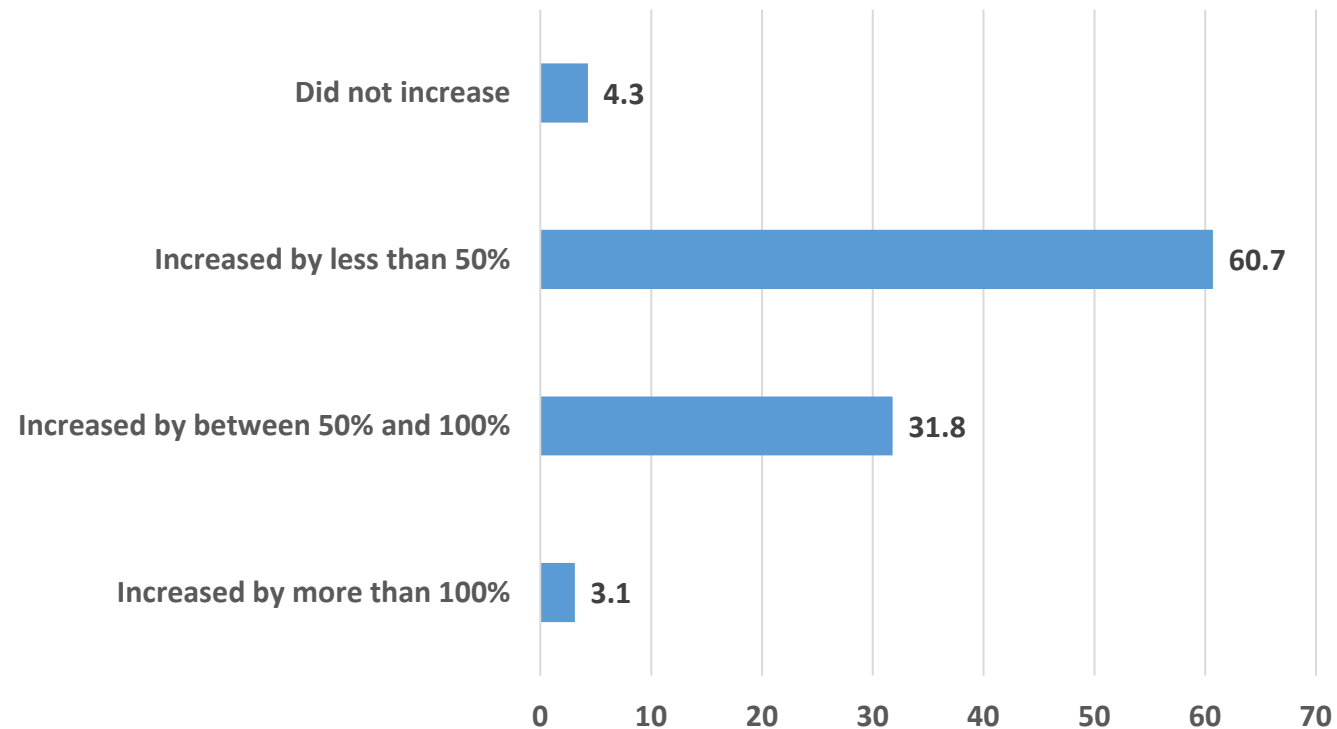
## Key Finding #4: Realized needs for operational efficiencies accelerated new technology adoption.

How did the COVID-19 pandemic affect bank efficiency?





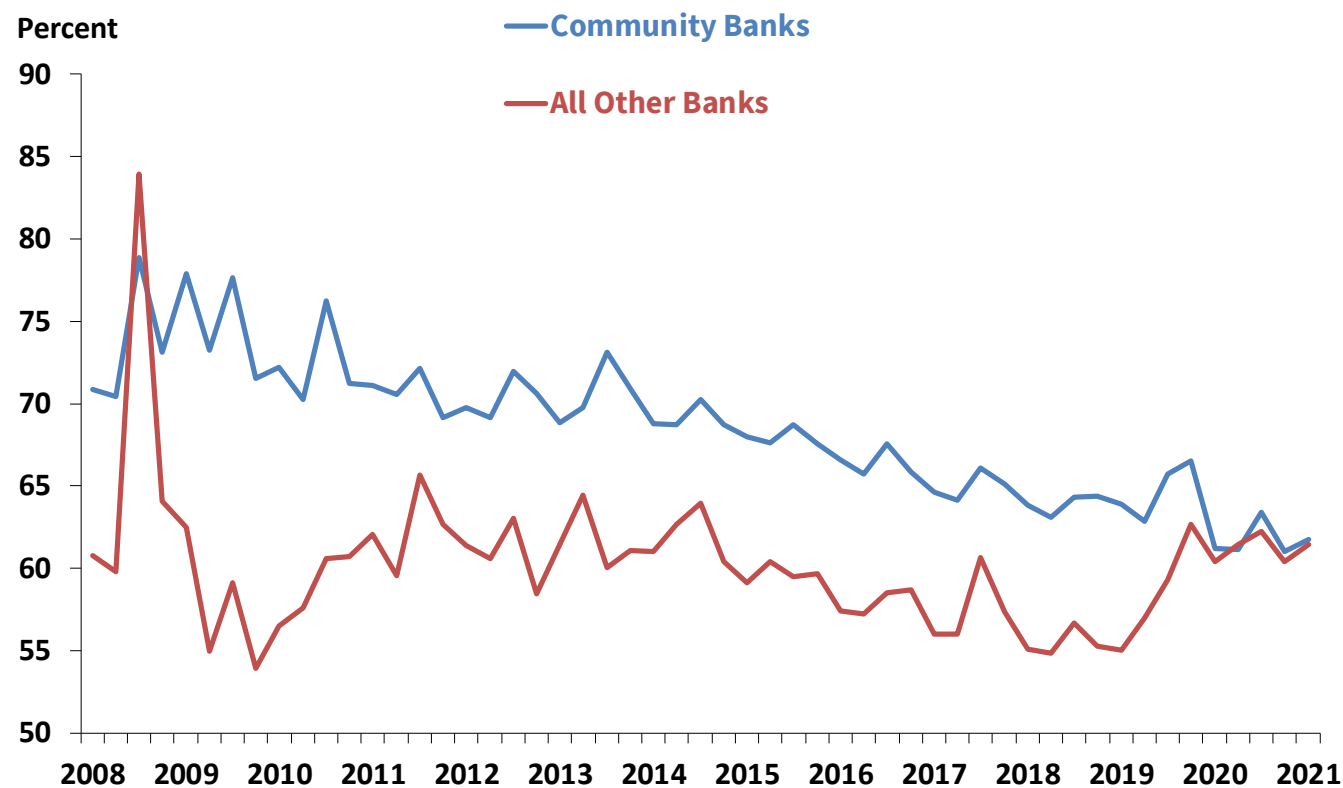
## How did online services change as a result of COVID-19?





# Overall community bank efficiency continues to improve...

Quarterly Efficiency Ratio



Source: FDIC.



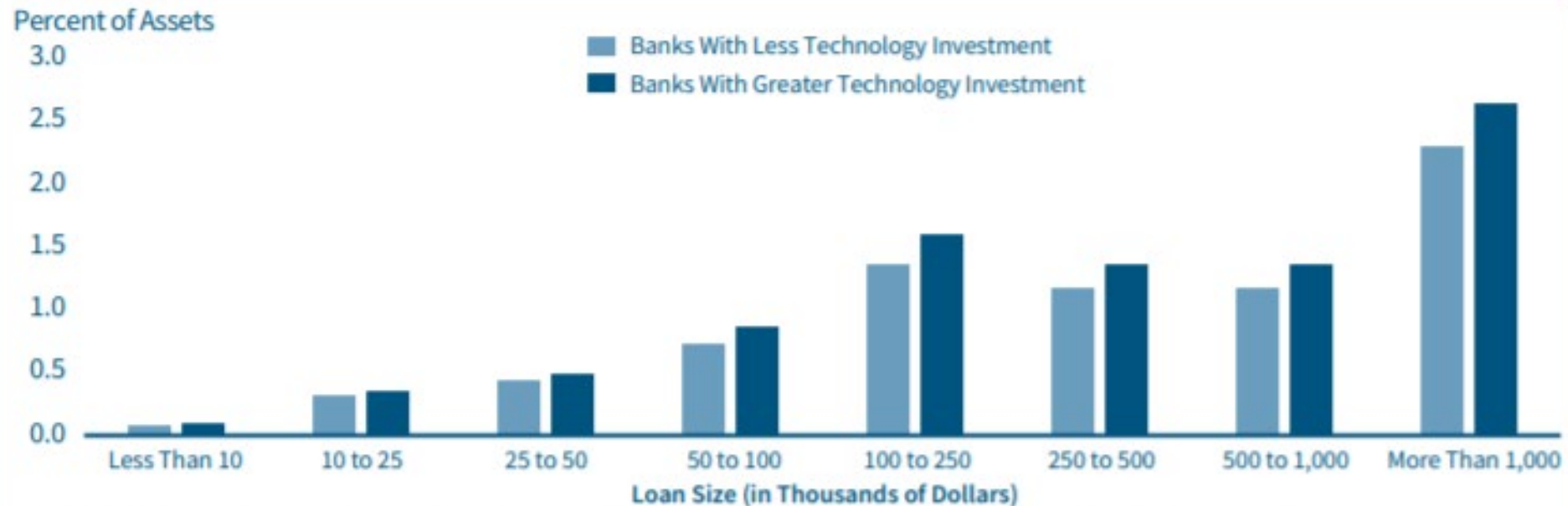




...and banks investing more in technology have higher loan growth.

### Community Banks That Invested More in Technology Originated a Greater Share of PPP Lending for All Loan Size Categories

Average PPP Loan Volume as a Share of Assets by Loan Size



Sources: FDIC, Small Business Administration, Aberdeen Technology Data Cloud, and Conference of State Bank Supervisors.

Note: PPP = Paycheck Protection Program. Loan approvals based on initial approved amounts. Approvals as a share of assets by week were calculated for each measure and then averaged across the four technology investment measures.





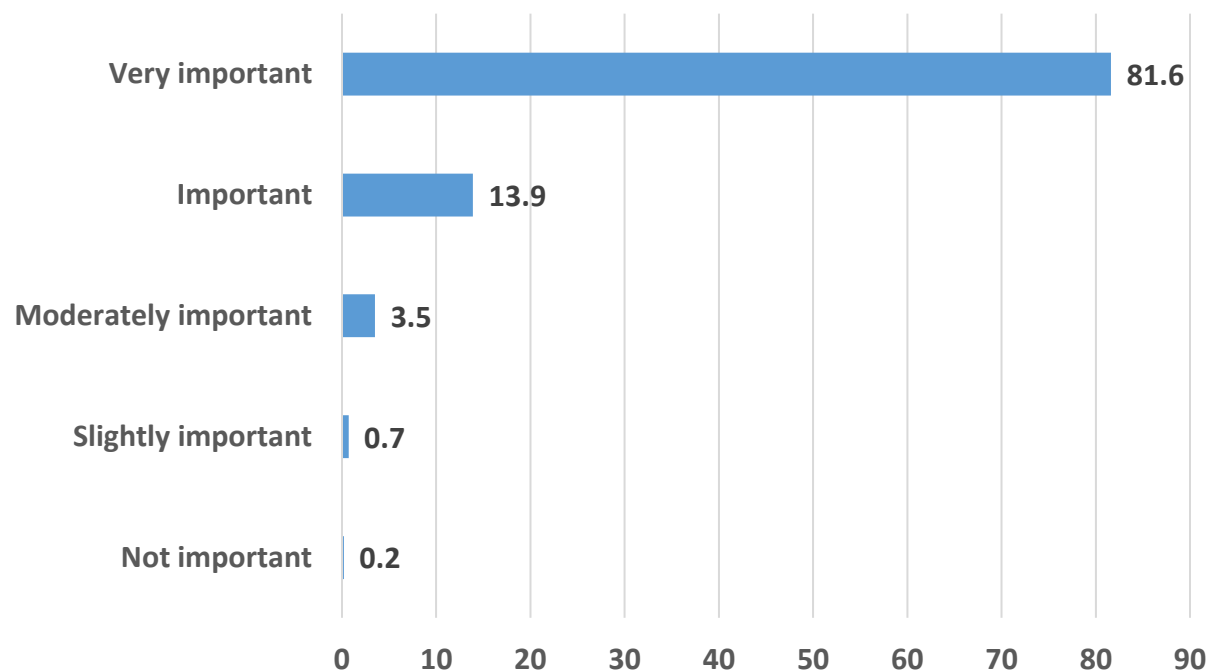
# Cybersecurity





# Key Finding #5: Cybersecurity is an increasing and real threat to community banks.

How important is cybersecurity risk?





# Cybersecurity Concerns Intensify in 2020 and 2021

Source: Sumo Logic

- 238% rise of cyber attacks in the finance sector
- 80% of all companies detected a spike in cyber attacks
- Cloud-based attacks increased by 630% between January and April 2020
- Ransomware attacks increased by 148%
- Phishing attempts increased by 600%
- The global damage of cyber crime expected to exceed \$6 trillion in 2021
- A cyber attack occurs every 11 seconds

**➔ Every bank needs to have a cybersecurity solution/plan**





## Main Takeaways

- Net interest margins and loan demand are the most prominent challenges facing community banks. Cybersecurity ranks among bankers' top concerns.
- Operational changes imposed during the pandemic created long-term benefits in bank efficiency and customer engagement.
- Bankers are optimistic about existing technologies, but are concerned with the costs of staying current.
- Bankers expect acquisition activity to rebound from last year's lull.





# Questions? Continued Interest?

- 2021 survey can be found at [www.communitybanking.org](https://www.communitybanking.org)
- Networking reception

