

2024 CSBS Annual Survey of Community Banks: Key Findings

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Overview of Key Findings

- Highest Ranking External Risks:
 - Cost of funds
 - Regulation
 - Net interest margins
- Focus on Funding:
 - Increased reliance on brokered deposits
 - Highest satisfaction on accessibility of FHLBank advances
 - Lowest levels of stigma for public funds and FHLBank advances





Overview of Key Findings

- Top Internal Risks:
 - Cybersecurity
 - Technology implementation and costs
 - Liquidity
- Credit Quality 12-month Outlook:
 - Expected to worsen for personal loans, CRE, and C&I
 - CRE: Highest concern for office and retail
 - Outlook for 1-4 family residential and agriculture loans neutral





External Risks:

Cost of Funds and Net Interest Margins

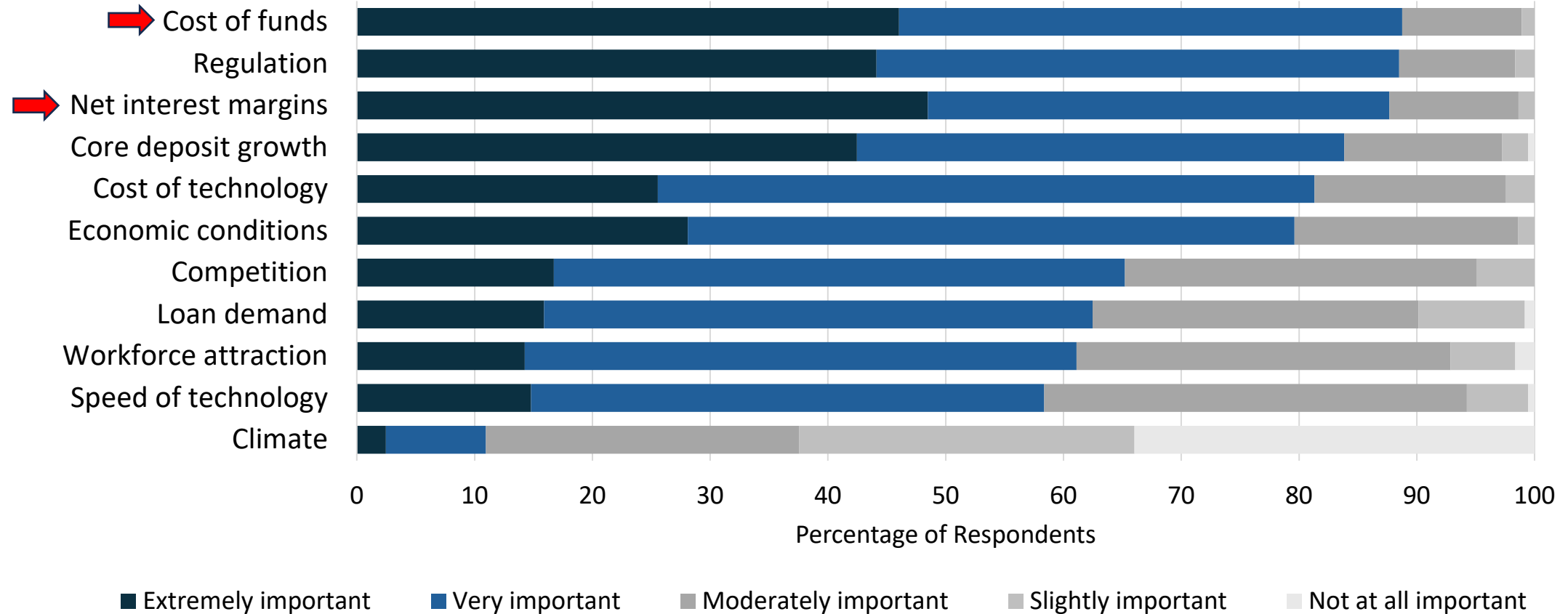
“When interest rates rose sharply in a short period of time, the cost of retaining deposits changed very suddenly.”

- Michael Busch, Burling Bank



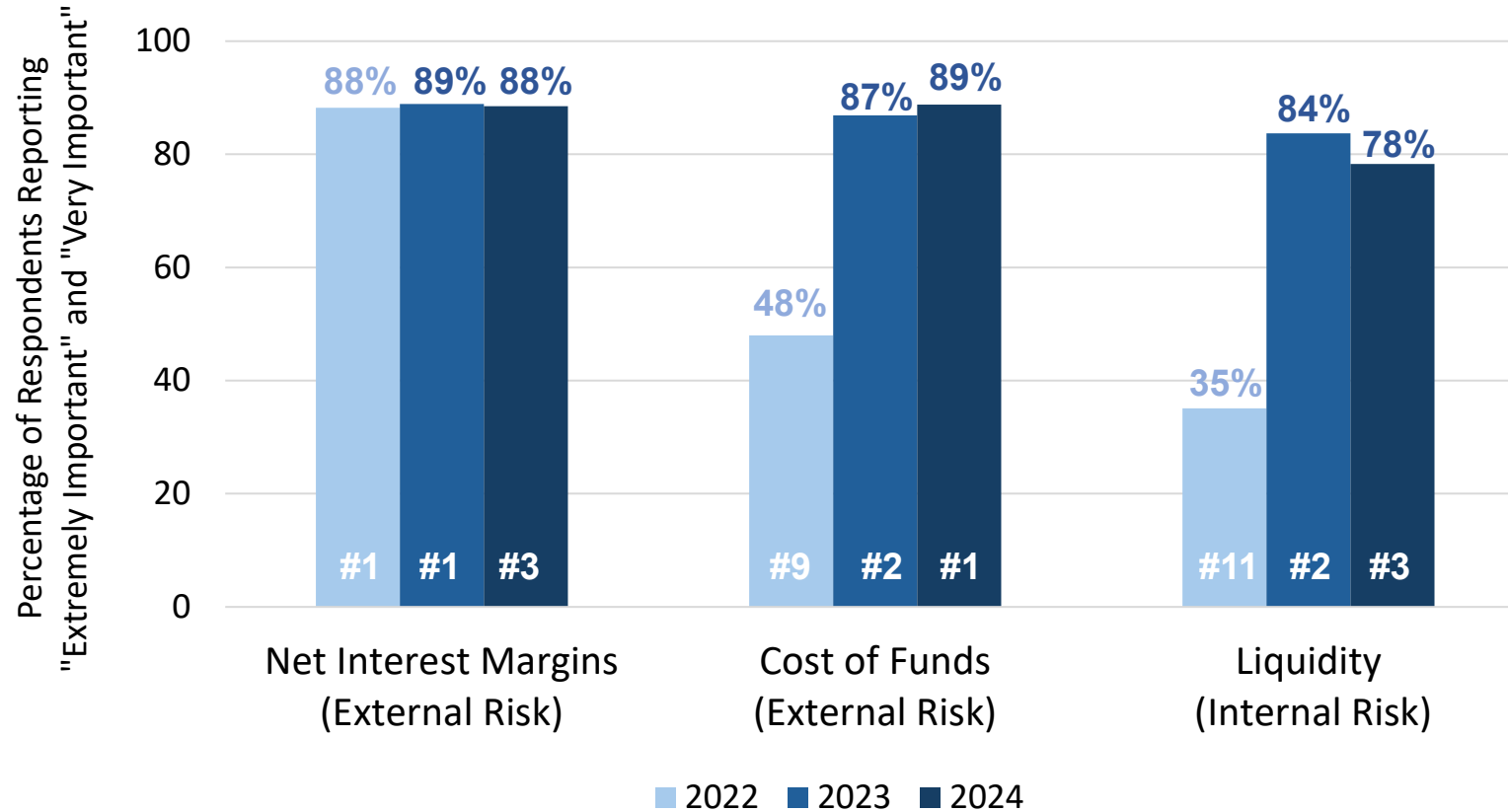


How important are the following external risks to your bank today?



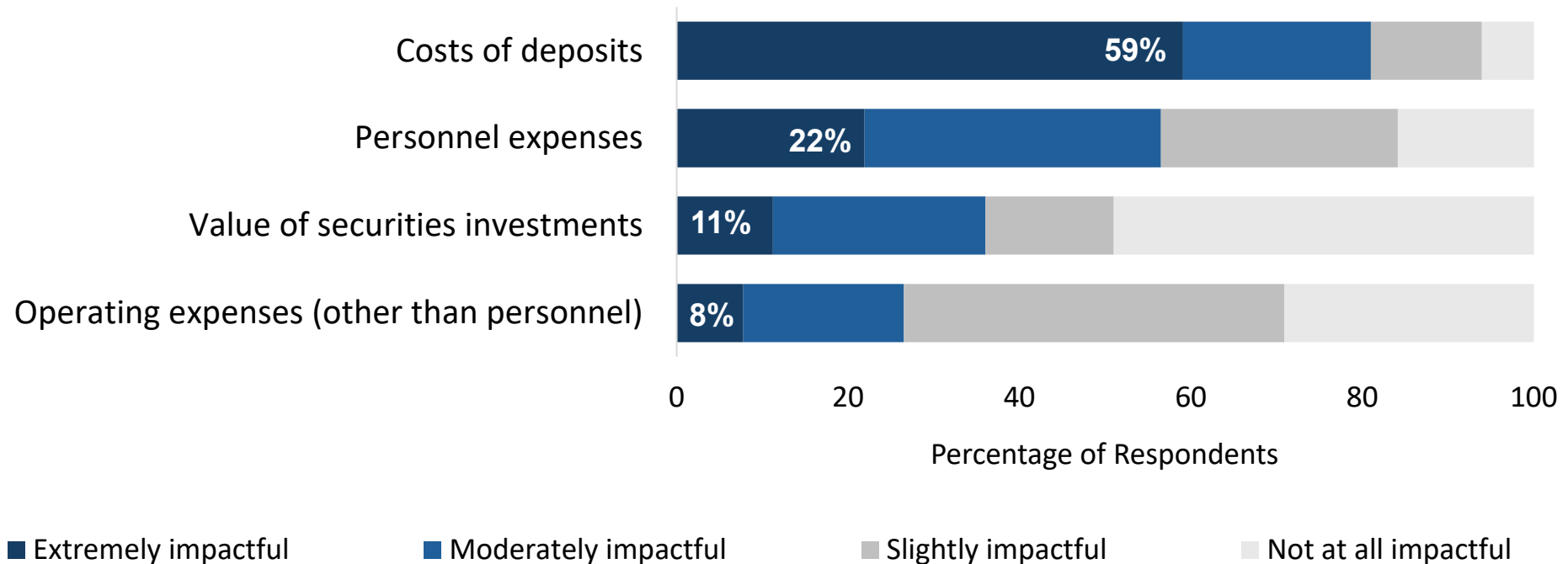


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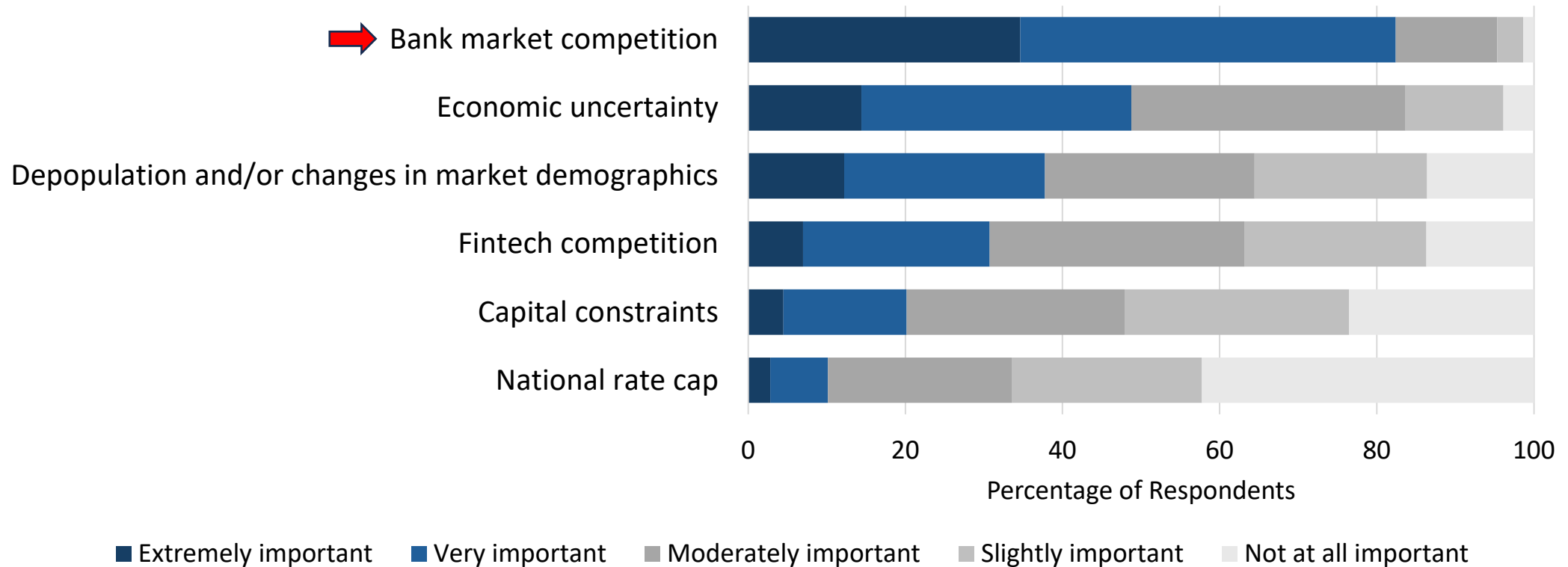


How would you rank the following effects of inflation on your bank in terms of level of impact?



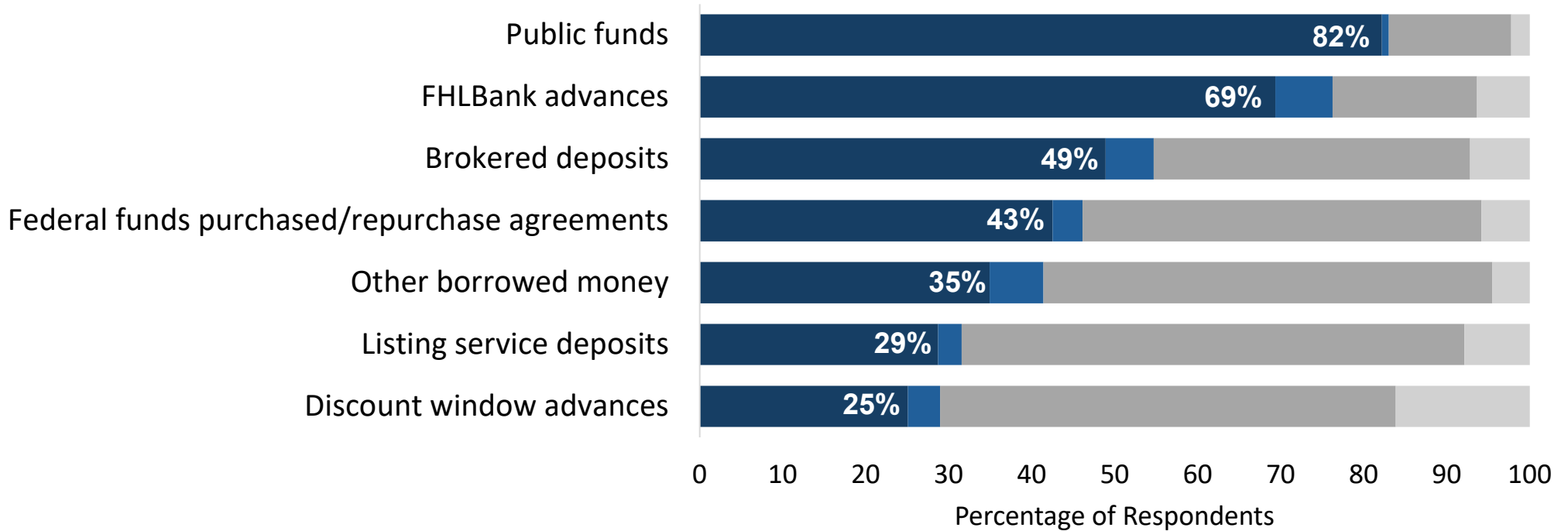


How important are each of the following potential challenges to attracting and retaining core deposits?





What are your institution's intentions regarding the following wholesale funding sources?



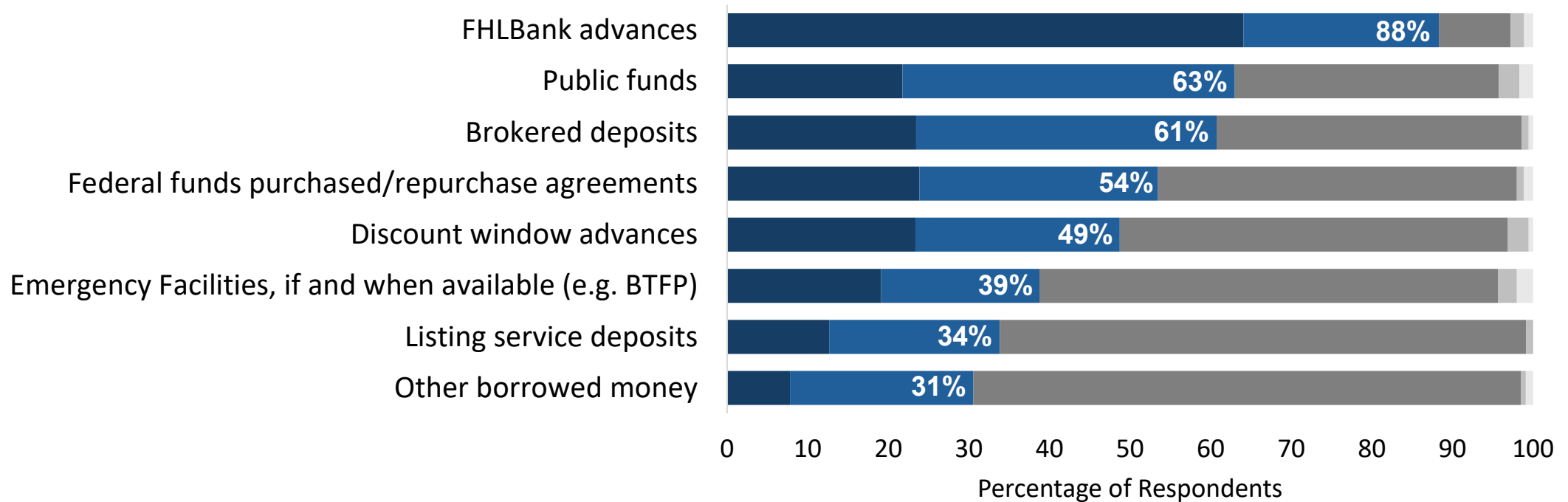
■ Currently utilize and will continue to utilize at or near current levels
 ■ Do not utilize and do not plan to utilize in the next 12 months

■ Currently utilize but plan to exit or substantially limit in the next 12 months
 ■ Do not utilize but plan to utilize in the next 12 months





In your experience, how satisfied are you with the accessibility of the following funding sources?

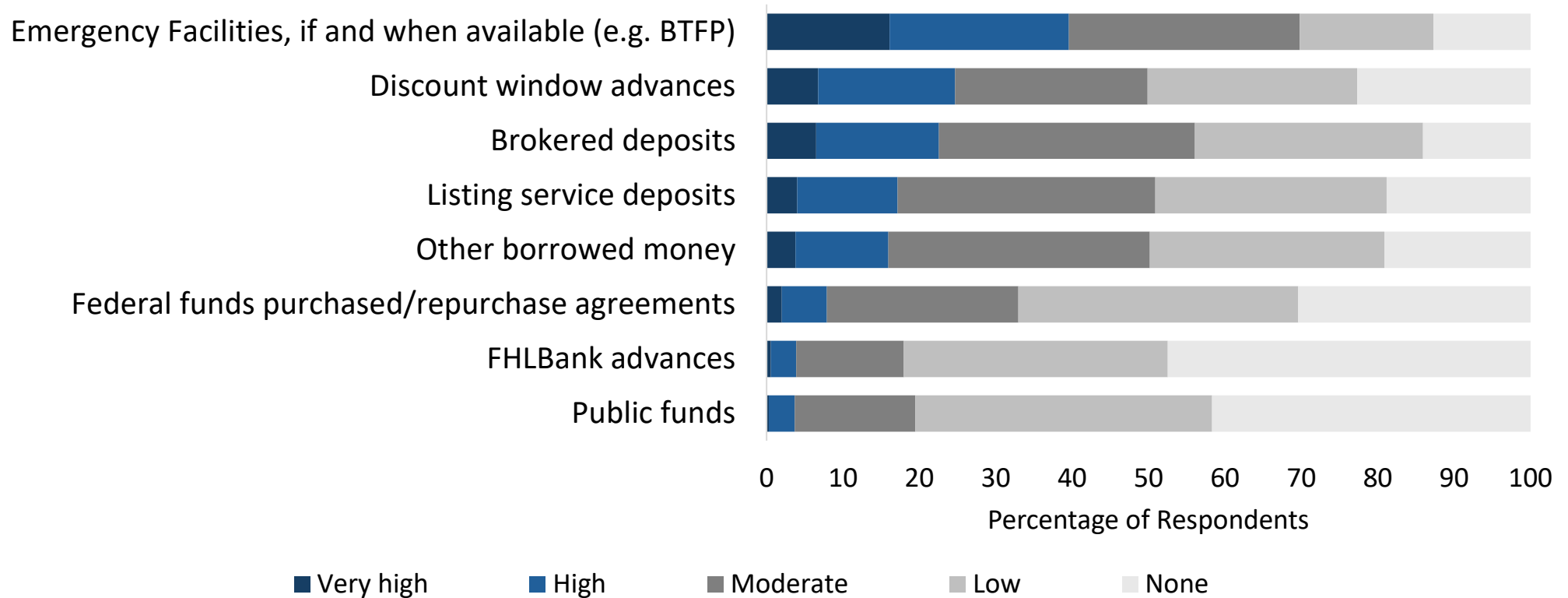


■ Extremely satisfied
 ■ Somewhat satisfied
 ■ Neither satisfied nor dissatisfied
 ■ Somewhat dissatisfied
 ■ Extremely dissatisfied





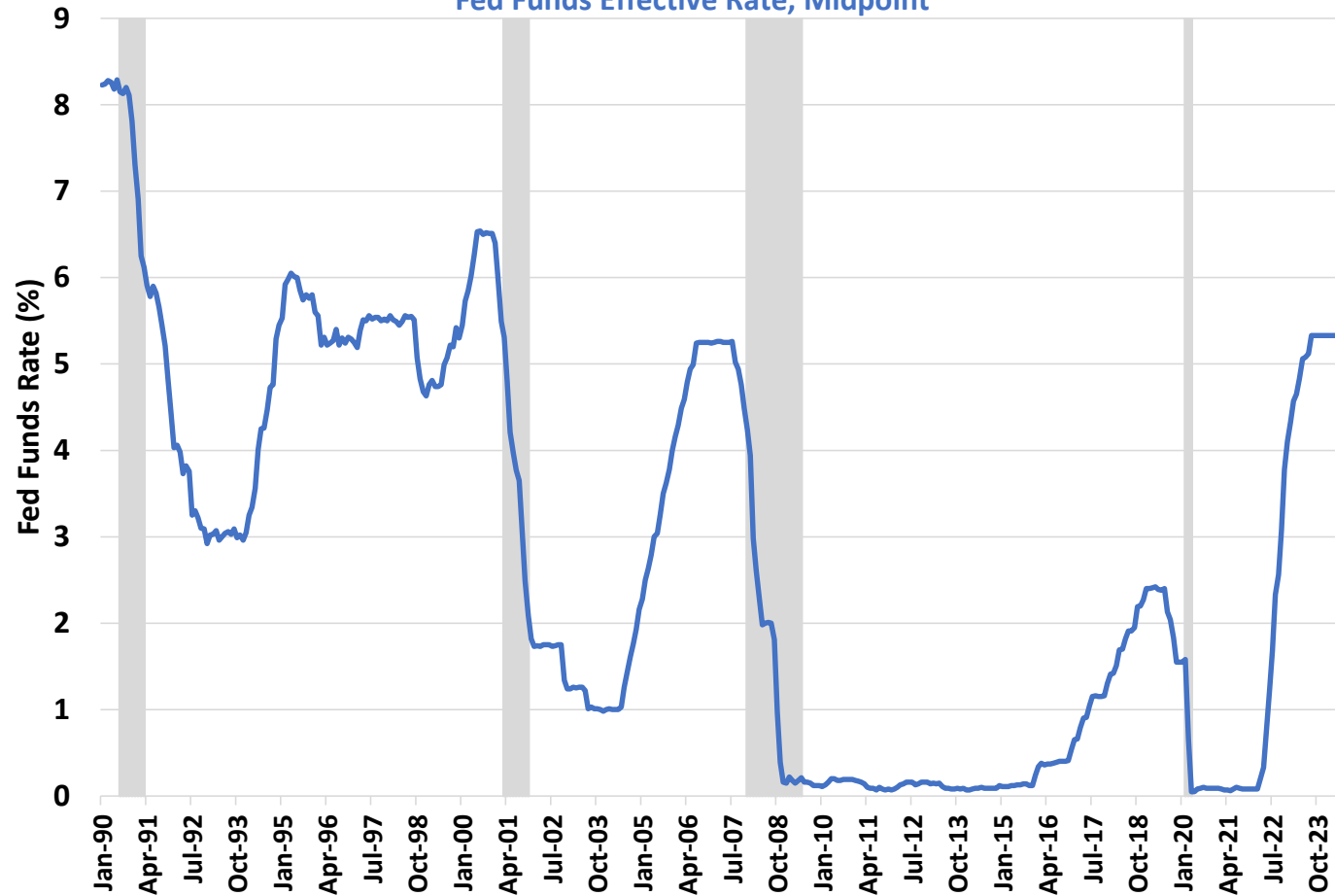
What level of stigma, if any, do you feel is associated with the following funding sources?





It's Always About Interest Rates

Fed Funds Effective Rate, Midpoint

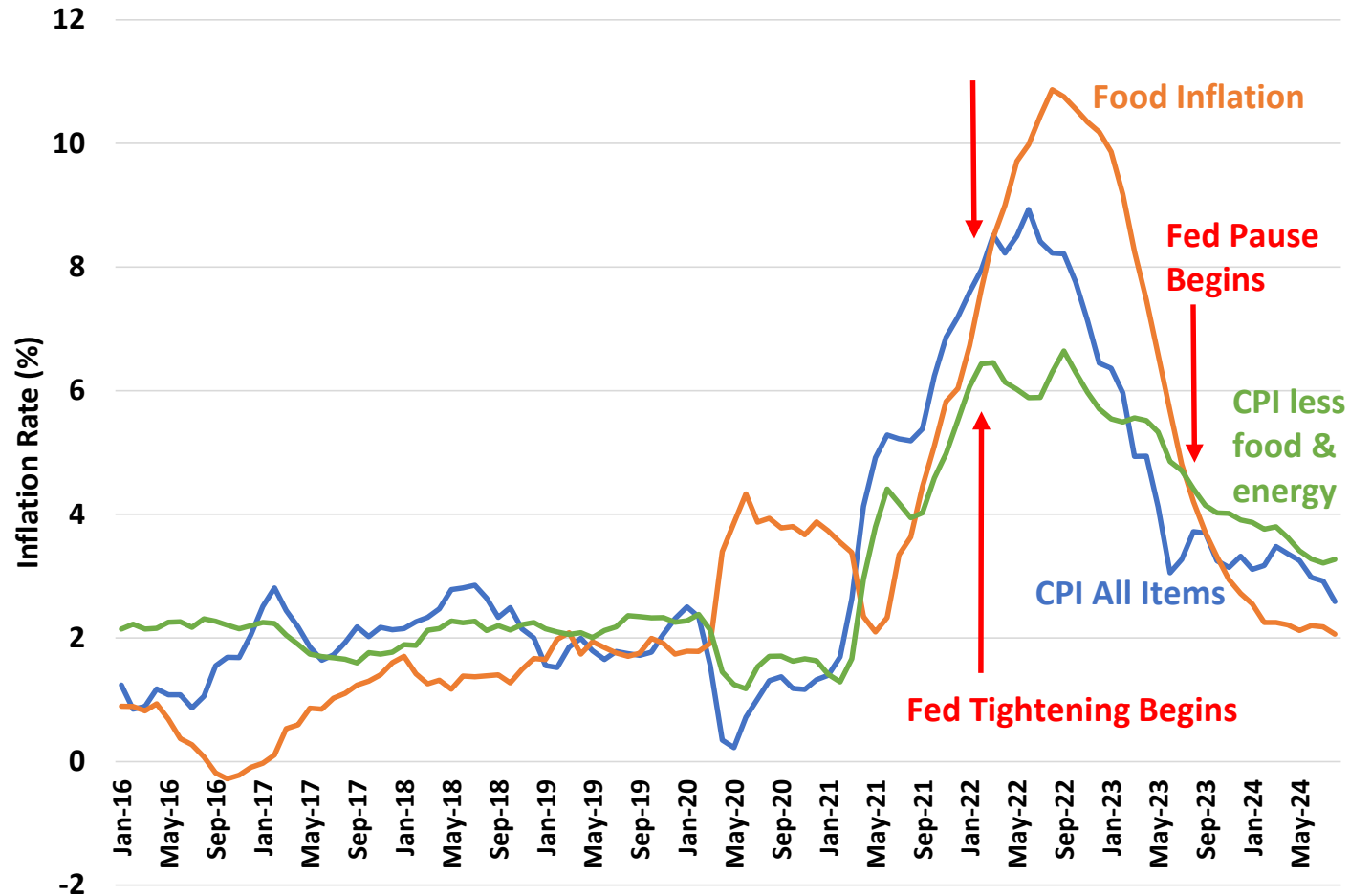


Source: Federal Reserve Board



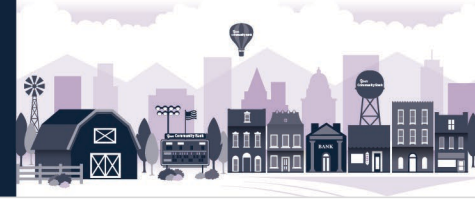


And, More Recently, About Inflation Rates

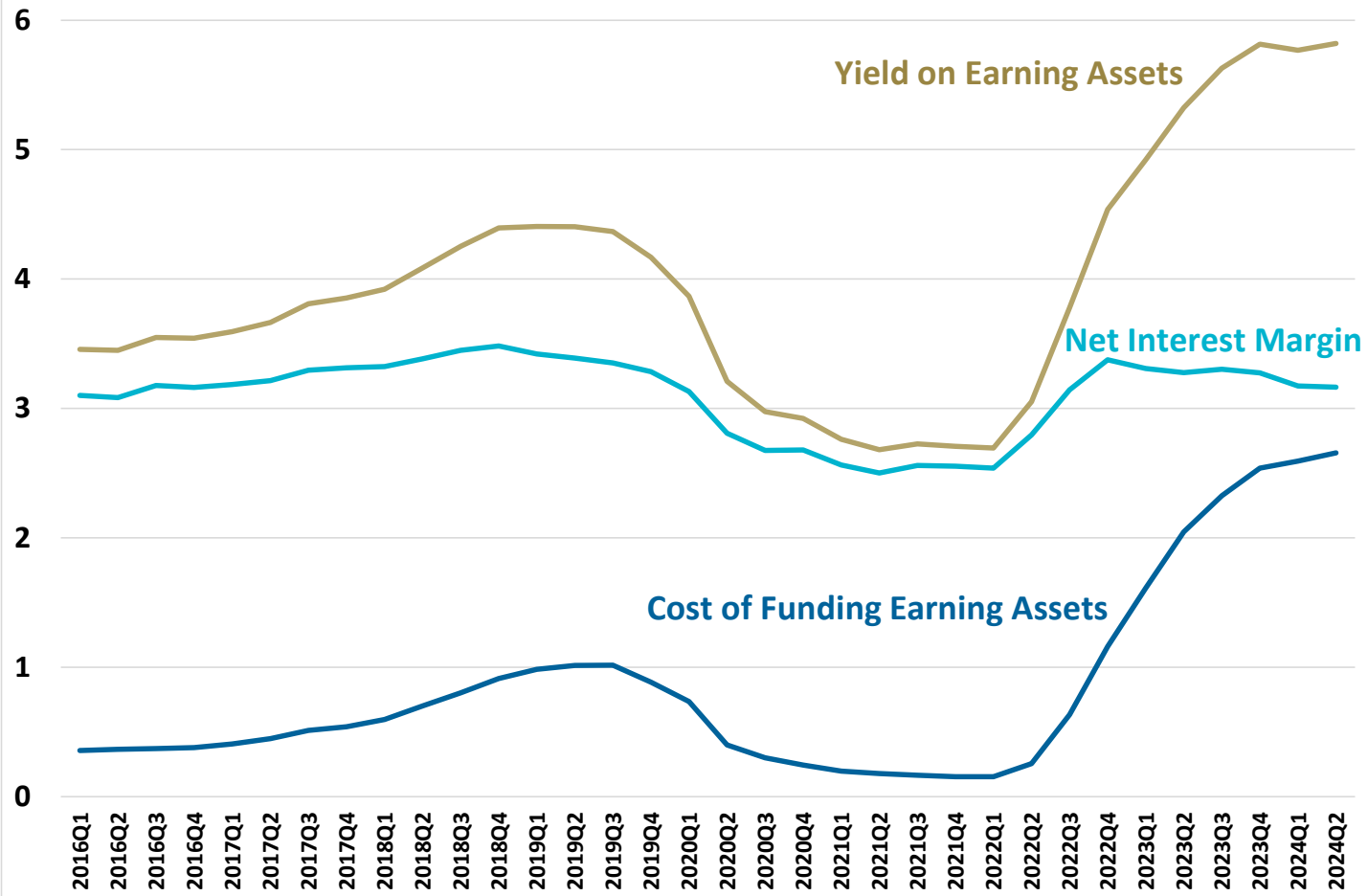


Source: Bureau of Labor Statistics





Challenging the Management of Net Interest Margins



Source: FDIC

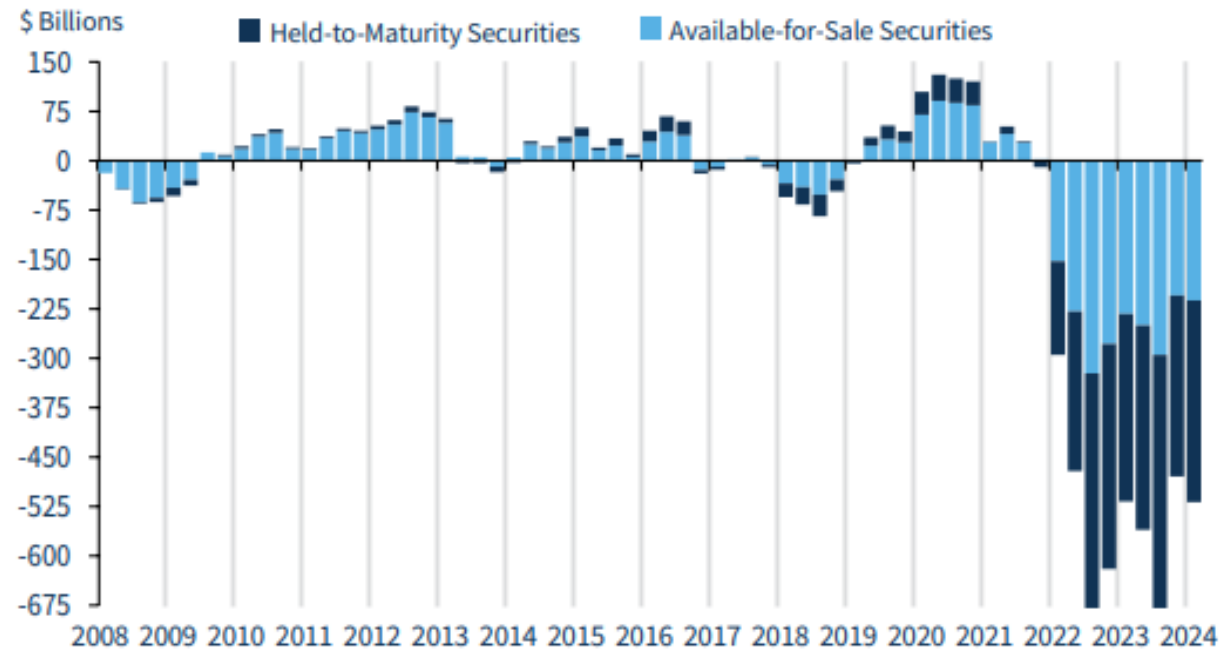




...and the Management of Securities Portfolios

Unrealized Gains (Losses) on Investment Securities

All FDIC-Insured Institutions



Source: FDIC.

Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end.





External Risk: Regulation

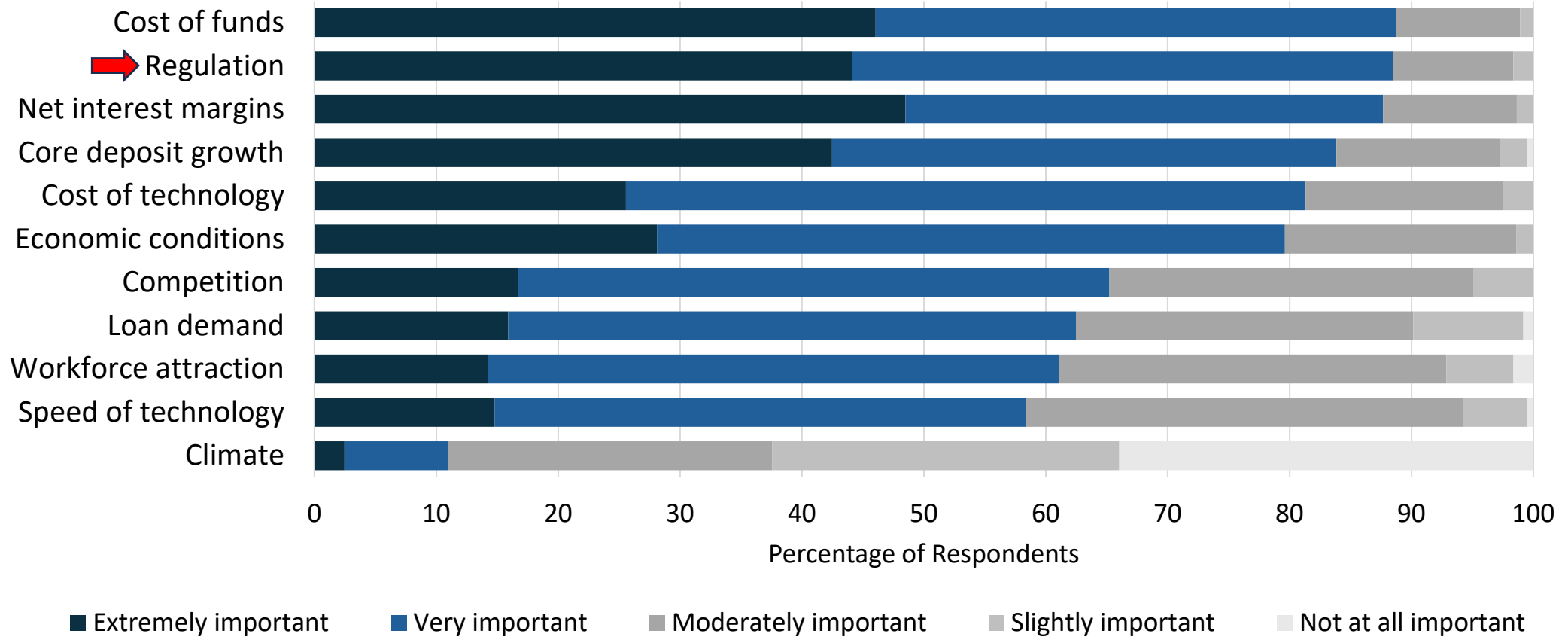
“I think we will not see any new banks coming out of the gate to replace the banks being merged out of existence.”

- Lori Maley, Bank of Bird-in-Hand





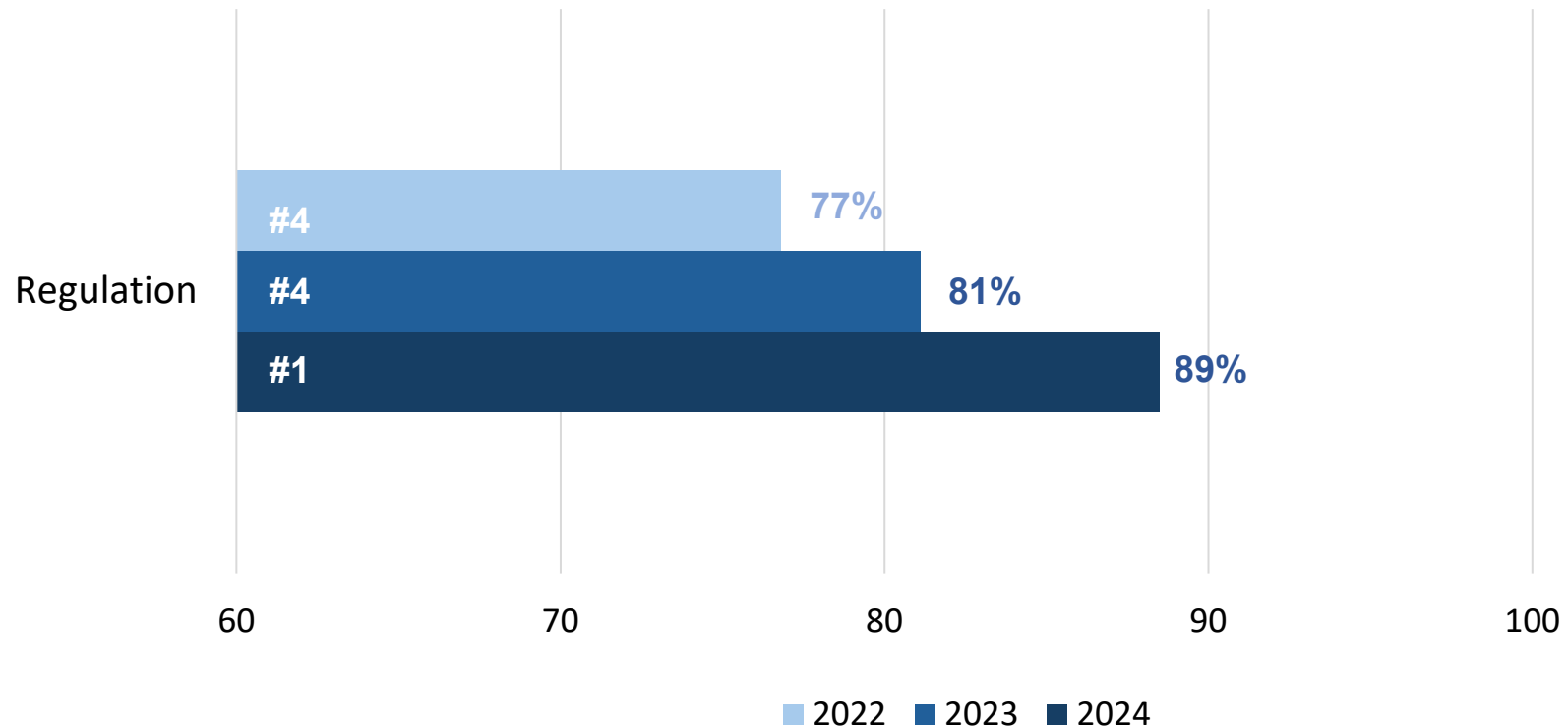
How important are the following external risks to your bank today?





How important are the following external risks to your bank today?

Percentage of Respondents Reporting "Extremely Important" and "Very Important"



Community Banking Research Conference 2024

Where Research and Policy Meet



Federal Reserve
1913
(31 pages)

Glass-Steagall
1933
(37 pages)

Interstate Banking
1994
(61 pages)

Gramm-Leach-Bliley
1999
(145 pages)

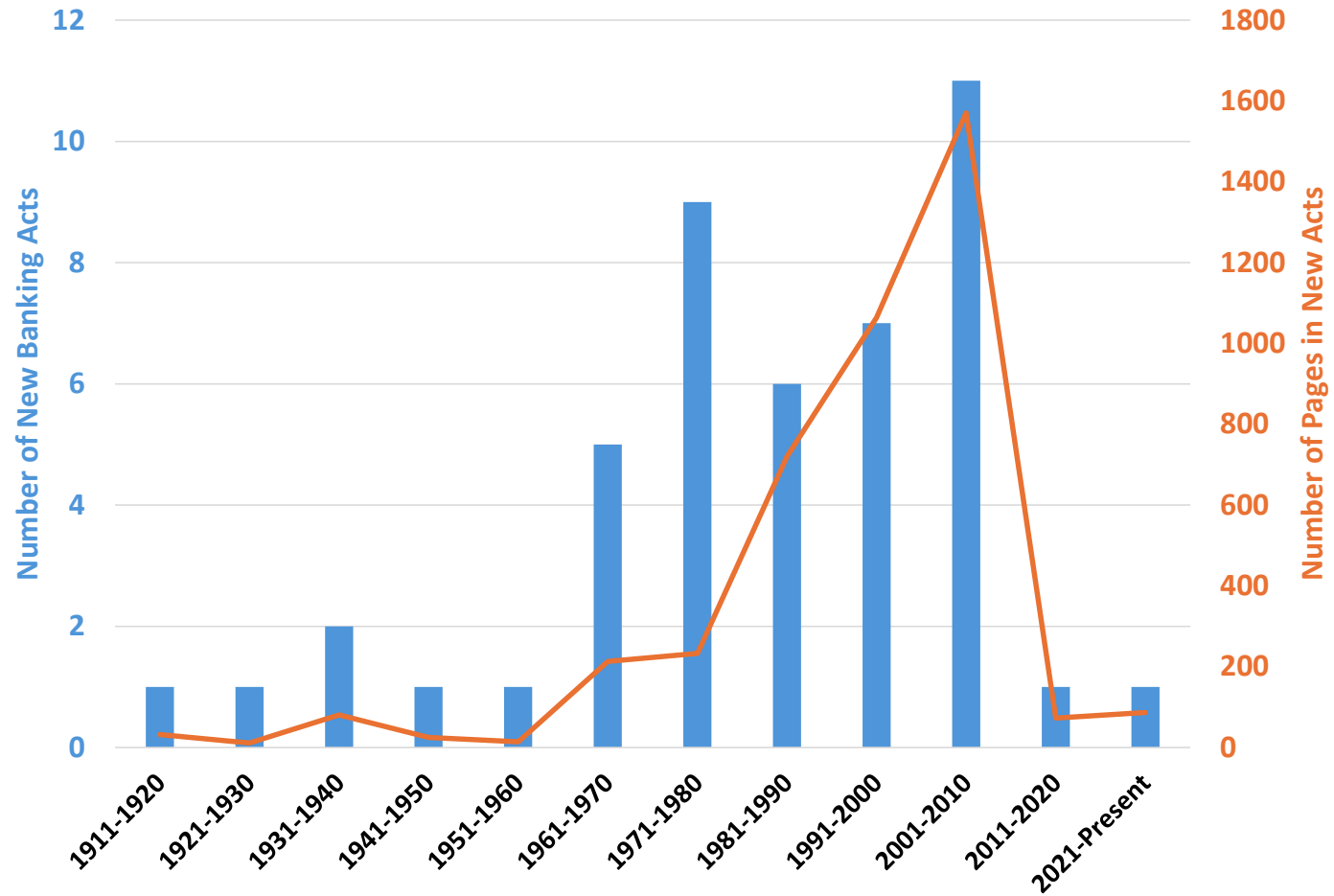
Sarbanes-Oxley
2002
(66 pages)

Dodd-Frank
2010
(849 pages)





Important U.S. Banking Legislation Over 100+ Years

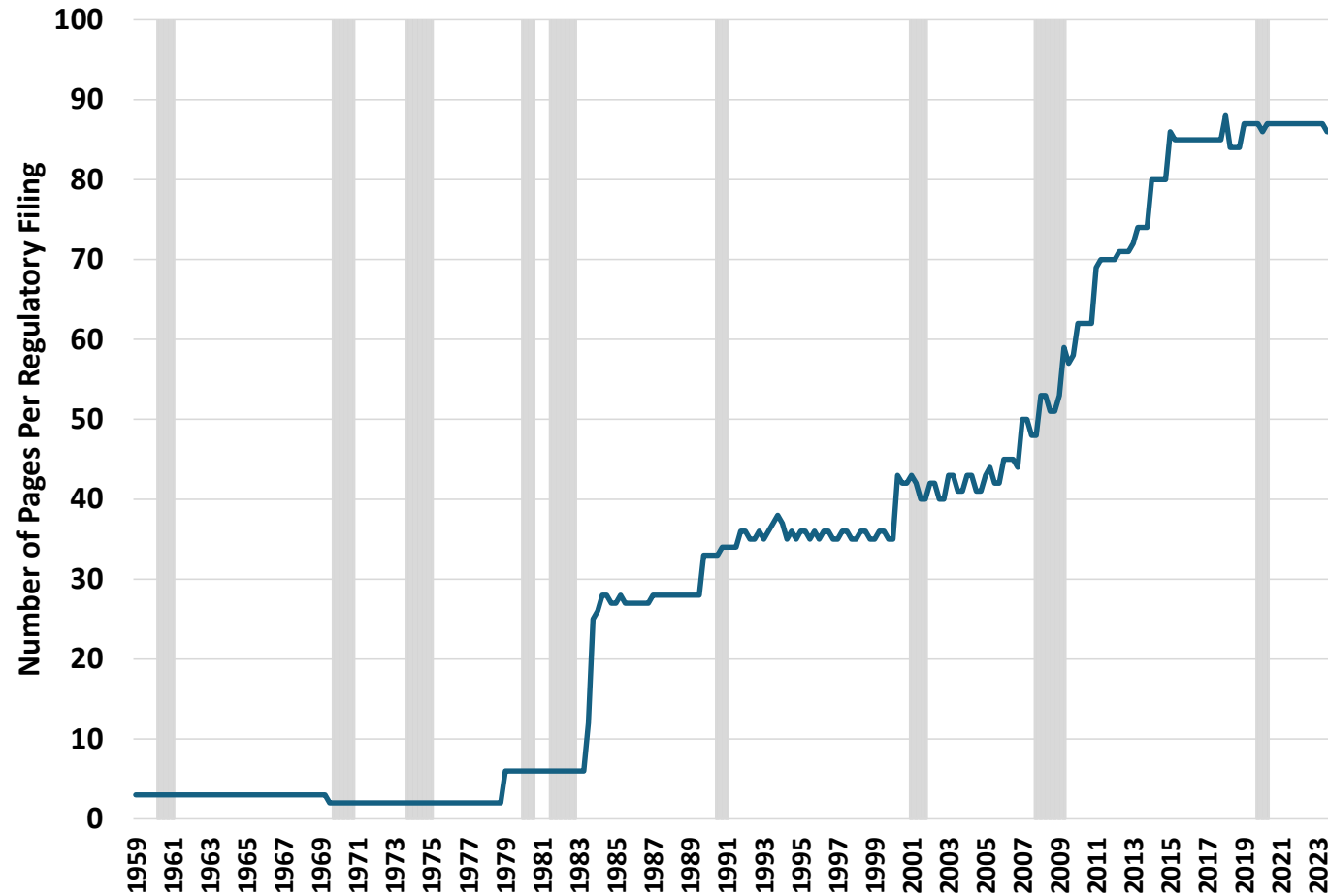


Source: FDIC, Important Banking Legislation





Maximum Pages in Bank Call Report Filings

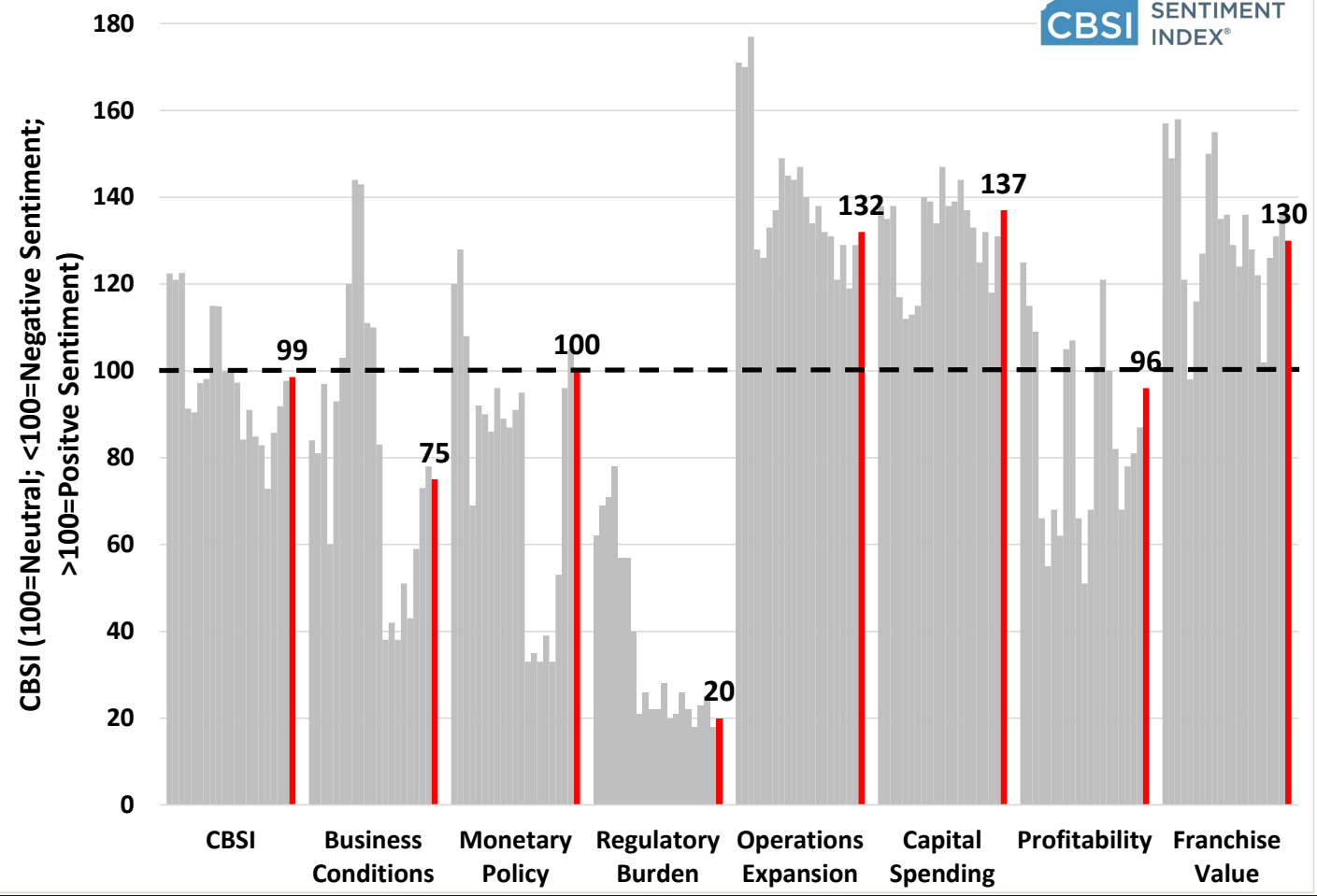


Source: FFIEC, Call Report



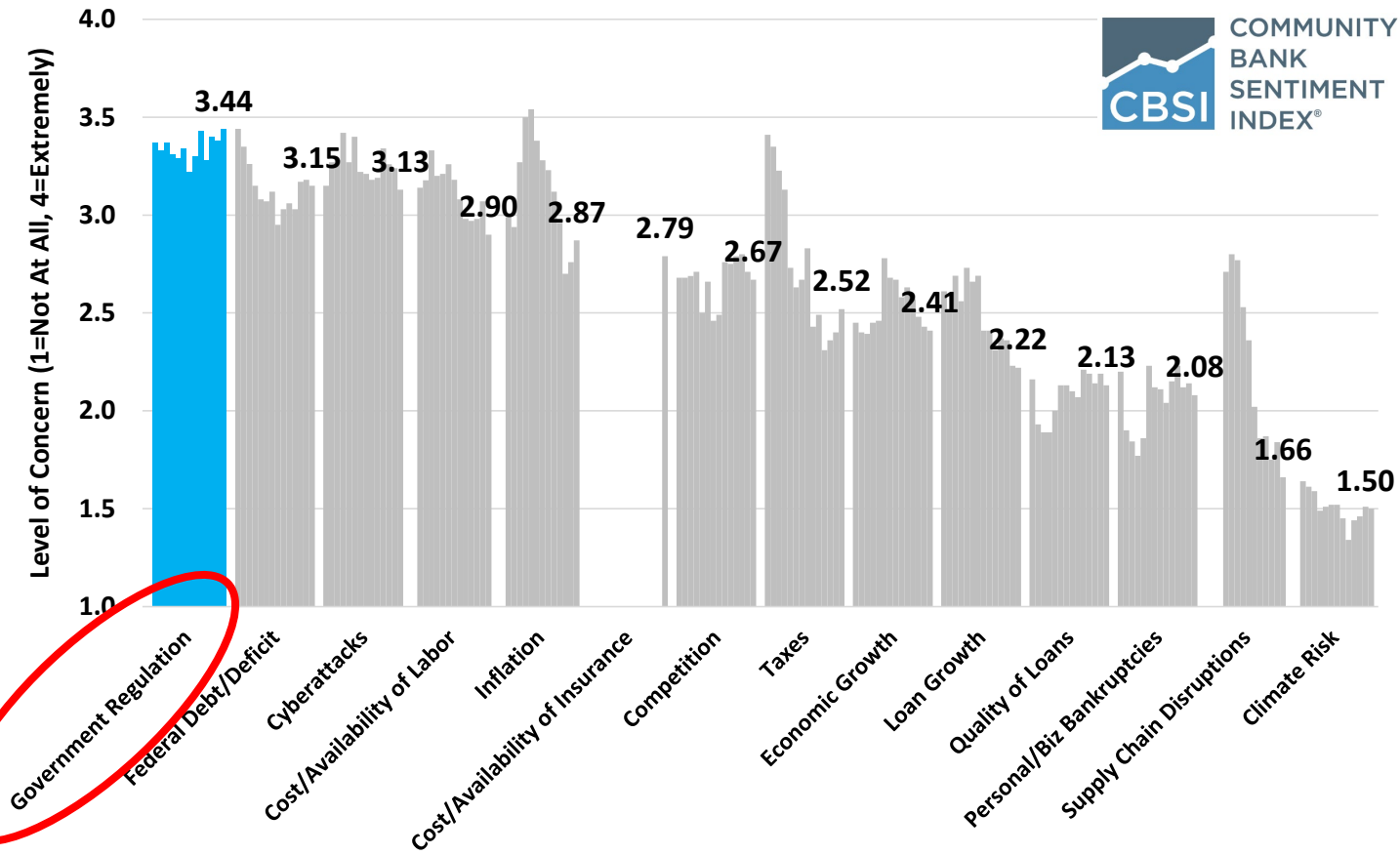


CBSI Component Trends





Over the Next 12 Months, Community Bankers are Concerned About...





Internal Risk: Cybersecurity

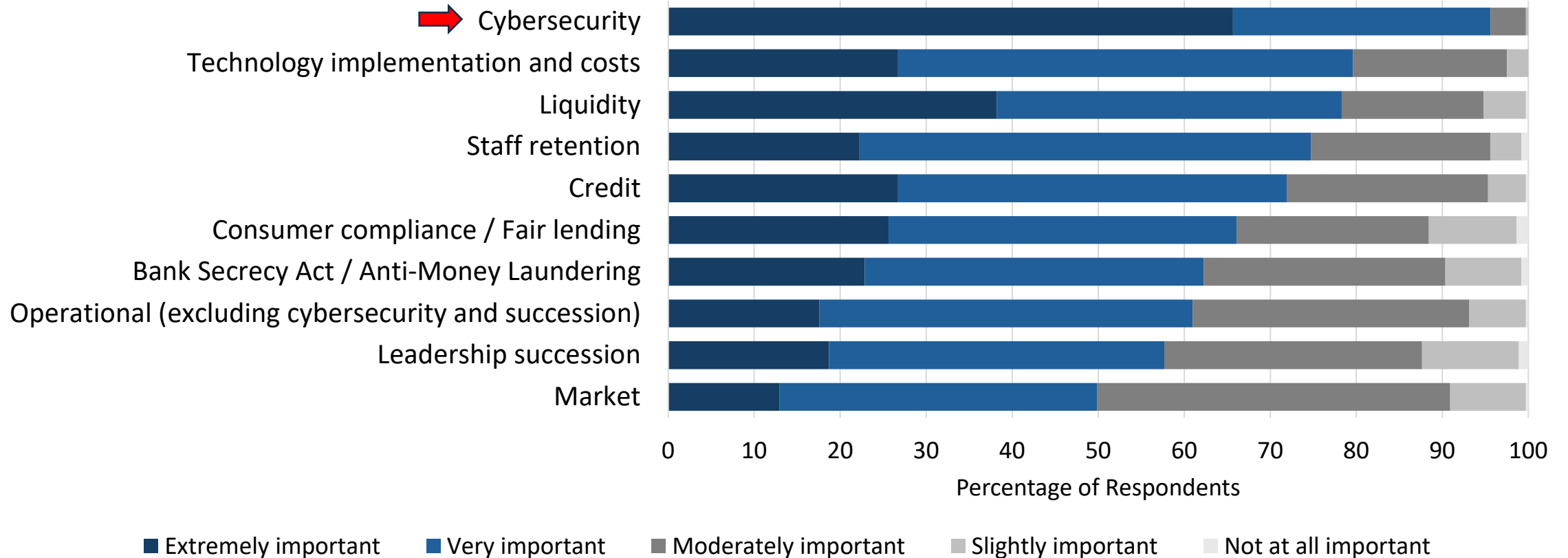
“Cybersecurity is the biggest factor for the future of banking. Two or three banks going out of business from a ransomware event will cause a flight to ‘too big to fail,’ which will permanently damage the community banking sector.”

- Anonymous Banker, CBSI Survey





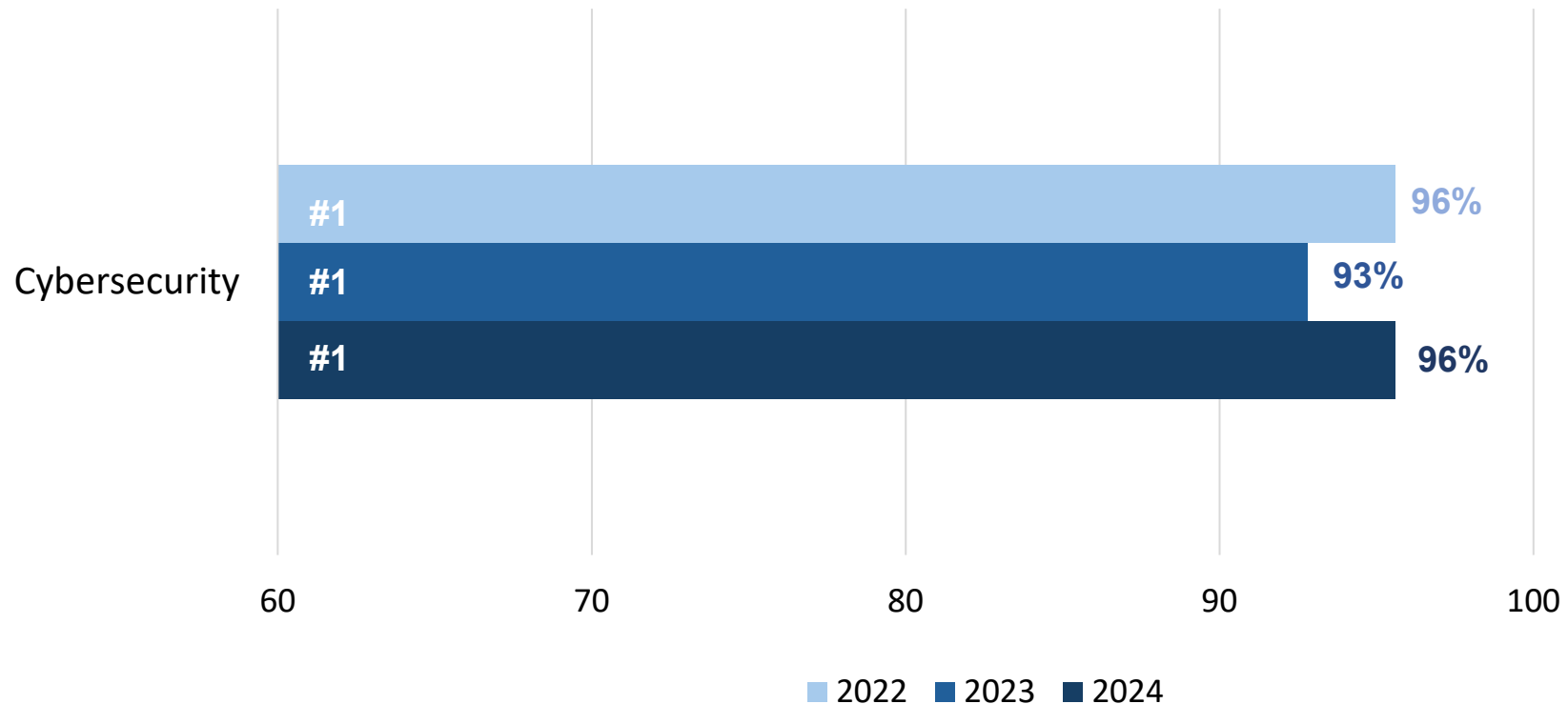
How important are the following internal risks facing your bank today?





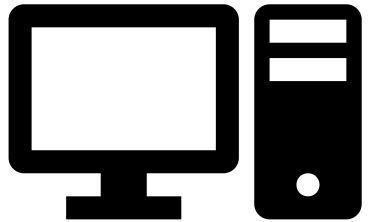
How important are the following internal risks to your bank today?

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Ransomware threats



Vendor and supply chain risks

Geopolitical instabilities





Internal Risk:

Technology Implementation and Costs

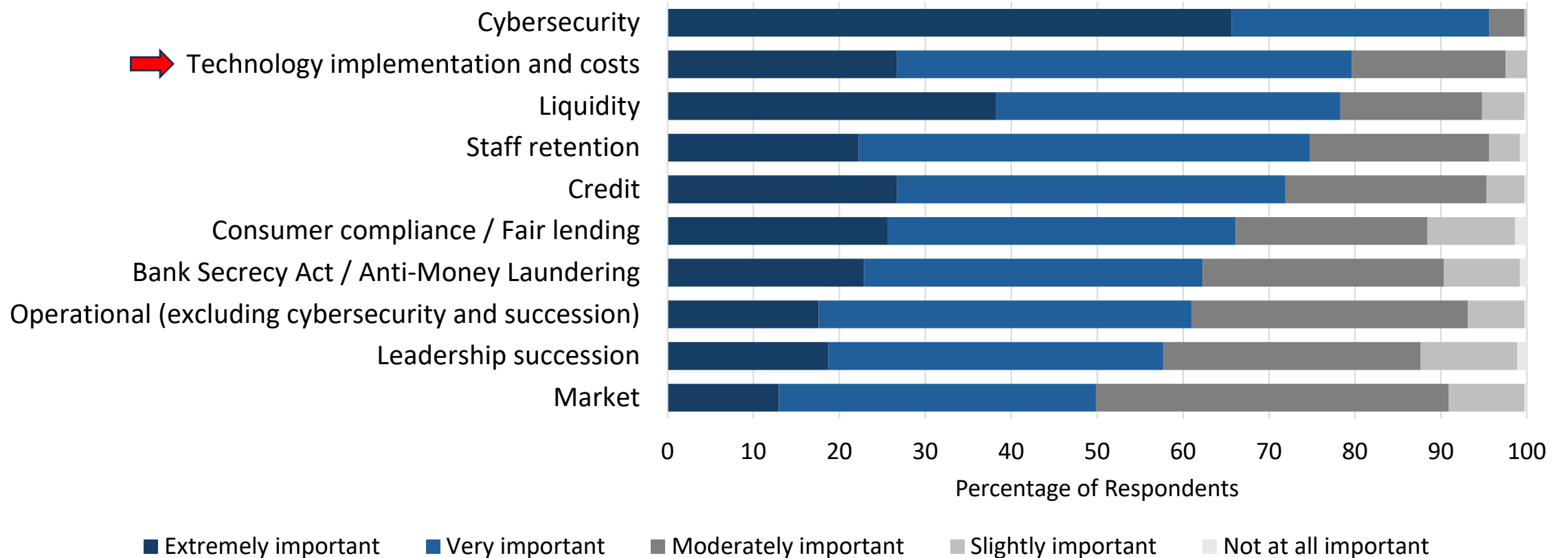
“Capitalism is competitive, right? You have to earn your right to exist every day. What we have found is that from a technology standpoint, we often have technology offerings that are as good as many of these [non-bank] competitors.”

- David Ehlis, Bravera Holdings Corp.





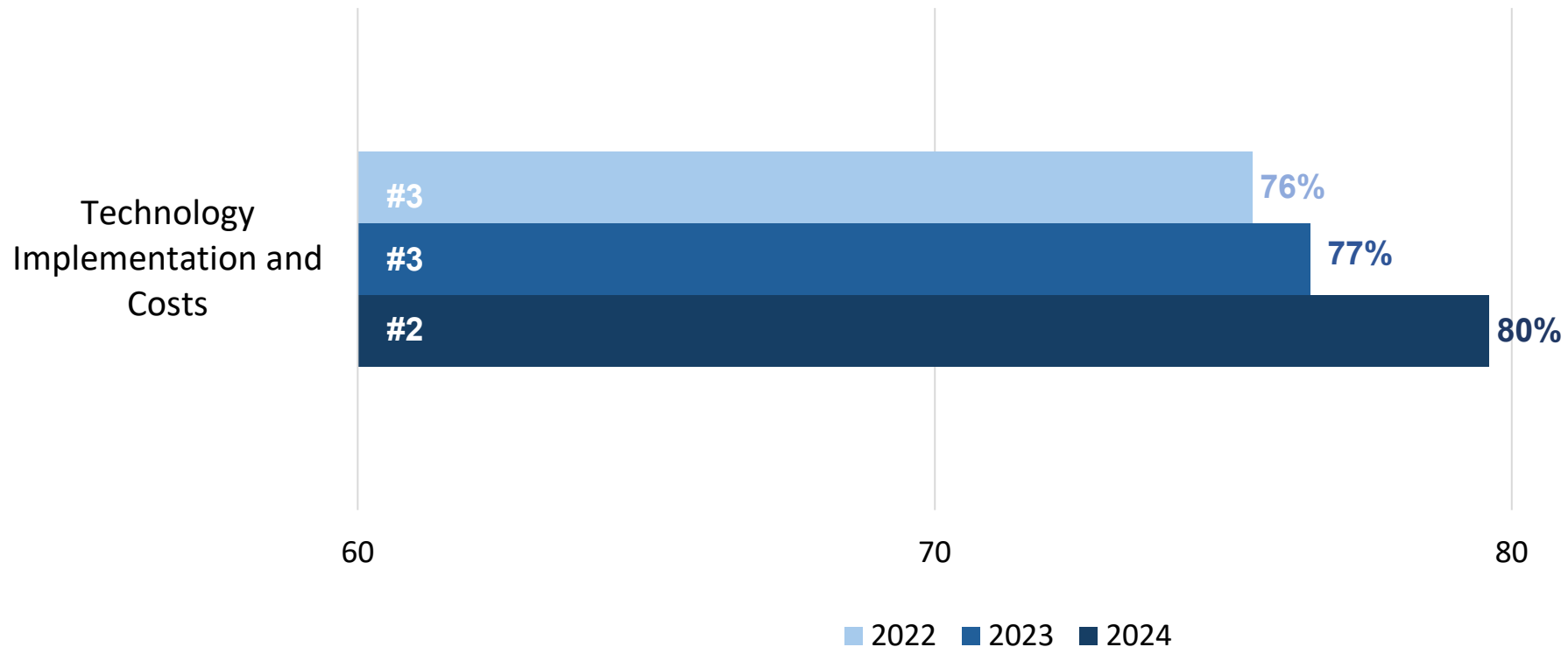
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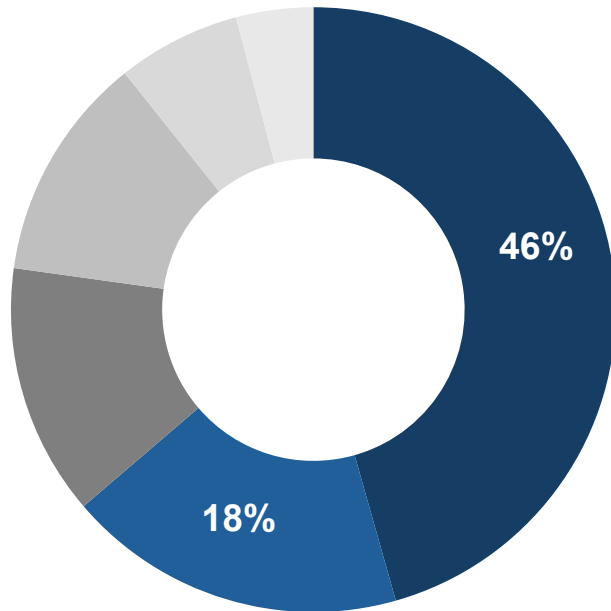
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Percentage of Respondents Reporting "Extremely Important" and "Very Important"





What is the most significant impediment to adopting new technologies?

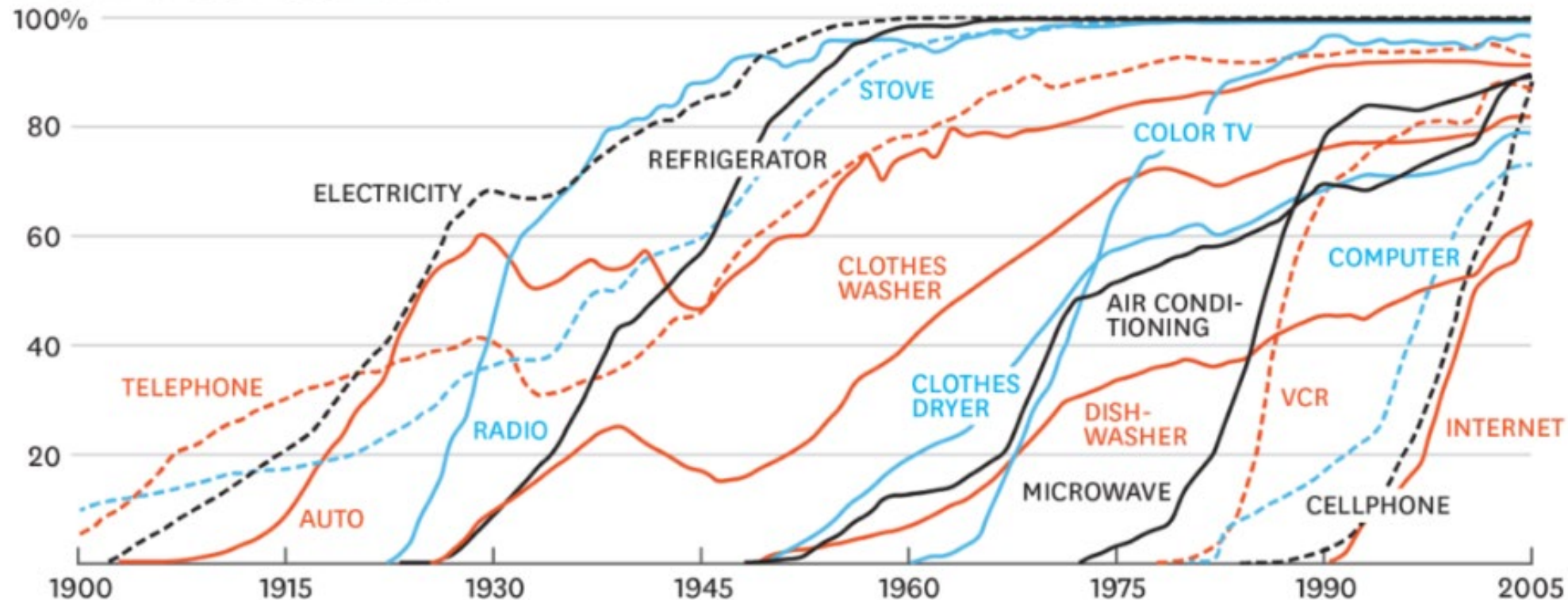


- Cost or ability to implement
- Cybersecurity risks
- Limitations of core service provider
- Cost or ability to maintain
- Assessing the risk of a third party provider outside of Core Service Provider (CSP) (eg, fintech firm)
- Other



CONSUMPTION SPREADS FASTER TODAY

PERCENT OF U.S. HOUSEHOLDS



SOURCE NICHOLAS FELTON, THE NEW YORK TIMES

HBR.ORG





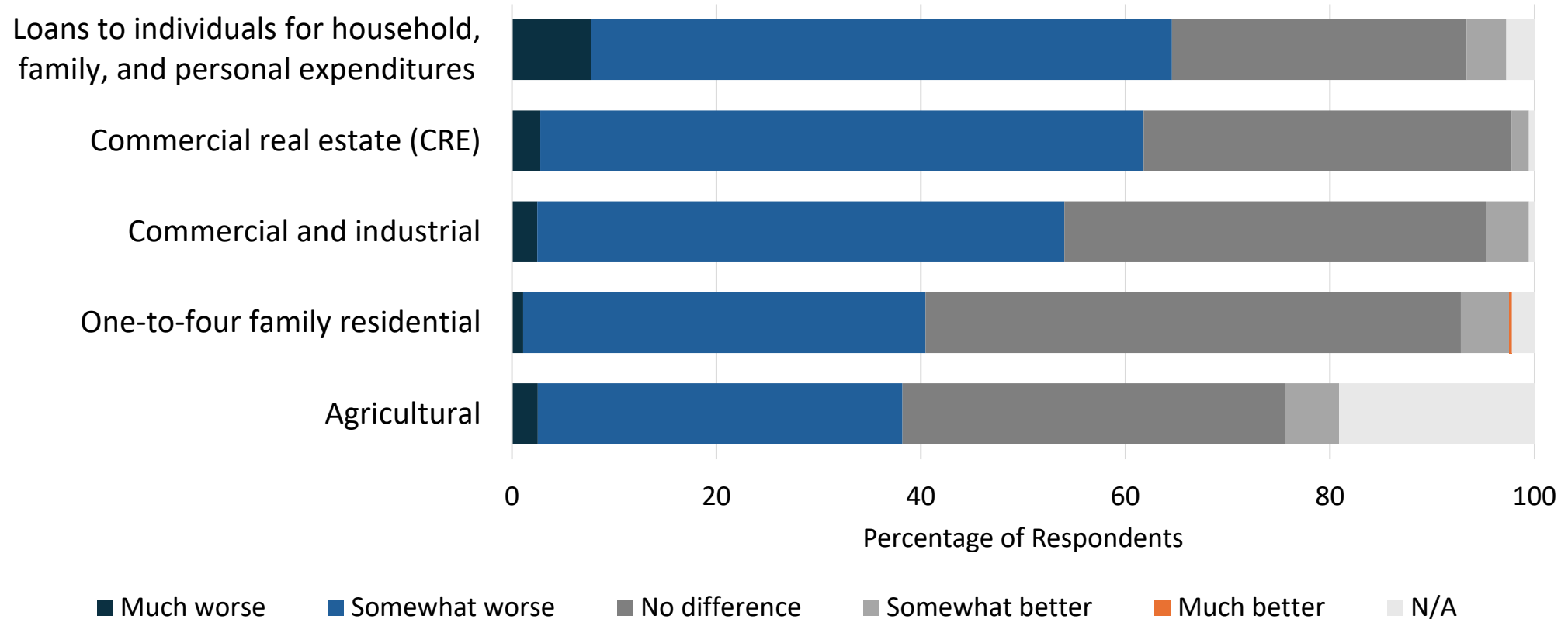
Special Questions: Outlook for Credit Quality

“We are seeing some stress with consumers (consumer loan delinquency is picking up a bit and NSF activity is increasing).”
- *Anonymous Banker, CBSI Survey*



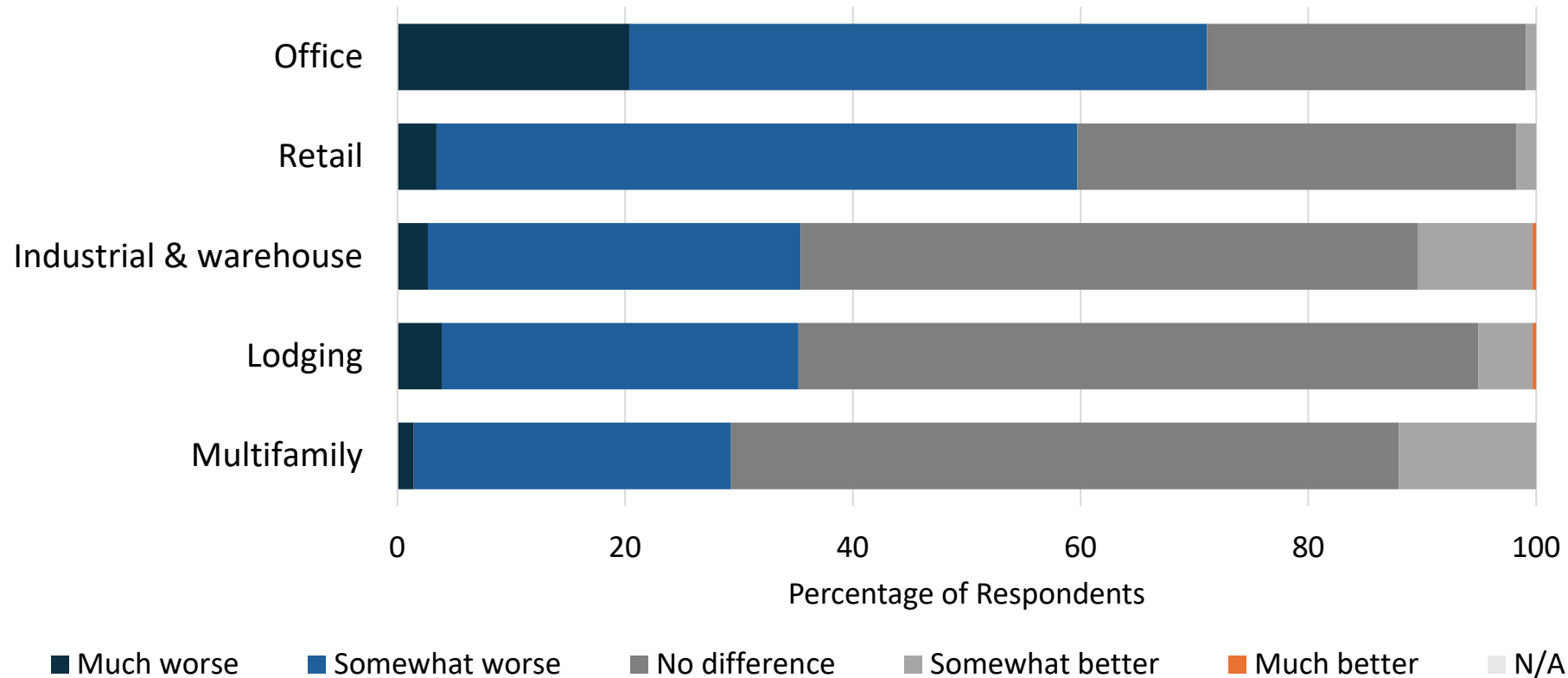


Over the next 12 months, where do you expect credit quality to be across the following loan types in your market?





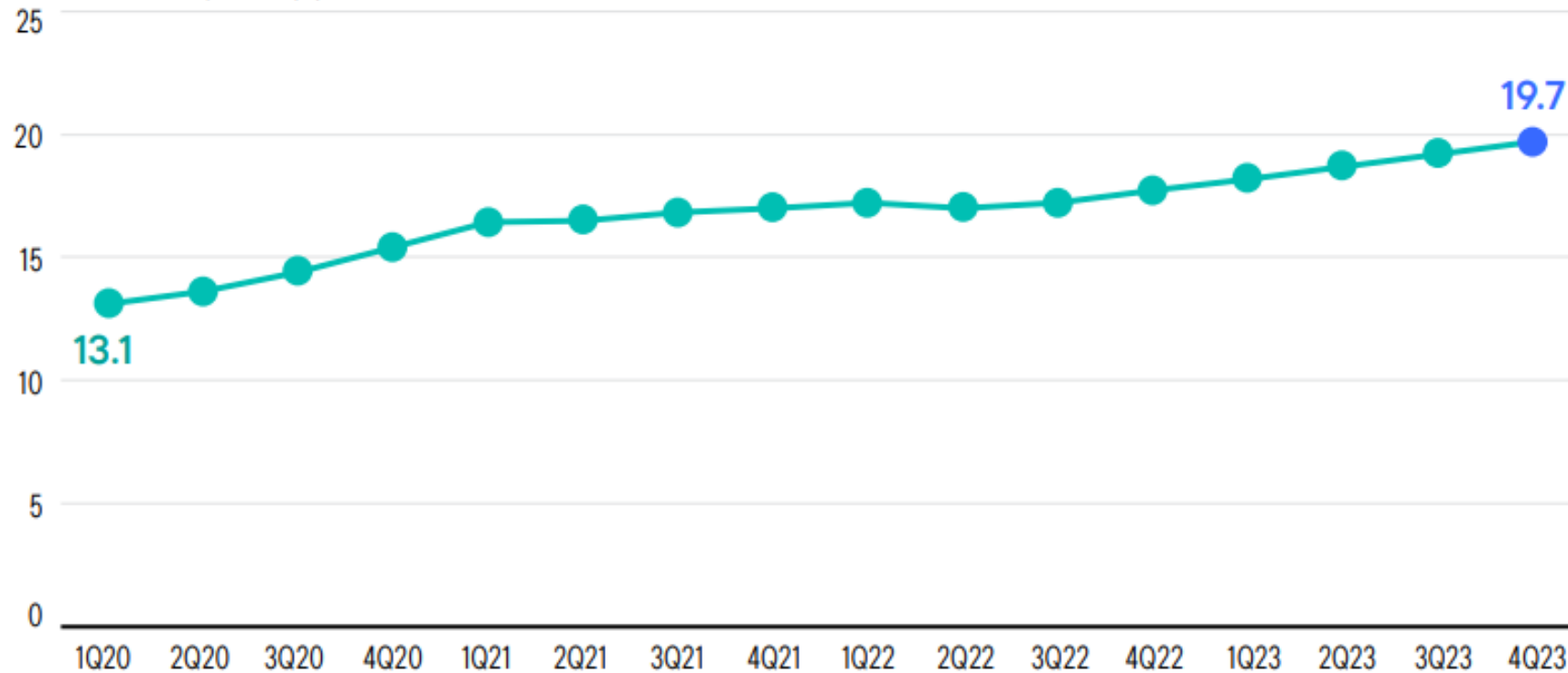
Over the next 12 months, where do you expect credit quality to be across the following CRE property types in your market?





Office Vacancy Rates Rise Post-2020 Lockdowns

US Office Vacancy Rates (%)

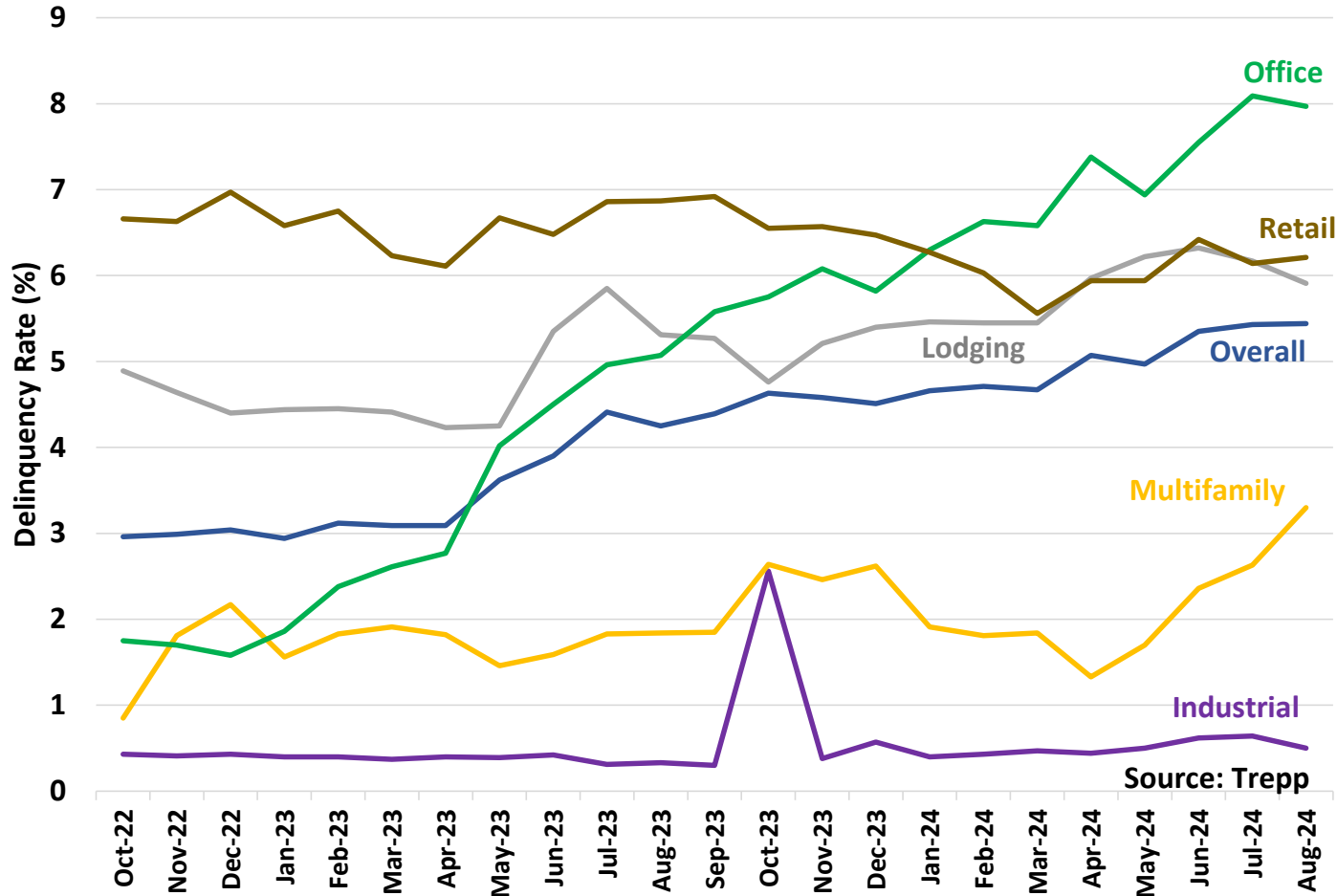


Source: Cushman & Wakefield U.S. National Office MarketBeat Reports, Q1 2019 through Q4 2023.





CMBS Delinquency Rates by Major Property Type



Delinquency Trends



10.34%

Peak Delinquency Rate (July 2012)



5.44%

Overall Delinquency Rate (August 2024)



4.25%

Overall Delinquency Rate (August 2023)



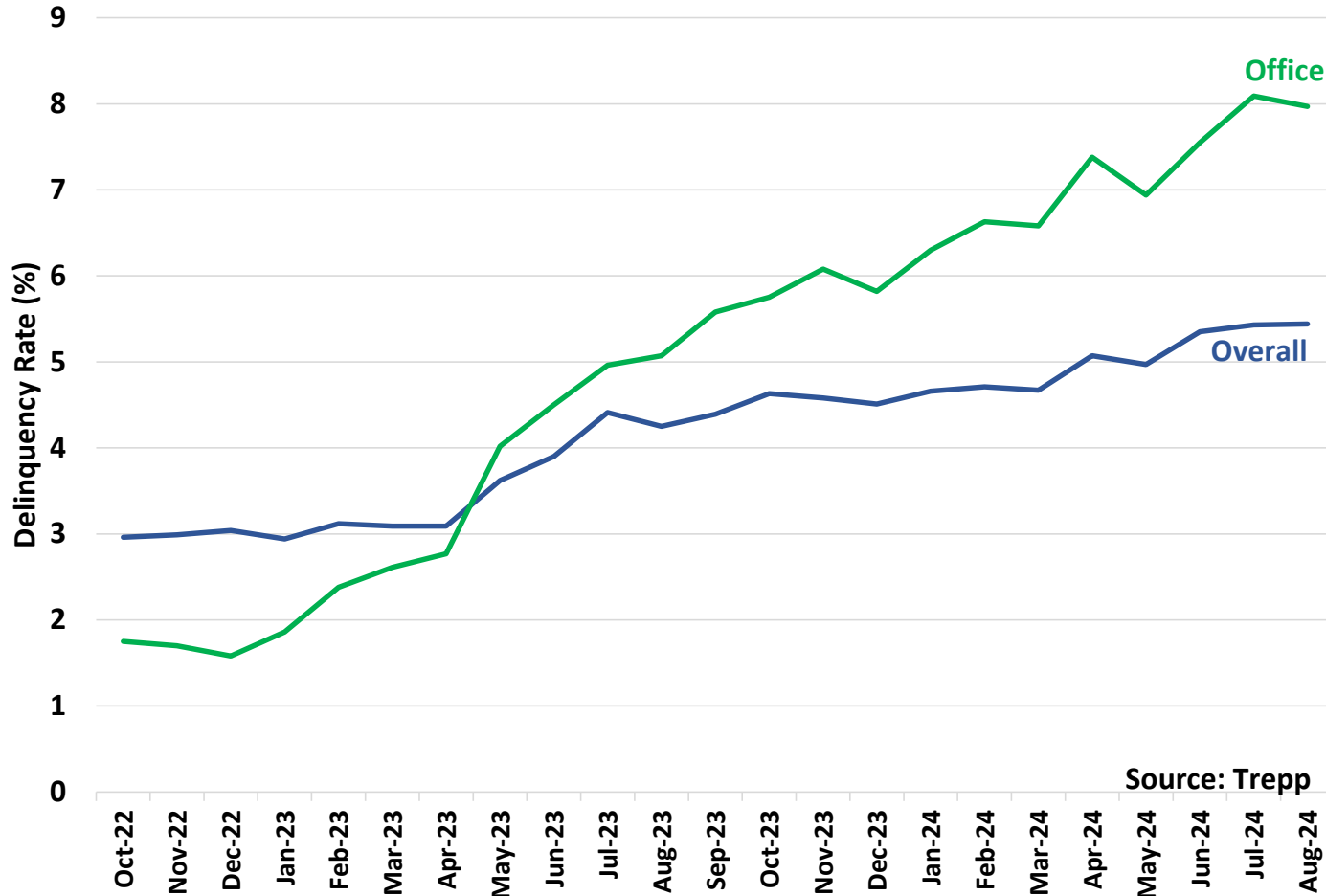
7.97%

Office Delinquency Rate (August 2024)





CMBS Delinquency Rates by Major Property Type



Source: Trepp

Delinquency Trends



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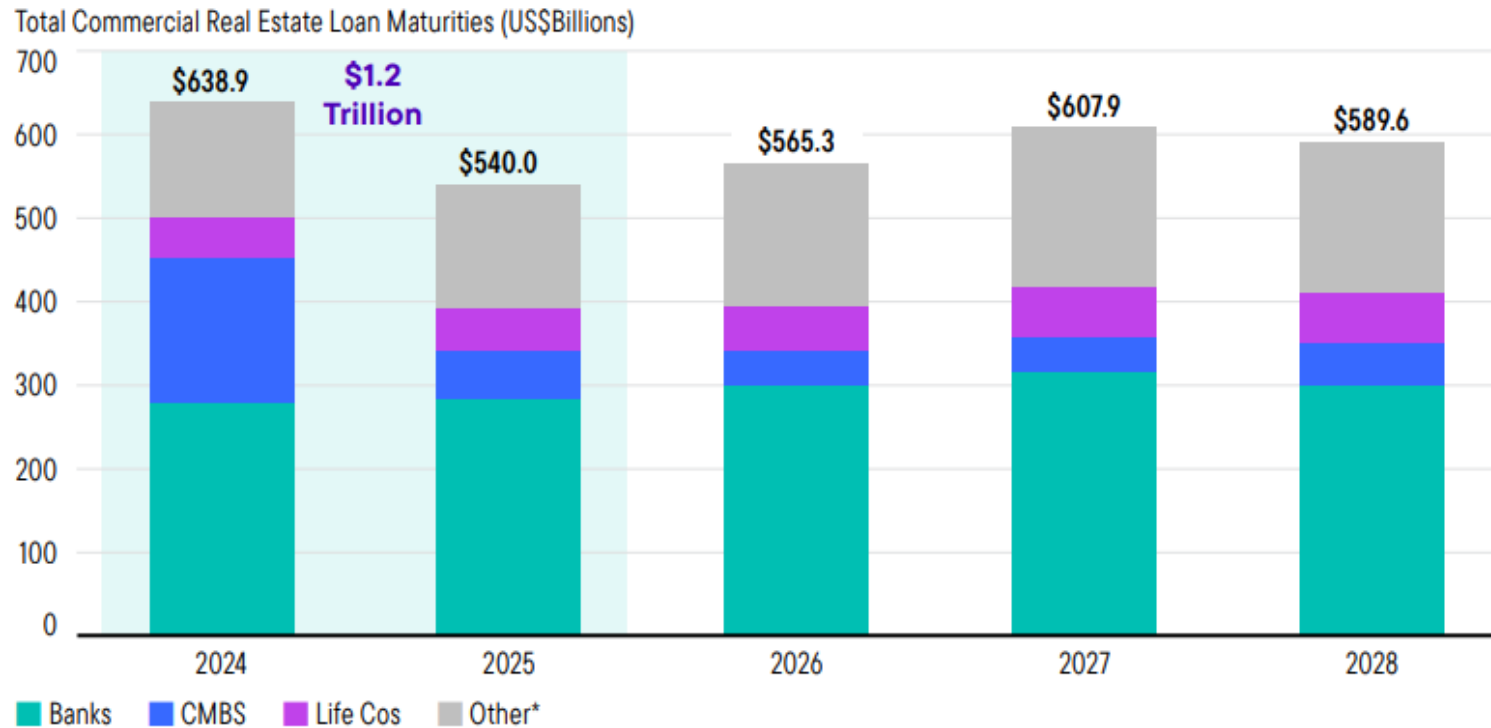
7.97%

Office Delinquency Rate
(August 2024)





~\$600 Billion of CRE Debt to Reset Each Year at Higher Interest Rates

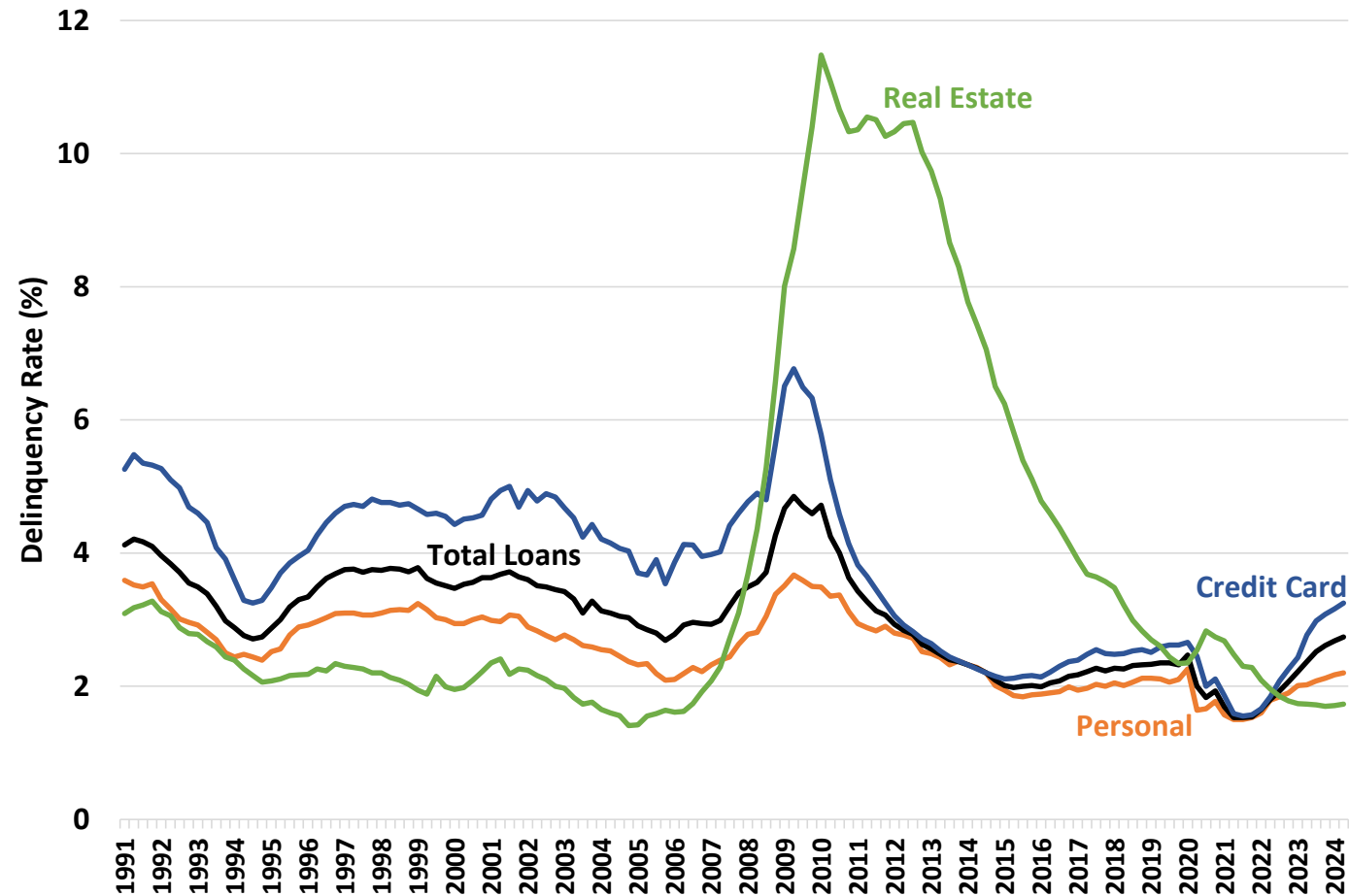


Source: Trepp, Q4 2023. *Other: Primarily comprised of multifamily lending by Fannie Mae and Freddie Mac. This could also include finance companies (private debt funds, REITs, CLOs, etc.), pension funds, government or other sources.





Consumer Loan Delinquency Rates



Source: Federal Reserve Board





Questions?

For more on the 2024 Annual Survey of Community Banks:

<https://www.csbs.org/survey2024>

