



RESEARCH PAPER SESSION 3

The Competitive Edge of Community Banks

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Three excellent papers, three kinds of edge

1

The Economic Payoff of Civic Engagement

Obaid & Taboada

What a bank does in its town:

Does community involvement pay off on the balance sheet?

2

Banking Local: Media Slant and Trust

Berger, Mateen & Romero

When trust moves elsewhere:

Can the local news move where households bank?

3

Smaller Banks, Smarter Lending?

Steiner, Tchisty & Wu

What a bank knows locally:

Who picked up the CRE lending through Covid, and did it pay off?





One theme: Where does local bank advantage come from?

- **Presence** The local bank is *actively* there, and the community knows it
- **Authority** The local bank can *act on* information, without asking a committee elsewhere

WHAT WE ALREADY KNOW

People build lending relationships (Petersen & Rajan 1994)

Local banks are trusted more (Sapienza & Zingales 2012)

Soft info does not travel up a hierarchy (Stein 2002)

WHAT THESE PAPERS ADD

Built deliberately & it shows (deposits, credit quality)

Trust local banks hold when large banks lose it

Local authority matters more when times are uncertain





PAPER 1 · OBAID & TABOADA

The Economic Payoff of Civic Engagement

Question	Does a bank's engagement in its community show up on its balance sheet?
Data	5,809 community-involvement events hand-collected from local news, 1,530 counties, 50 states, 2004–2022, merged with Call Reports
Findings	1. Engaged banks are less likely to suffer a large withdrawal when a nearby bank fails — and again in March 2023. 2. Their charge-offs deteriorate less, especially among small-business lenders 3. They lend more to small businesses in their own markets

My take: a genuinely new measure — the first that captures what a bank does rather than what it is





PAPER 1 · KEY RESULT & MY COMMENTS

Engaged banks hold deposits when confidence is shaken

Setting	Engaged banks, relative to peers
Bank fails in their main county	~5% less likely to see a large withdrawal
March 2023 deposit panic	3.8% less likely — more where failed banks held local deposits
Charge-offs — small-business lenders	~13% lower
Small-business lending (IV estimate)	~25% higher in their own markets

WHAT DO WE LEARN?

1. Old, small, and single-market ≠ engaged — community investment looks more like funding strategy, not overhead
2. A bank's community engagement may say something about how its deposits behave that Call Reports alone cannot
3. If edge is size and tenure, it is lost in consolidation; if it is an activity, it can be carried into a larger bank

Food for thought: If engagement holds deposit quantities, does it also lower their price?





PAPER 2 · BERGER, MATEEN & ROMERO

Banking Local: Media Slant and Erosion of Trust

Question	Can a change in the local news move where households deposit and borrow?
Data	Sinclair's 2012–2017 station acquisitions; counties it was blocked from buying (failed Tribune deal) serve as the control group
Findings	1. Deposit share shifts to local banks, then mortgage applications — demand, not supply 2. Survey confidence falls for banks and big business — not small business, churches, or police 3. Strongest where wages are volatile — where households most expect to need the bank's judgment — at every income level

My take: the counterfactual is chosen by the acquirer and blocked by a regulator — unusually clean design





PAPER 2 · KEY RESULT & MY COMMENTS

Deposits move first, borrowing follows after trust shifts local

Years after the station changes hands	Deposit share, local banks	Loan application share
Year 1	+0.9 pp**	+0.5 pp
Year 2	+1.2 pp**	+1.7 pp**
Year 3	+1.1 pp	+2.3 pp***
Year 4	+1.6 pp**	+2.8 pp***

WHAT DO WE LEARN?

1. Beliefs about distant banks move deposits — a bank can't control the news, but local visibility pays off
2. Households seemingly worse as banks cut deposit rates and raise mortgage rates but gain flexibility
3. The gain went to banks where decisions stay local, not banks within BHCs

Food for thought: Can we measure the cross-subsidy between households that need flexibility and those that do not?





PAPER 3 · STEINER, TCHISTYI & WU

Smaller Banks, Smarter Lending?

- Question** Who kept lending on commercial real estate through Covid, and how did those loans perform?
- Data** Five sources with no common identifier — call reports, property-level loans, leases, apartment and hotel operating data — linked by bank name and property location
- Findings**
1. Community banks grew CRE lending inside local markets, gaining share from large banks
 2. The gain is in purchases needing fresh underwriting (where soft info matters), not refinancings
 3. Lower foreclosure rates, and the buildings behind the loans leased better

My take: an impressive assembly job — tracing loans through to how the buildings actually performed





PAPER 3 · KEY RESULT & MY COMMENTS

They took the credits that needed underwriting

When the previous lender was a large bank...	Chance the new loan came from a community bank
Purchases — underwritten from scratch	higher during Covid
Refinancings — borrower already known	lower during Covid
Local banks also moved into hotels and retail — the worst-looking segments — and still saw fewer foreclosures	

WHAT DO WE LEARN?

1. Uncertainty is when local knowledge and soft information pay off
2. What matters is whether the property sits in the same market as the bank's headquarters, not branch
3. Local banks kept credit flowing to risky and opaque segments that large banks were not underwriting fresh

Food for thought: Do the large banks that kept lending look different from those that stopped?





Back to the theme

Three different ideas; the competitive edge is in local presence & authority

A bank fails down the road

Engaged banks keep their deposits

The evening news changes

Households move to banks they can see

A global pandemic

Local underwriters take the credits that need fresh judgment

Three papers well worth your time — take a look!

