



# The Economic Payoff of Civic Engagement: Evidence from Community Banks

**Khaled Obaid · Alvaro G. Taboada**

Mississippi State University

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## Community banks' edge rests on local ties

- Community banks' edge: local ties and soft information (Berger & Udell 2002)
- That edge is under pressure — consolidation, big-bank and FinTech competition (Gopal and Schnabl, 2022; Jagtiani and Lemieux, 2016)
- Local ties are treated as an endowment (e.g., length of deposit/lending relation). How banks build these ties is understudied

**This paper: Can community banks build local ties through civic engagement?  
Does it pay off?**





# We measure engagement from local news and trace its payoffs on both sides of the balance sheet

## 1. Measure

News-based measure of local civic engagement

5,809 events · 1,530 counties ·  
50 states · 2004–2022

## 2. Bank-level payoffs

Fewer large deposit withdrawals when confidence collapses

Better asset quality where soft information matters most

## 3. Community payoffs

Engaged bank presence in counties associated with:

~25% more small business lending

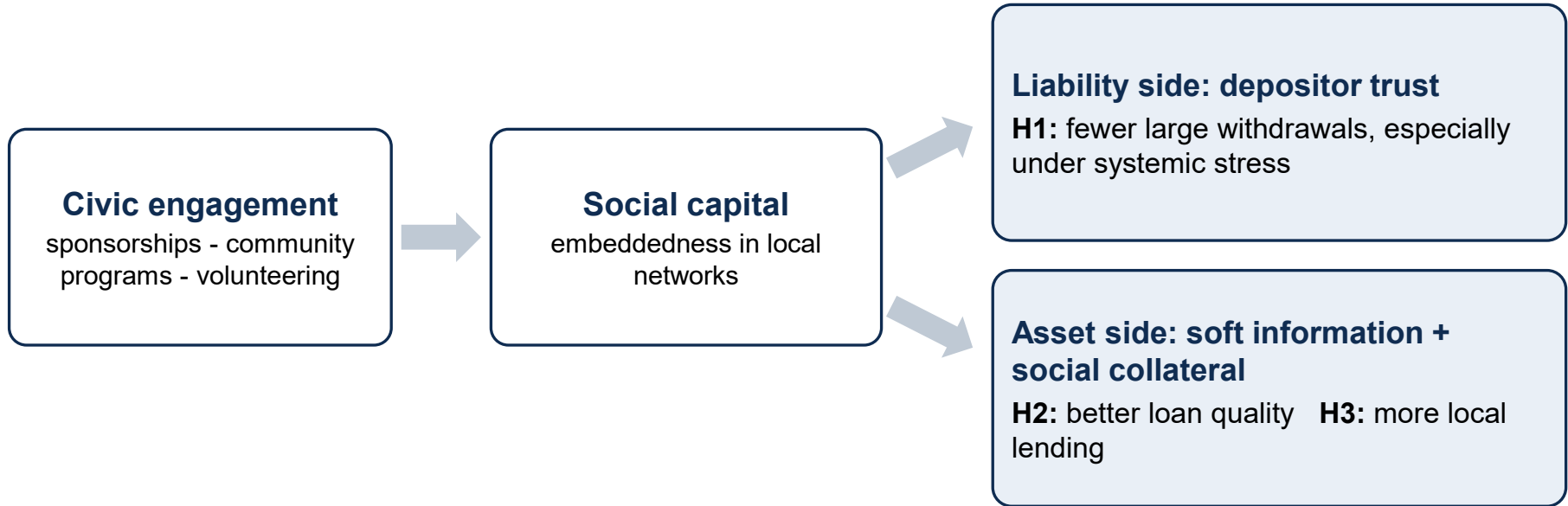
Faster recovery after natural disasters: employment and GDP

**Takeaway: local ties are not an endowment — they are produced, and the production pays off.**





# Engagement builds social capital that protects deposits and improves lending





## A news-based measure of engagement in the community

- Local-news search for every bank-county pair with branches (2004–2022)
- Manual review keeps only active civic participation
- Third-party coverage, not self-reports (Bourdieu, 1986)
- Engaged = event in prior 4 quarters (for stability results) / 3 years (for lending result)

**5,809**

civic events — 1,530 counties, all 50 states

**1,523**

banks; 19% of community banks ever engage

**85%**

of engaged banks are small (< \$2B assets)

**\$153M**

direct bank contributions (\$608M with partners)

Robust to excluding news-desert counties (10% of sample counties).





# Engagement is measured from local news that names the bank

## **“UNC Asheville Athletics to hold PEAK Academy Sportsfest presented by First Bank on Saturday”**

*The event, organized by UNC Asheville Athletics Marketing and student-athlete Jay Testa, will aim to provide nearly 50 underprivileged students from P.E.A.K Academy a fun, activity-filled morning with Bulldog student-athletes from various teams.*

First Bank · Asheville, NC · UNC Asheville Athletics, Oct. 8, 2021 · Amount: **not reported**

## **“Woodforest National Bank Builds Home with Habitat for Humanity”**

*Woodforest National Bank recently completed its second home for Habitat for Humanity of Montgomery County, for a mother and daughter.*

Woodforest National Bank · Willis, TX · The Woodlands Journal, Aug. 8, 2013 · Amount: **not reported**

## **“Plumas Bank donates \$50,000 to Dixie Fire Fund”**

*The fund launched in August and has raised \$80,000 so far. To spur additional donations, Plumas Bank is contributing \$50,000 to the fund, according to a Sept. 30 press release.*

Plumas Bank · Quincy, CA · Northern Nevada Business Weekly, Oct. 15, 2021 · Amount: **\$50,000**

Headlines and excerpts quoted as recorded in our news coding data. Fewer than 10% of articles report a dollar amount; we count the event, not the amount.





# Engaged banks, large deposit withdrawals, and asset quality

## Engaged banks vs. the sample mean

**-13.8%**

below the **mean** rate of large deposit outflows (deposits down more than 5% in a quarter)

**-13.2%**

below **mean** loan-loss provisions

**-8.0%**

below **mean** net charge-offs

- Each figure is the engaged-bank effect as a % of the outcome's **sample mean**
- Engaged = a civic event in the prior 4 quarters
- Local banks ( $\geq 65\%$  of deposits in one county); compared within the same bank and quarter
- All controls included — advertising and localness proxies
- Results strengthen as controls are added, so omitted factors are unlikely to explain them.

Source: Table 3, Panel A.  $N \approx 340,000$ ; \*\*\*  $p < 0.01$ . % = coefficient scaled by the outcome mean.





## When a nearby bank fails, engaged banks keep their deposits

**-5.3 pp**

lower chance of a large deposit outflow after a failure in the bank's main county

**+1.9 pp**

faster quarterly deposit growth over the same window

**≈ 5×**

the normal-times gap — the advantage widens exactly when confidence breaks

- Compared with banks that never engage
- vs. not-yet + never engaged: -4.4 pp and +1.5 pp — same story
- Before vs. after comparison around every local bank failure quarter (2004–2024)
- Engagement decided before the shock; pre-trends flat

Source: Table 4; pre-trends in Table A5. pp = percentage points. \*\* p<0.05, \*\*\* p<0.01.





## Engaged banks lost fewer deposits in the 2023 banking panic

**-3.8 pp**

Lower chance of a large deposit withdrawal than banks that never engage, after SVB and Signature failed

**+1.4 pp**

Extra protection for every 10% of home-county deposits the failed banks held

**-4.4 pp**

Lower chance among the most local banks (80%+ of deposits in one county): the effect is stronger, not weaker

- Engagement was measured at the end of 2022, before the collapse, so banks could not have been preparing for it
- Each bank is compared with itself before and after, with size, profitability, and advertising held constant
- Engaged and other banks tracked each other closely before the crisis

Source: Table 5; pre-trends in Table A6. pp = percentage points.





# Advertising, size, profitability, localness, and media visibility do not explain the results

## Advertising

Insignificant in every test

## Size

Larger banks lost more deposits, not fewer after local failures; no protection in 2023

## Profitability

Protects after local failures but reverses in 2023

## Localness

Deposit concentration, single-state: no protection in either crisis

## Media visibility

Placebo non-civic media coverage shows no buffer

Source: Tables 4–5 (all controls enter interacted with Post); placebo in Table A7.





## Loan quality improves where soft information matters most

- Eight quarters after a bank failure in the bank's main-county, engaged banks' **charge-offs are 0.16 pp lower** (~23% of sample mean), **provisions are 0.07 pp lower** (~19% of sample mean)
- Timing fits the mechanism: deposits react within quarters; screening quality shows up as losses materialize
- The advantage concentrates where screening relies on soft information. Among engaged banks,
  - **High small-business lenders:** charge-offs 12.7% below the sample mean
  - **High-unemployment counties:** significantly better quality where borrowers are hardest to screen

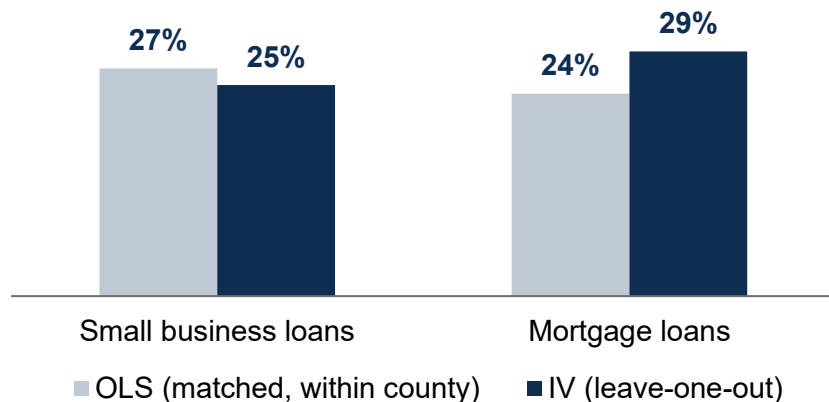
Source: Tables 6–7. Confirmed in the propensity-score-matched -matched sample.





## Engagement raises local lending

Increase in loan originations for engaged banks, %



- Compares engaged and non-engaged banks in the same county and year
- Concern: banks engage where they already lend
- **IV:** bank's engagement in distant, non-adjacent counties — its engagement **policy**, not local conditions

Source: Table 8, Panels A–B.





# Engaged banks lend into disasters — counties recover faster

## Bank level: natural disasters

- Major disasters: damage above 5% of county GDP
- Engaged banks expand small-business lending afterwards (OLS and IV)
- Complements Cortés & Strahan (2017) who show that banks supply capital after disasters; we show local information also matters

## County level: real outcomes

More engaged-bank presence in a county → more small-business and mortgage lending, reaching low-income tracts

After major disasters: higher employment growth, more net job creation, faster GDP growth

Source: Table 8 Panel C; Table 9. Disasters from SHELATUS; damage scaled by county GDP.





## Conclusion

- Through civic engagement, banks can build social capital
- Important during periods of crises – builds trust (lower deposit withdrawals during crises)
- Another mechanism for obtaining soft information (lower charge-offs where soft information matters most)
- Some positive effects on counties where engaged banks operate (more lending; faster recovery from disasters)

