2016 National Survey of Community Banks: Presentation of Results

Michael Stevens and Andrew Meyer

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5 Questions for 5 Bankers

1. What emerging local, regional, or national issues are of most concern to your bank?
2. What are the most time-consuming and burdensome regulations for your banks?
3. How do we remake the compliance examination process so that it is more valuable to bank management?
5 Questions for 5 Bankers

4. What types of competition are you facing from new types of lenders for small business loans?

5. How would you assess your ability to attract and retain employees?
Local, Regional, National Issues

• Steady growth, but a few areas with real estate bubble potential and shortage of construction workers
• Significant concern about agriculture
• A few states are pursuing policies that are causing business to leave the state
• Financial literacy is a significant problem but banks are excited about the programs they have implemented
• Concerns about the national election
Lending and Non-lending Activities from the Survey
Fig. 2: Lending Activities (Housing)

- **1-4 family fixed rate**: Currently offer and will continue to offer (75.6%), currently offer but plan to exit or substantially limit (5.4%), do not offer and do not plan to offer (16.9%), do not offer but plan to offer (1.8%).
- **1-4 family adjustable rate**: Currently offer and will continue to offer (59.5%), currently offer but plan to exit or substantially limit (3.9%), do not offer and do not plan to offer (31.4%), do not offer but plan to offer (4.7%).
- **Home equity loans**: Currently offer and will continue to offer (74.4%), currently offer but plan to exit or substantially limit (4.5%), do not offer and do not plan to offer (17.7%), do not offer but plan to offer (2.9%).
- **Reverse mortgages**: Do not offer but plan to offer (4.8%), do not offer (86.7%), offer (6.5%).
Fig. 2: Lending Activities (Non-housing)

- **Credit cards**: 51.4% currently offer and will continue to offer, 3.2% currently offer but plan to exit or substantially limit, 39.3% do not offer but plan to offer, 5.7% do not offer and do not plan to offer.
- **Automobile loans**: 90.0% currently offer and will continue to offer, 3.8% currently offer but plan to exit or substantially limit, 0.9% do not offer but plan to offer, 5.2% do not offer and do not plan to offer.
- **Construction loans**: 92.3% currently offer and will continue to offer, 2.7% currently offer but plan to exit or substantially limit, 1.1% do not offer but plan to offer, 3.6% do not offer and do not plan to offer.
- **SBA loans**: 68.1% currently offer and will continue to offer, 3.2% currently offer but plan to exit or substantially limit, 21.2% do not offer but plan to offer, 6.8% do not offer and do not plan to offer.
- **Small-dollar unsecured**: 76.3% currently offer and will continue to offer, 5.9% currently offer but plan to exit or substantially limit, 14.9% do not offer but plan to offer, 2.5% do not offer and do not plan to offer.
- **Student loans**: 3.8% currently offer and will continue to offer, 88.5% currently offer but plan to exit or substantially limit, 5.7% do not offer but plan to offer, 0% do not offer and do not plan to offer.
**Fig. 8: Non-lending Activities**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Currently offer and will continue to offer</th>
<th>Currently offer but plan to exit or substantially limit</th>
<th>Do not offer and do not plan to offer</th>
<th>Do not offer but plan to offer</th>
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<tbody>
<tr>
<td>Online loan applications</td>
<td>31.4</td>
<td>38.2</td>
<td>28.7</td>
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<tr>
<td>Payroll cards</td>
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<td>73.7</td>
<td>15.2</td>
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<td>Personal fncl. mgmt. tools</td>
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<td>43.9</td>
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<tr>
<td>Remote deposit</td>
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<td>12.2</td>
<td>16.1</td>
<td></td>
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<tr>
<td>Stored value / prepaid cards</td>
<td>32.1</td>
<td>54.3</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Wealth management</td>
<td>34.2</td>
<td>52.9</td>
<td>11.8</td>
<td></td>
</tr>
</tbody>
</table>
Fig. 8: Non-lending Activities, Continued

- **Cash management**: 60.6% currently offer, 0.9% will continue to offer, 28.0% will exit or substantially limit, 10.2% do not offer and do not plan to offer.
- **Electronic bill payment**: 88.2% currently offer, 1.6% plan to exit or substantially limit, 6.5% do not offer and do not plan to offer.
- **Health Savings Accounts**: 45.0% currently offer, 0% plan to exit or substantially limit, 6.5% do not offer and do not plan to offer.
- **Insurance**: 32.4% currently offer, 1.6% plan to exit or substantially limit, 56.6% do not offer and do not plan to offer.
- **Mobile banking**: 81.0% currently offer, 0.2% do not offer but plan to offer, 4.7% and 13.4% do not offer but plan to offer.
- **Money remittances**: 19.0% currently offer, 2.0% will continue to offer, 70.8% do not offer and do not plan to offer, 7.0% do not offer but plan to offer.
Regulatory Views from the Survey
Fig. 12: What percentages of combined compliance expenses identified in the previous question were attributable to the following regulations (must add to 100%)?

- RESPA, TILA and Regulation Z: 23.2%
- Bank Secrecy Act: 22.0%
- Deposit account compliance: 11.5%
- Qualified Mortgage Rules: 8.7%
- Call Report Requirements: 7.4%
- Ability to Repay Rules: 7.0%
- Community Reinvestment Act: 6.4%
- Non-Call Report Financial Reporting: 5.3%
- Other: 5.1%
- Basel III: 3.4%
Fig. 14: How has the TILA-RESPA Integrated Disclosure (TRID) Rule affected you the most?

- Slower pace of business: 24.2
- Increased regulatory liability: 23.5
- Delayed closings: 19.9
- Increased staffing costs: 10.1
- Vendors not ready for the change: 8.9
- Other: 8.0
- Cost of technology: 4.9
- Difficulties selling loans: 0.5
Fig. 15: What single regulation, law or reporting requirement would you change if you could?

- RESPA, TILA and Regulation Z: 46.9
- Bank Secrecy Act: 13.9
- Qualified Mortgage Rules: 12.1
- Other: 7.0
- Community Reinvestment Act: 6.5
- Basel III: 4.5
- Ability to Repay Rules: 4.0
- Call Report Requirements: 3.4
- Deposit account compliance: 1.8
- Non-Call Report Financial Reporting: 0.0
Regulations: Commentary

- Mortgage rules slow the process
- Reluctant to make mortgage loans; accommodation for customers who might have difficulty getting a conforming loan elsewhere
- Consumers are not benefiting because they are not reading the disclosures
- Customers mistake regulations for bank protocol, mistrust or suspicion
- Greater reliance on 3rd party providers
  - Not always ready to implement required changes
- Cost and fair lending risk leading to product elimination
Regulations: Recommendations

• More instructive, less punitive
• Increase frequency
• Community banks need to start collaborating to spread the cost
• Need more exemptions for smaller banks
Small Business Lending
Fig. 3: For your internal purposes, how do you define a small business loan?

- Total revenue of borrower: 45.3%
- Size of the loan: 38.5%
- We define all of our commercial loans as "small business" loans: 35.9%
- Number of employees of borrower: 11.2%
- Other: 2.7%
Fig. 4: Which of the following factors do you consider when making a small business loan?

- Firms’ financial statements: 95.7%
- Previous relationship with the firm: 82.1%
- Business owners’ personal credit scores: 77.8%
- Other: 18.3%
- Small business credit scores: 14.5%
Fig. 5: Of the small business loans that you made in 2015, approximately what percentage was to customers with a previous relationship such as a deposit account or previous loan?

- Not applicable - No small business loans: 1.4%
- Greater than 0 to 10 percent: 2.3%
- Greater than 10 to 20 percent: 3.9%
- Greater than 20 to 30 percent: 3.9%
- Greater than 30 to 40 percent: 3.4%
- Greater than 40 to 50 percent: 5.7%
- Greater than 50 to 60 percent: 16.6%
- Greater than 60 to 70 percent: 18.6%
- Greater than 70 to 80 percent: 30.2%
- Greater than 80 to 90 percent: 0.0%
- Greater than 90 to 100 percent: 14.1%
Fig. 6: On average, how often do you meet with, provide business advice to, or monitor small business borrowers if their loans are in good standing?

- Weekly or more frequently: 2.71
- Monthly: 7.96
- Quarterly: 37.43
- Annually or less frequently: 51.9
Small Business Lending Competition

- Market based lenders
  - Winning the speed component
  - Small businesses going to online lenders are not receiving proper financial guidance
  - Need to ensure they are regulated in the same manner as a bank
  - Despite the pressure, some community banks believe they have the upper hand due to long-term established relationships
- Credit unions
- Larger banks pursuing smaller credits

*Relaxing credit standards and rates in ways that community banks cannot.*
Fig. 16: Identify the single greatest source of **current** competitive pressure for the following products or services: **Small business loans**

- Community Banks (Under $10B): 64.6
- Regional Banks ($10B-$50B): 16.4
- Credit Unions: 7.8
- Large Banks (Over $50B): 4.6
- Other Non-depository Institutions: 3.2
- Do Not Offer: 1.7
- Farm Credit System: 1.7
Fig. 17: Identify the single greatest source of future competitive pressure for the following products or services: Small business loans

- Community Banks (Under $10B): 50.2%
- Regional Banks ($10B-$50B): 16.5%
- Credit Unions: 14.0%
- Other Non-depository Institutions: 9.5%
- Large Banks (Over $50B): 6.4%
- Farm Credit System: 1.9%
- Do Not Offer: 1.5%

Do Not Offer
Human Capital: Current State

• Very difficult to hire in rural areas
• Challenging to get specialized skills like IT and compliance
• Commercial lenders are in high demand
• Lack of financial literacy is creating a problem in finding qualified employees
• Board member succession has been difficult
• Takes 5 years to train a new banker, then they leave
Human Capital: Solutions

• A strong internship program is the best way to identify new employees
• Hire college students part-time
• Hire high school students as summer interns builds a bond in the community
• More banks looking at shared services
• No shortage of training opportunities
• Hire good people from regional banks
• Sabbatical program (6 weeks, every 5 years)
• Customize work schedules
Fig. 29: If so, what do you think was the most likely basis for the bidder to have made the acquisition offer? (Choose all that apply.)

![Bar chart showing the following options and their percentages:]
- Market entry: 51.9%
- Expand within existing market: 38.9%
- Other: 25.9%
- Capture abilities of bank managers: 16.7%
- Real or perceived succession issues: 14.8%
- Exploit underutilized potential: 9.3%
Fig. 31: Your motivation to make the offer was based on: (Choose all that apply.)

- Expand within existing market: 55.5%
- Market entry: 44.6%
- Exploit underutilized potential: 27.3%
- Other: 20.0%
- Real or perceived succession issues: 13.6%
- Capture abilities of bank managers: 8.2%
Closing Observations

• Online lenders a more significant presence
• Mortgage lending frustrations continued while some markets may be over-heating
• Human capital issues require thinking differently about hiring, training, work hours, etc.
Questions?