Bank Size, Compliance Costs and Compliance Performance in Community Banking

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Our Goal

• Use a unique data set from the 2015 CSBS survey to describe and measure compliance costs.

• Make inferences about relative regulatory burden by comparing compliance costs at small, mid-sized and large community banks.
Our Contribution

• Quantify cumulative compliance costs using a large sample of banks—costs that are not captured on call reports.

• Measure inputs (compliance costs) and link them to outputs (management and consumer compliance ratings).
Our Sample

• 470 banks with assets of less than $10 billion
• Amounts ($) spent in 2014:
  – Legal (6.0%)
  – Consulting and advising (6.4%)
  – Accounting and auditing (9.7%)
  – Data processing (12.6%)
  – Personnel (65.2%)
Mean Compliance Expenses/Noninterest Expenses (2014)
CSBS Surveyed Banks

Percent
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0

<$100M  $100-$250M  $250-$500M  $500M-$1B  $1-$10B

- Accounting
- Legal
- Consulting
- Data
- Personnel
Compliance Costs vs. Performance

• Two proxies for performance:
  – “M” in CAMELS rating
  – Consumer regulation compliance rating
## Compliance Expenses and Management Rating (2014)

<table>
<thead>
<tr>
<th></th>
<th>&lt;$100M</th>
<th>$100-$250M</th>
<th>$250-$500M</th>
<th>$500M-$1B</th>
<th>$1-$10B</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. Highest-rated Banks</td>
<td>22</td>
<td>44</td>
<td>42</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Compliance/Nonint Exp (%)</td>
<td>6.80%</td>
<td>5.90%</td>
<td>5.10%</td>
<td>4.50%</td>
<td>3.00%</td>
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<tr>
<td>No. Other Banks</td>
<td>91</td>
<td>110</td>
<td>79</td>
<td>30</td>
<td>20</td>
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<tr>
<td>Compliance/Nonint Exp (%)</td>
<td>9.10%</td>
<td>5.90%</td>
<td>5.40%</td>
<td>4.00%</td>
<td>2.70%</td>
</tr>
<tr>
<td>Ratio</td>
<td>24%</td>
<td>40%</td>
<td>53%</td>
<td>50%</td>
<td>80%</td>
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</table>
## Compliance Expenses and Consumer Compliance Rating (2014)

<table>
<thead>
<tr>
<th></th>
<th>&lt;$100M</th>
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<th>$250-$500M</th>
<th>$500M-$1B</th>
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</thead>
<tbody>
<tr>
<td>No. Highest-rated Banks</td>
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<td>40</td>
<td>15</td>
<td>10</td>
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<tr>
<td>Compliance/Nonint Exp (%)</td>
<td>7.40%</td>
<td>6.10%</td>
<td>6.10%</td>
<td>3.40%</td>
<td>3.20%</td>
</tr>
<tr>
<td>No. Other Banks</td>
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<td>100</td>
<td>81</td>
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<td>Compliance/Nonint Exp (%)</td>
<td>9.00%</td>
<td>5.70%</td>
<td>4.80%</td>
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<td>2.70%</td>
</tr>
<tr>
<td>Ratio</td>
<td>22%</td>
<td>48%</td>
<td>48%</td>
<td>50%</td>
<td>44%</td>
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</tbody>
</table>
Key Findings

• Compliance costs increase, but at a decreasing rate, with bank size.

• Results are consistent with existence of economies of scale in satisfying regulatory requirements.

• Higher compliance costs not necessarily and uniformly associated with better performance.
Future Directions

• Use 2016 CSBS survey data to compare costs across time.
• Consider adding additional variables to the survey to further disaggregate costs or answer new questions.
• Suggestions?