Chart Book
from the
2017 National Survey of
Community Banks
Overview of the 2017 National Survey

• The survey has been conducted annually since 2014
• The 2017 survey was administered by 37 state banking commissioners from April to July 2017
• A total of 611 community bankers participated in the 2017 survey
• Thirty (30) states conducted “5 Questions for 5 Bankers” interviews to supplement the survey data
Community bankers use a wide variety of criteria to define a “small business” loan.

We define all of our commercial loans as “small business” loans

- Size of the loan: 30.5
- Total revenue of borrower: 27.1
- Number of employees of borrower: 2.9
- Other: 1.9


Community banks view financial statements as highly important in underwriting a small business loan.

- **Very important**: 72.9%
- **Important**: 24.3%
- **Moderately important**: 2.1%
- **Slightly important**: 0.4%
- **Not important**: 0.4%
Business assets are an important factor in small business lending, regardless of whether it is collateral.

- Very important: 36.1%
- Important: 49.3%
- Moderately important: 12.5%
- Slightly important: 1.6%
- Not important: 0.5%
Business credit scores have not gained much of a foothold in small business lending.
Business owners’ personal credit scores are much more important than business credit scores.

- Very important: 34.8
- Important: 49.7
- Moderately important: 8.5
- Slightly important: 2.3
- Not important: 4.7
General business conditions play a large role in small business lending.

- Very important: 21.1
- Important: 53.4
- Moderately important: 20.6
- Slightly important: 4.2
- Not important: 0.7
A large majority of small business customers had a banking relationship prior to a new loan.

- Greater than 80 to 100 percent: 28.7
- Greater than 60 to 80 percent: 38.6
- Greater than 40 to 60 percent: 20.7
- Greater than 20 to 40 percent: 7.8
- Greater than 0 to 20 percent: 3.7
- Zero: 0.5
Banks attach great importance to a potential future relationship with small business customers.

- **Very important**: 27.7
- **Important**: 48.7
- **Moderately important**: 18.2
- **Slightly important**: 4.3
- **Not important**: 1.0
A prior deposit relationship with small business customers is important but not a deal-breaker.

- Very important: 12.0
- Important: 36.7
- Moderately important: 34.3
- Slightly important: 13.0
- Not important: 4.0
A prior lending relationship is somewhat more important than a prior deposit relationship.
Nearly all community bankers view business collateral as highly important for small business loans.
Small business owners’ personal collateral is important but less so than business collateral.

- Very important: 19.9%
- Important: 44.5%
- Moderately important: 27.2%
- Slightly important: 7.3%
- Not important: 1.0%
Small business loans are predominantly backed by business collateral.

- Always: 30.8
- Usually: 64.2
- About half the time: 4.7
- Rarely: 0.2
- Never: 0.2
Small business owners’ personal collateral is required much less frequently than business collateral.

- Always: 5.6
- Usually: 34.3
- About half the time: 37.3
- Rarely: 21.8
- Never: 0.9
Community banks are requiring guarantees on small business loans about one-fourth of the time.
A majority of banks rely on the Small Business Administration but their volume is not high.
The provision of deposit services to small business borrowers is extremely common.

- **Always**: 45.7%
- **Usually**: 49.0%
- **About half the time**: 3.8%
- **Rarely**: 0.4%
- **Never**: 1.1%
The provision of long-term strategy advice to small business borrowers is relatively uncommon.
Banks engage in a wide variety of cash management strategies to small business borrowers.

Always: 14.0%
Usually: 23.7%
About half the time: 21.4%
Rarely: 22.5%
Never: 18.4%
Connecting small business borrowers to other customers or suppliers is relatively uncommon.

- Always: 1.8%
- Usually: 5.6%
- About half the time: 15.7%
- Rarely: 46.8%
- Never: 30.2%
Providing product development advice to small business borrowers is relatively uncommon.

- Always: 0.7
- Usually: 5.8
- About half the time: 11.0
- Rarely: 46.0
- Never: 36.5
Providing succession planning advice to small business borrowers is relatively uncommon.
Providing operations advice to small business borrowers is relatively uncommon.
Providing wealth management advice to small business borrowers is relatively uncommon.
Providing other general management advice to small business borrowers is a mixed bag.
Community banks provide lots of housing loans, but are rather averse to reverse mortgages.

- **1-4 family fixed rate mortgages**
  - Currently offer and will continue to offer: 80.2%
  - Currently offer but plan to exit or substantially limit: 2.9%
  - Do not offer and do not plan to offer in the future: 2.1%
  - Do not offer but plan to offer: 14.9%

- **Home equity loans**
  - Currently offer and will continue to offer: 77.5%
  - Currently offer but plan to exit or substantially limit: 1.5%
  - Do not offer and do not plan to offer in the future: 18.6%
  - Do not offer but plan to offer: 2.4%

- **1-4 family adjustable rate mortgages**
  - Currently offer and will continue to offer: 62.5%
  - Currently offer but plan to exit or substantially limit: 2.1%
  - Do not offer and do not plan to offer in the future: 31.4%
  - Do not offer but plan to offer: 4.1%

- **Reverse mortgages**
  - Currently offer and will continue to offer: 5.0%
  - Currently offer but plan to exit or substantially limit: 92.8%
  - Do not offer and do not plan to offer in the future: 1.4%
Banks offer a wide variety of non-housing loans with the exception of student loans.

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Currently Offered</th>
<th>Will Continue To Offer</th>
<th>Currently Offered 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>
</tr>
</thead>
<tbody>
<tr>
<td>Construction loans</td>
<td>94.0%</td>
<td>3.4%</td>
<td>1.5%</td>
<td>0.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Small-dollar unsecured loans</td>
<td>78.3%</td>
<td>3.2%</td>
<td>16.6%</td>
<td>0.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Automobile loans</td>
<td>92.0%</td>
<td>0.7%</td>
<td>7.2%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>59.7%</td>
<td>1.7%</td>
<td>24.1%</td>
<td>3.9%</td>
<td>4.4%</td>
</tr>
<tr>
<td>SBA loans</td>
<td>69.8%</td>
<td>0.3%</td>
<td>24.1%</td>
<td>3.9%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Student loans</td>
<td>92.0%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>2.2%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>
Explicit staffing costs are only the fourth biggest effect of the TILA-RESPA Integrated Disclosure (TRID) rule.

- Increased regulatory liability: 23.3
- Delayed closings: 22.3
- Slower pace of business: 21.0
- Increased staffing costs: 15.3
- Other: 8.8
- Cost of technology: 5.2
- Vendors not ready for the change: 3.8
- Difficulties selling on secondary market: 0.4
Technology-related products are highly important to community banks.

- **Mobile banking**: 86.9% currently offer, 0.7% will continue to offer, 5.6% currently offer but plan to exit or substantially limit, 0.0% do not offer but plan to offer.
- **Online loan applications**: 33.1% currently offer, 41.0% currently offer but plan to exit or substantially limit, 13.0% do not offer but plan to offer, 23.7% do not offer and do not plan to offer in the future.
- **Remote deposit capture**: 76.5% currently offer, 0.2% currently offer but plan to exit or substantially limit, 13.0% do not offer but plan to offer, 10.4% do not offer and do not plan to offer in the future.
- **Cash management services**: 66.7% currently offer, 0.2% currently offer but plan to exit or substantially limit, 27.7% do not offer but plan to offer, 5.5% do not offer and do not plan to offer in the future.
- **Health Savings Accounts (HSAs)**: 51.0% currently offer, 0.9% currently offer but plan to exit or substantially limit, 45.6% do not offer but plan to offer, 2.6% do not offer and do not plan to offer in the future.
- **Electronic bill presentment or payment**: 87.9% currently offer, 0.0% currently offer but plan to exit or substantially limit, 8.9% do not offer but plan to offer, 3.1% do not offer and do not plan to offer in the future.
Other lines of business remain much less popular.

<table>
<thead>
<tr>
<th>Service</th>
<th>Currently Offer</th>
<th>Currently Offer but Plan to Exit or Substantially Limit</th>
<th>Currently Offer and Will Continue to Offer</th>
<th>Do Not Offer but Plan to Offer</th>
<th>Do Not Offer and Do Not Plan to Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money remittance services</td>
<td>21.8%</td>
<td>0.0%</td>
<td>75.8%</td>
<td>2.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Stored value / prepaid cards</td>
<td>31.1%</td>
<td>0.9%</td>
<td>61.8%</td>
<td>6.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Personal financial management tools</td>
<td>39.1%</td>
<td>0.5%</td>
<td>49.3%</td>
<td>9.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Wealth management services</td>
<td>38.6%</td>
<td>0.3%</td>
<td>57.7%</td>
<td>3.2%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Insurance (life, accident, health)</td>
<td>36.4%</td>
<td>0.3%</td>
<td>60.6%</td>
<td>2.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Payroll cards</td>
<td>11.8%</td>
<td>0.3%</td>
<td>82.8%</td>
<td>4.8%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
BSA and TILA-RESPA account for almost half of bankers’ estimated compliance expense.

- Bank Secrecy Act: 22.3%
- RESPA, TILA and Regulation Z: 21.2%
- Deposit Account Compliance/Overdraft Rules: 12.0%
- Qualified Mortgage Rules: 8.0%
- Call Report Financial Reporting: 7.7%
- Community Reinvestment Act: 7.2%
- Ability to Repay Rules: 6.7%
- Non-Call Report Financial Reporting: 5.5%
- Other: 4.4%
- Basel III: 4.4%
Other community banks are by far the biggest source of current competition for small business loans.

- Small Community Banks (<$1B): 56.8%
- Mid-size community banks ($1-10B): 26.4%
- Regional Banks ($10-50B): 8.2%
- Large Banks (>$50B): 3.5%
- Credit Unions: 3.2%
- Fintech Firms: 0.8%
- Farm Credit System: 0.7%
- Other Non-depository Institutions: 0.5%
Credit unions and fintech firms are expected to grow as a source of competition for future small business loans.

- Small Community Banks (<$1B): 43.3
- Mid-size Community Banks ($1-10B): 25.5
- Credit Unions: 10.1
- Regional Banks ($10-50B): 9.1
- Fintech Firms: 6.9
- Large Banks (>50B): 3.1
- Other Non-depository Institutions: 1.7
- Farm Credit System: 0.3
Lowering interest rates on small business loans in response to competition from other lenders was relatively rare.

- Always: 1.1%
- Usually: 18.5%
- About half the time: 41.8%
- Rarely: 36.4%
- Never: 2.3%
Lowering fees on small business loans in response to competition from other lenders was even more rare.

- Always: 0.9
- Usually: 14.7
- About half the time: 30.8
- Rarely: 46.0
- Never: 7.7
Reducing collateral requirements on small business loans in response to competition from other lenders was extremely rare.
Extending the maturity of small business loans in response to competition from other lenders was also rare.
Community bankers consider other community banks to be the greatest source of competition for commercial real estate loans, reflecting a clear market niche.

- Small Community Banks (<$1B): 41.6%
- Mid-size Community Banks ($1-10B): 36.6%
- Regional Banks ($10-50B): 14.1%
- Large Banks (>50B): 4.4%
- Credit Unions: 3.2%
- Farm Credit System: 0.2%
- Other Non-depository Institutions: 0.0%
- Fintech Firms: 0.0%
More than two-thirds of surveyed bankers believe that CRE lending will be dominated by community banks in the future.
Other non-depository institutions are a close second as a current source of competition for mortgages.
“Other non-depository institutions” are expected to overtake community banks as a competitor for mortgages in the future.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Non-depository Institutions</td>
<td>23.2</td>
</tr>
<tr>
<td>Small Community Banks (&lt;$1B)</td>
<td>20.2</td>
</tr>
<tr>
<td>Mid-size Community Banks ($1-10B)</td>
<td>14.4</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>12.4</td>
</tr>
<tr>
<td>Large Banks (&gt;50B)</td>
<td>11.7</td>
</tr>
<tr>
<td>Fintech Firms</td>
<td>11.5</td>
</tr>
<tr>
<td>Regional Banks ($10-50B)</td>
<td>6.3</td>
</tr>
<tr>
<td>Farm Credit System</td>
<td>0.2</td>
</tr>
</tbody>
</table>
Community banks see the Farm Credit System as the dominant competitor for agricultural loans.
Community banks see the Farm Credit System expanding its dominance for agricultural loans in the future.
Community bankers’ worries about credit union competition are most focused on consumer loans.

- Credit Unions: 45.1
- Small Community Banks (<$1B): 26.1
- Other Non-depository Institutions: 9.9
- Mid-size Community Banks ($1-10B): 6.5
- Large Banks (>50B): 6.3
- Regional Banks ($10-50B): 3.9
- Fintech Firms: 2.1
- Farm Credit System: 0.2
Community banks see fintech firms rapidly becoming a source of consumer loan competition in the future.

- Credit Unions: 43.6%
- Small Community Banks (<$1B): 19.8%
- Fintech Firms: 14.4%
- Other Non-depository Institutions: 8.2%
- Mid-size Community Banks ($1-10B): 5.6%
- Large Banks (>50B): 4.7%
- Regional Banks ($10-50B): 3.7%
- Farm Credit System: 0.0%
Credit unions are currently a distant second to small community banks as a source of competition for deposits.
Community bankers expect deposit competition from credit unions to grow in the future.

- Small Community Banks (<$1B): 30.6%
- Credit Unions: 24.2%
- Mid-size Community Banks ($1-10B): 17.2%
- Large Banks (>=$50B): 11.7%
- Regional Banks ($10-50B): 7.9%
- Fintech Firms: 5.1%
- Other Non-depository Institutions: 3.4%
- Farm Credit System: 0.0%
Because of their technological advantages, community banks see large banks as their greatest source of competition for payment services.

- Large Banks (>50B): 26.7%
- Small Community Banks (<1B): 21.2%
- Regional Banks (10-50B): 16.4%
- Mid-size Community Banks (1-10B): 15.8%
- Fintech Firms: 9.2%
- Other Non-depository Institutions: 8.4%
- Credit Unions: 2.3%
- Farm Credit System: 0.0%
Fintech firms are expected to surpass large banks as community banks’ greatest source of payment-service competition in the future.
Community banks receive far fewer acquisition offers than they make.

Received an acquisition offer in the last 12 months?

- Yes: 11.3%
- No: 88.7%

Made an acquisition offer in the last 12 months?

- Yes: 18.6%
- No: 81.4%
Community banks view achieving economies of scale as a highly important reason for making an acquisition bid.
Community banks view achieving economies of scale as an important reason for accepting an acquisition offer.

- Very important: 33.3%
- Important: 36.7%
- Moderately important: 16.7%
- Slightly important: 8.3%
- Not important: 5.0%
Community banks view regulatory costs as an important reason for considering an acquisition offer.
Succession issues, while important for some banks, are not a driving force in accepting acquisition offers.
Community banks do not generally view succession planning as a factor when making an acquisition bid.

- Very important: 14.4%
- Important: 17.5%
- Moderately important: 7.2%
- Slightly important: 13.4%
- Not important: 47.4%
Entry into a new market is a highly important reason for making an acquisition bid.
Community bankers view expansion within a current market as important when making an acquisition.
Community bankers see the opportunity to exploit under-utilized potential as an important reason to try and acquire another bank.
Acquiring talent is not a major driver of a community bank’s decision to try and acquire another bank.