2019 National Survey of Community Banks

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The views expressed are not necessarily those of the Federal Reserve System.
The cost of funds has the biggest perceived influence on profitability. Regulatory cost is way down the list.

**Figure 4:** Which of the following is most likely to have the biggest influence on profitability over the next 12 months?

- Loan rates: 11.4
- Operating costs: 13.4
- Loan demand: 32.0
- Regulatory costs: 4.0
- Cost of funds: 35.4
- Other: 3.8
On balance, bankers consider core deposit growth to be as important as loan growth.

Figure 6: How often is core deposit growth currently prioritized over loan growth?

- Always: 8.9%
- Usually: 18.8%
- About half the time: 44.6%
- Rarely: 23.9%
- Never: 3.8%
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On a related note, liquidity risk is a major concern . . .

![Figure 7: How important is liquidity risk?](image)

- Very important: 23.9
- Important: 33.9
- Moderately important: 25.1
- Slightly important: 11.8
- Not important: 5.4
On a related note, liquidity risk is a major concern . . .

Figure 7: How important is liquidity risk?

- Very important: 23.9
- Important: 33.9
- Moderately important: 25.1
- Slightly important: 11.8
- Not important: 5.4
and bankers are deeply concerned about competitors poaching their core deposits.

Figure 8: How important is market competition as an impediment to attracting and retaining core deposits?

- Very important: 54.0%
- Important: 37.7%
- Moderately important: 6.3%
- Slightly important: 1.8%
- Not important: 0.2%
... and bankers are deeply concerned about competitors poaching their core deposits.

Figure 8: How important is market competition as an impediment to attracting and retaining core deposits?

- Very important: 54.0
- Important: 37.7
- Moderately important: 6.3
- Slightly important: 1.8
- Not important: 0.2
Most of the competition for checking accounts is from local sources . . .

Figure 9: What is your greatest source of competition for transaction deposits?

- Institutions with a headquarters in our market: 42.6%
- Institutions with branches or satellite offices, but no headquarters, in our market: 53.5%
- Institutions with neither a headquarters nor any branches or satellite offices in our market: 3.9%
- Does not apply: 1.2%
... but a higher percentage of **non-transaction** deposit competition comes from a distance.

**Figure 10: What is your greatest source of competition for non-transaction deposits?**

- Institutions with a headquarters in our market: 37.0%
- Institutions with branches or satellite offices, but no headquarters, in our market: 52.9%
- Institutions with neither a headquarters nor any branches or satellite offices in our market: 10.0%
- Does not apply: 3.2%
Funding Perspectives

Mixed perspectives but...

- acknowledgment that difficulty attracting and retaining core deposits is a trend that is expected to continue; and
- overall, more reliance on FHLB advances, brokered, and reciprocal deposits.
After dropping 13% in 2017, compliance costs edged upward 4% in 2018.

Figure 71: Implied Amounts of Regulatory Costs for all State-Chartered Community Banks and Thrifts ($billions)
More bankers are pessimistic than optimistic about future regulatory burden, but a majority think it will remain stable.

Figure 72: How do you expect the regulatory burden on your bank to change over the next 12 months?

- It will get heavier: 42.8%
- It will be the same: 50.8%
- It will get lighter: 5.0%
- Do not know: 1.4%
Thoughts on the Economic Growth, Regulatory Relief and Consumer Protection Act’s (S.2155) Impact

• “Neutral about the benefits”

• “Provides minimal relief”

• “Misses the mark as far as creating measurable change”

• “Step in the right direction but it should have, and could have, done more”

• “Helps larger banks more than smaller banks”
Bankers continue to make progress toward the implementation of CECL . . .

Figure 29: Which of the following most closely describes the current status of your efforts for transitioning to the Current Expected Credit Loss (CECL) methodology?

- We have not started: 3.0
- We are in discussion and planning phase: 23.8
- We are in the data collection and analysis phase: 40.4
- We have selected our approach and are testing it: 25.6
- We can reasonably estimate financial impact: 7.2
... but a many of them think that a larger staff will be necessary ...
... and a similar number think that they’ll need more data.

Figure 31: Which statement best describes your data needs regarding the implementation of CECL?

- My bank has adequate internal data: 59.7%
- My bank will need to acquire data externally: 22.4%
- Do not know: 17.9%
Technology Words of Wisdom

• Improve secure transfer of documents

• More off-site ability is a “double-edged sword”

• Use technology and data to better risk-focus examinations

• Greater transparency and faster notifications when breaches occur
Cyber Risk Is Significant But...

- “Leading edge, not bleeding edge”
- “Fast adopters of technology, not necessarily innovators”
- “Second phase adopters”
- “Slow follower strategy”
Almost all bankers think that cybersecurity risk is either important or very important.

Figure 75: How important is cybersecurity risk?

- Very important: 70.5%
- Important: 25.7%
- Moderately important: 3.2%
- Slightly important: 0.4%
- Not important: 0.2%
Almost all bankers think that cybersecurity risk is either important or very important.

Figure 75: How important is cybersecurity risk?

- Very important: 70.5
- Important: 25.7
- Moderately important: 3.2
- Slightly important: 0.4
- Not important: 0.2
And a large majority believe it is important to keep up with new or emerging technology . . .

Figure 42: How important is the adoption of new or emerging technologies to meet customer demand in your market?
And a large majority believe it is important to keep up with new or emerging technology . . .

Figure 42: How important is the adoption of new or emerging technologies to meet customer demand in your market?

- Very important: 26.8%
- Important: 45.0%
- Moderately important: 21.0%
- Slightly important: 6.3%
- Not important: 0.9%
... but a smaller number of bankers want to be a leader in new technology adoption.

Figure 43: How important is it to be a leader in new or emerging technology adoption to meet customer demand in your market?
... but a smaller number of bankers want to be a leader in new technology adoption.

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Community Bank Sentiment Index

Notable shifts from better to same

- Business Conditions
- Profitability
- Franchise Value

Next observation period:
December 1 to 31, 2019

Register to participate:
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June 2019  September 2019
Discussion of the 2019 CSBS National Survey of Community Banks

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