REFLECTIONS ON

- “Shared Destinies? Small Banks and Small Business Consolidation”
  - By Claire Brennecke, Stefan Jacewitz, and Jonathan Pogach

- “Bank Entrepreneurs”
  - By Kristoph Kleiner, Manju Puri, and Chiwon Yom
“SHARED DESTINIES? SMALL BANKS AND SMALL BUSINESS CONSOLIDATION”

- Consolidation in the non-financial industry *causes* consolidation in the banking industry.

- For every 1% decline in small firms’ employment growth, community banks see:
  - 0.8%–1.2% decline in deposits.
  - 1.5%–2.1% percent decline in small business lending.

- Yet the growth in employment at small firms does not affect large banks’ deposits or lending.
The demise of community banks contributes to the demise of small businesses.

- E.g., Cetorelli and Strahan (2006): The acquisition of smaller banks leads to changes in lending practices and adversely affects smaller firms.

VS

Conglomeration in the non-financial industry erodes the financial stability of community banks and contributes to conglomeration in the banking sector.

- Pogach and coauthors.
• The demise of community banks contributes to the demise of small businesses.
  • We need to develop policy interventions to foster a better banking environment for community banks (without sacrificing financial stability).

• Conglomeration in the non-financial industry erodes the financial stability of community banks and contributes to conglomeration in the banking sector.
  • Questions the need for the intervention
  • Consolidation in the non-financial industry is nothing new
DOES SMALL BUSINESS MATTER?

- What are implications of the conglomerations and death of small businesses?
  - Does the labor force shift frictionlessly to larger firms?
  
or
  - Do we live in an era of disparity between GDP growth and employment growth due to the death of small businesses?

- COVID crisis
  - Unprecedented collapse of small businesses across the country
  - The financial markets are doing well
Significant economies of scale enjoyed by large banks
- Community banks have few capabilities to compete in the long run

Rapid changes in the job market lead to the evolution of winners that nearly monopolize industries
- Community banks cannot support industry leaders
DE NOVO COMMUNITY BANKS

• “Bank Entrepreneurs” by Kristoph Kleiner, Manju Puri, and Chiwon Yom
  ▪ De novo banks illustrate the niche that large banks do not (cannot) occupy
  ▪ Need for local services and expertise provided by community banks
  ▪ Once a community banker, always a community banker
FINANCIAL TECHNOLOGY

- Technology is flexible
  - Banking as a service (BaaS) solutions.
  - Capitalize on Durbin Amendment

- Technology is sharable
  - Community bank consortiums can potentially share the same technology to cover a specific function and capitalize on their unique local market knowledge

- FinTech industry versus banking regulations
  - A match made in...?
Which one are you?

1/2 FULL?

1/2 EMPTY?
I know... it is not that simple.
99.7% of US employer firms
64% of net new private-sector jobs
49.2% of private-sector employment
42.9% of private-sector payroll
46% of private-sector output
43% of high-tech employment
98% of firms exporting goods

Community banks support these businesses.

About a thousand new bank charters issued since 2008 suggests that community bank services are needed.

How can policy enable bank entrepreneurs?
I AM HOPEFUL: FINANCIAL TECHNOLOGY

- Is democratizing consumer access to financial services

- Has a potential to democratize community banks’ access to technology-enabled services

- FinTech firms need community banks’ insights into local markets

- Can we find a way to support each other?
THANK YOU