2021 CSBS National Survey of Community Banks: Key Findings

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The views expressed are not necessarily those of the Federal Reserve System.
What Remained About the Same

- Despite the positive attitudes bankers had about regulators’ COVID-19 response, 90% of bankers viewed regulatory risk as “important” or “very important.”

- Among banks with a significant exposure to LIBOR, 62% have a plan in place for replacing it, while more than 10% of bankers said they have already made the transition.

- Community bankers are not rushing to convert to the Current Expected Credit Loss (CECL) model. Nearly two-thirds of them are planning to defer implementation to 2023.
Net Interest Margins
Key Finding #1: Maintaining and growing net interest margins are problematic for most bankers.

How important are net interest margins?

- Very important: 64.8
- Important: 30.0
- Moderately important: 4.5
- Slightly important: 0.2
- Not important: 0.5
How important is loan demand?

- Very important: 52.4%
- Important: 38.4%
- Moderately important: 7.5%
- Slightly important: 1.2%
- Not important: 0.5%

How important is cost of funds?

- Very important: 22.2%
- Important: 30.0%
- Moderately important: 21.5%
- Slightly important: 20.3%
- Not important: 5.9%
Net interest margins have narrowed significantly...

Source: FDIC.
...and when combined with a significant decline in loan demand...
...banks are clearly concerned about where they will earn profits.

Quarterly Average Yield on Earning Assets

- Community Banks
- All Other Banks

Source: FDIC.
Banks With NIM Compression Above the 80th Percentile

Dots on map show the distribution of banks with average year-over-year NIM compression of 37 basis points, which ranked in the 80th percentile or higher.

Source: FDIC.
Paycheck Protection Program (PPP)
Key Finding #2: The PPP increased propensity for credit risk and lending activity in the short- and long-term.

What are your intentions regarding SBA loans?

- Do not offer but plan to offer: 4.4
- Do not offer and do not plan to offer: 18.6
- Currently offer but plan to exit: 7.0
- Currently offer and will continue to offer: 70.0
What were the effects of COVID-19 on bank prospects for long-term small business lending?

- Worsened: 4.6%
- Unaffected: 23.4%
- Improved: 53.5%
- Significantly improved: 18.6%
How important is credit risk at your bank?

- Very important: 44.8
- Important: 37.7
- Moderately important: 12.0
- Slightly important: 4.5
- Not important: 0.9
## Loans by community banks

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<thead>
<tr>
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<tbody>
<tr>
<td>Paycheck Protection Program</td>
<td>0</td>
<td>144.6</td>
<td>111.3</td>
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<tr>
<td>Commercial and industrial</td>
<td>290.7</td>
<td>266.4</td>
<td>261.8</td>
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<tr>
<td>Consumer</td>
<td>86.0</td>
<td>85.6</td>
<td>91.8</td>
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<tr>
<td>Agricultural</td>
<td>142.8</td>
<td>136.8</td>
<td>135.7</td>
</tr>
<tr>
<td>Residential real estate</td>
<td>537.6</td>
<td>511.6</td>
<td>495.7</td>
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<tr>
<td>Commercial real estate</td>
<td>640.9</td>
<td>639.6</td>
<td>648.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,697.99</strong></td>
<td><strong>1,784.53</strong></td>
<td><strong>1,744.69</strong></td>
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Notes: Amounts are in billions. Data are obtained on community banks from Call Reports published by the Federal Financial Institutions Examination Council. Commercial and industrial loans exclude PPP lending.
Community banks played an outsized role in distributing PPP funds.

Source: “Community Banks Play Outsized Role in PPP Lending,” CSBS Blog, December 11, 2020 by Cordova, Samowitz, and Siems
M&A Activity
Key Finding #3: The appetite for M&A has resumed, creating greater issues for competition.

In 2020, what was the effect of COVID-19 on interest in making an acquisition or in being acquired?

- Greatly increased: 0.2
- Increased: 2.9
- Reduced: 9.8
- Greatly reduced: 9.8
- Not affected: 77.3

In 2021, what was the effect of COVID-19 on interest in making an acquisition or in being acquired?

- Greatly increased: 0.7
- Increased: 7.4
- Reduced: 6
- Greatly reduced: 2.2
- Not affected: 83.7
Bank consolidation has been going on for a long time...
...while the number of branches peaked in 2009...
...about the same time new charters slowed to a crawl.
Technology & Operations
Key Finding #4: Realized needs for operational efficiencies accelerated new technology adoption.

How did the COVID-19 pandemic affect bank efficiency?

- Had no impact on efficiency: 26.9%
- Decreased efficiency, were temporary: 22.8%
- Increased efficiency, were temporary: 9.1%
- Decreased efficiency, are permanent: 0.7%
- Increased efficiency, are permanent: 40.5%
How did online services change as a result of COVID-19?

- Did not increase: 4.3%
- Increased by less than 50%: 60.7%
- Increased by between 50% and 100%: 31.8%
- Increased by more than 100%: 3.1%
Overall community bank efficiency continues to improve...

Quarterly Efficiency Ratio

Source: FDIC.
...and banks investing more in technology have higher loan growth.
Cybersecurity
Key Finding #5: Cybersecurity is an increasing and real threat to community banks.

How important is cybersecurity risk?

- Very important: 81.6%
- Important: 13.9%
- Moderately important: 3.5%
- Slightly important: 0.7%
- Not important: 0.2%
Cybersecurity Concerns Intensify in 2020 and 2021

- 238% rise of cyber attacks in the finance sector
- 80% of all companies detected a spike in cyber attacks
- Cloud-based attacks increased by 630% between January and April 2020
- Ransomware attacks increased by 148%
- Phishing attempts increased by 600%
- The global damage of cyber crime expected to exceed $6 trillion in 2021
- A cyber attack occurs every 11 seconds

⇒ Every bank needs to have a cybersecurity solution/plan

Source: Sumo Logic
Net interest margins and loan demand are the most prominent challenges facing community banks. Cybersecurity ranks among bankers’ top concerns.

Operational changes imposed during the pandemic created long-term benefits in bank efficiency and customer engagement.

Bankers are optimistic about existing technologies, but are concerned with the costs of staying current.

Bankers expect acquisition activity to rebound from last year’s lull.
Questions? Continued Interest?

• 2021 survey can be found at www.communitybanking.org
• Networking reception