

# Importance of Community Banks

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# FDIC Future of Community Banking Study

*“It is important to recognize that community banks play a critical role not only in the financial system, but also in the U.S. economy as a whole...They have a unique role to play in our financial system.*  
(FDIC Acting Chairman Martin J. Gruenberg, American Bankers Association Annual Meeting, October 25, 2011)

The FDIC is conducting research on a variety of issues related to community banks.

## **FDIC's Community Banking Research Agenda**

1. What is a community bank?
2. How has the number of community banks changed over time?
3. Where are community banks located and why?
4. How does the performance of community banks differ across business models and compared to larger banks with similar business models?
5. Do community banks provide suites of products and services that are different from those more typical of larger banks?
6. Do community banks tend to serve sets of customers that are distinct from those served by larger banks?
7. How should the performance of community banks be measured?
8. Do local communities benefit from a strong community bank presence?
9. Can we develop a model that predicts the characteristics of successful community banks?
10. How does the cost and revenue structure of community banks differ from larger banks?
11. What factors influence the ability of community banks to raise capital?
12. What are the lessons learned for community banks from the current crisis?
13. How has technology affected community banks?
14. How have trends in the small-business economy affected community banks?

# Banking Industry Overview

- Industry consolidation continues.
  - Approx. 6,900 banks with TA < \$1B,
  - 563 banks with TA \$1B - \$10B,
  - 88 banks with TA \$10B - \$100B,
  - 19 banks have TA > \$100B. (Source: FSOC Annual Report, 2011)
- The size gap continues to grow.
- Communities need a diverse financial system.

# Relationship Lending

- Community banks do business different than larger institutions.
- The borrower and the lender maintain a stake in the outcome of the transaction.
- Community banks place a greater emphasis on long-term customer relationships.
- Relationship lending for small business, agriculture, and retail customers.
- Community banks provide financial products and access to credit for residents of rural and smaller communities.
- A community bank is not just a lender, but a financial and business adviser.

# Community Banks and Small Business

- Asset allocation is very different for community banks.
- Community banks' customize small business lending.
- Banks with assets under \$1B are significant small business lenders.

# Community Bank Role in Financial Crisis

- Source of strength and stability for communities, especially during the financial crisis.
- Secure and stable environment for depositors.
- More in tune with their local marketplace.
- During the financial crisis, community banks continued to make credit available.
- In 2010, community banks lending increased, while large bank loans decreased.
- The U.S. banking system remains the most important supplier of credit to small businesses in the country.

# Challenges Facing Community Banks

- Financial crisis fallout aftermath.
- Challenging business and regulatory environment.
- Restrictive regulatory environment will constrain access to credit.
- The availability of capital for community banks.
- Compliance issues becoming overly burdensome and unnecessarily restrictive.
- Regulators' primary objective is to ensure the safety and soundness of the banks we regulate.
- Regulators must take a pragmatic approach to supervision to protect our dual-banking system.