2025

CSBS Annual Survey of Community Banks

CSBS

Findings from the 2025 CSBS Annual Survey of Community Banks Presented at the 13th Annual Community Banking Research Conference

Oct. 7-8, 2025

Foreword from Tony Salazar

Since its launch in 2014, the Conference of State Bank Supervisors (CSBS) Annual Survey of Community Banks has provided valuable insights into the challenges, risks, and opportunities facing community banks, helping inform policymakers, regulators, and researchers on issues critical to the strength of the dual banking system.

This year's survey comes at a time of both economic uncertainty and technological transformation. Community bankers reported cautious optimism about regulatory conditions but, amid tariffs and high inflation, expressed ongoing concerns about business growth, net interest margins, and deposit competition. Cybersecurity remains the most pressing internal risk, while technology implementation costs and credit risk have grown in importance.

The findings also point to a rapidly evolving future. The passage of the GENIUS Act, just days after the survey closed, creates a new framework for stablecoin regulation, while innovations such as artificial intelligence (AI) present both opportunities and challenges for community banks.

Meanwhile, our Five Questions for Five Bankers section tells a story of challenges and opportunities. Community bankers are grappling with how to attract capital and stay profitable. Many see reducing regulatory burden as a key lever to help community banks not only survive but thrive. A few of the bankers are also leveraging AI to streamline processes and improve service, but acknowledge it creates risk, especially when it comes to fraud.

Through all of this, one message is clear: resilience. Community banks remain committed to serving their customers and communities, adapting to change, and finding ways to compete in an evolving financial landscape.

I would like to thank everyone who took the time to participate. This information is invaluable in helping to address the needs of the community banking sector and bolster the dual banking system.

I invite you to read the full report.

Tony Salazar

Chair, Conference of State Bank Supervisors Board of Directors
Commissioner, Office of Financial Regulation, Maryland Department of Labor

2025 CSBS Annual Survey

Introduction

The 2025 Annual Survey of Community Banks, conducted by the Conference of State Bank Supervisors (CSBS) and state banking supervisors, was administered from April 15, 2025, to July 15, 2025. The CSBS Annual Surveys provide a window into concerns that community bankers are facing today, as well as how issues are evolving over time and how bankers are managing opportunities and obstacles. First launched in 2014, the CSBS Annual Surveys have primarily helped regulators, policymakers, and academics understand the risks and challenges confronting community bankers. The results of the Annual Surveys have been presented on Capitol Hill and used in research papers to provide insights and broaden the scope of the importance of community banks and the nation's dual banking system.

The 2025 survey period was unquestionably characterized by high economic uncertainty, with changing tariff rates and swings in net exports affecting economic growth rates and consumer and business sentiment. To put the 2025 Annual Survey into context, it is helpful to also understand community banker sentiment during the first half of 2025. In addition to administering the Annual Survey, CSBS has, since 2019, surveyed a nationwide panel of community bankers quarterly to ascertain changes in their overall sentiment across seven dimensions: business conditions, monetary policy, regulatory burden, capital expenditure, operations expansion, profitability, and franchise value. Reported sentiment across these components is aggregated into a single index each quarter: the Community Bank Sentiment Index (CBSI). A CBSI reading above 100 indicates a positive sentiment, while a reading below 100 indicates a negative sentiment. It is notable that one week prior to the launch of the 2025 Annual Survey on April 15, the first-quarter 2025 CBSI flashed its highest sentiment reading since its launch: 129.

Despite this positive reading, the comments from community bankers that accompanied the first-quarter CBSI were mixed. Many respondents expressed optimism that the regulatory climate would become less burdensome. This optimism was reflected by a reading of 130 for the regulatory burden indicator—the highest reading ever for that component and the first time that the component's reading was positive (the fourth-quarter 2024 reading was at 100, indicating neutral sentiment). But community bankers also expressed concern over the economic outlook for the remainder of 2025. Accordingly, the business conditions indicator dropped to 86, indicting a negative sentiment.

The CBSI provides important context for this year's survey period: Community bankers responded to the 2025 Annual Survey from a place of optimism about regulation, but also some pessimism about the trajectory of the U.S. economy.[1] The findings from the 2025 Annual Survey showed that the tension between optimism and pessimism, that surfaced in the CBSI, persists.

For example, regulation, which has perennially been cited as a top external risk facing community banks, was less prominent this year (ranking sixth compared to a tie for first in the 2024 Annual Survey). Notably, in this year's survey, bankers expressed the most concern over net interest margins and core deposit growth.

Cybersecurity continues to be the top internal risk facing community banks, followed by technology implementation and costs. Interestingly, credit risk replaced liquidity risk as the third most frequently cited internal risk, as concerns over liquidity eased, yet bankers remained cautious with respect to general business and economic conditions.

While the quarterly CBSI surveys assess sentiment, the Annual Survey is designed to understand the opportunities and challenges facing community banks at a deeper level. Some questions in the Annual Survey also generate data used for academic research purposes, especially regarding compliance costs.

In 2025, community bankers attributed more than one-third of their costs related to accounting and auditing to regulatory compliance, while slightly more than one-fourth of the costs related to consulting and advisory services could be attributed to regulatory compliance. These two categories of noninterest expenses have accounted for the largest share of compliance-related expenses over the past seven years of the survey.

It is important to also note that the 2025 Annual Survey was administered during a period of technological transformation linked to artificial intelligence and other digital technologies. In fact, three days after the end of the survey period (July 18, 2025), the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act was signed into law, authorizing the creation of a regulatory framework for payment stablecoins in the United States. While this legislation's impact will likely be an important topic of discussion over the next few months and years, there are some signs of its impact in this year's survey.

For example, community banks are experiencing greater competitive pressures across most product and service categories from noncommunity banks, and competition for payments and related services from out-of-market nonbanks increased 7 percentage points—the largest year-over-year change in this category. Although slightly more than 90% of community bankers stated they did not offer, nor do they plan to offer, cryptocurrency services, it will be interesting to see how those responses change in future years as the federal and state banking regulators establish the framework for the legal issuance of stablecoins in the United States.

Community bankers also saw artificial intelligence as a promising opportunity for their banks but lamented implementation costs as a significant barrier.

Overall, the 2025 Annual Survey provides important insights into how community bankers are assessing current risks while keeping a

[1] "Community Bankers on Economy: Sunshine with Some Dark Clouds Emerging," Conference of State Bank Supervisors, April 8, 2025, blog post.

Key Findings

- Net interest margins were cited as the most important external risk facing community banks in the 2025 CSBS Annual Survey. Core deposit growth ranked second among surveyed banks, followed by economic conditions, cost of technology, and cost of funds.
- Regulation, which had been a top external risk in last year's survey, fell to the sixth spot, as community bankers expressed less concern over regulatory burden amid a changing political landscape.
- Once again, cybersecurity held the top spot among internal risks facing community banks. Indeed, the share of community bankers reporting this as an extremely important risk (58%) surpassed all other risks—both external and internal—by a healthy margin. Technology implementation and related costs ranked second, while credit replaced liquidity in the third spot.
- Bankers continue to report inflation-created challenges as persistent but manageable. While bankers still see the greatest impact from inflation on the cost of deposits, followed by personnel expenses, more respondents cited the effects of inflation on operating expenses in this year's survey.
- Community banks continued to cite other community banks as their largest competitor—in seven of nine product and service lines—and reported local regional banks as their primary competitor for payment services and in-market nonbanks as their top competitor for wealth management and retirement services.
- Payment services competition showed the largest year-over-year change, with competition from nonbanks without a physical presence in the market increasing by 7 percentage points. Nonbanks are now the second-highest form of competition in this area.
- Respondents that received and seriously considered accepting an acquisition offer doubled between 2024 and 2025, rising to 12%. Inability to achieve economies of scale was cited as the primary reason for consideration.
- On average, respondents reported that adhering to safety and soundness practices accounts for the largest share of total compliance expenses, at 27%. Money laundering and consumer protection standards maintained the second- and third-largest shares, at 25% and 23%, respectively.
- Most respondents indicated they would support changing the current deposit insurance framework, with targeted unlimited coverage and increased coverage scoring the highest among alternative solutions. Of those survey respondents favoring an increase to the deposit insurance limit, the majority (72%) viewed a new limit of $500,000 as appropriate.
- According to this year's survey, credit and debit card fraud was both the most common type of fraud reported and the largest source of dollar losses, followed by check fraud, and identity theft and account takeover, respectively. Together, these three types of fraud account for nearly 88% of total fraud cases and more than 80% of dollar losses.

sharp eye on future opportunities—many of which will be driven by technological innovation. Although macroeconomic factors, such as elevated inflation, continue to pressure bank balance sheets, community bankers remain optimistic that the regulatory climate will ease, creating opportunities for growth, expansion, and greater technological investment to ensure their ability to compete with an increasingly wider range of bank and nonbank competitors in the future.

Background

To develop the 2025 Annual Survey of Community Banks, CSBS staff met with key stakeholders to identify current issues of relevance to community banks. The survey was distributed by the state banking agencies from April to July 2025. A total of 268 banks responded.

All responses captured in this report are from institutions with less than $10 billion in total assets—a benchmark for community banks established under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Most responses were from state-chartered banks.

The survey does have several limitations, however, as outlined below:

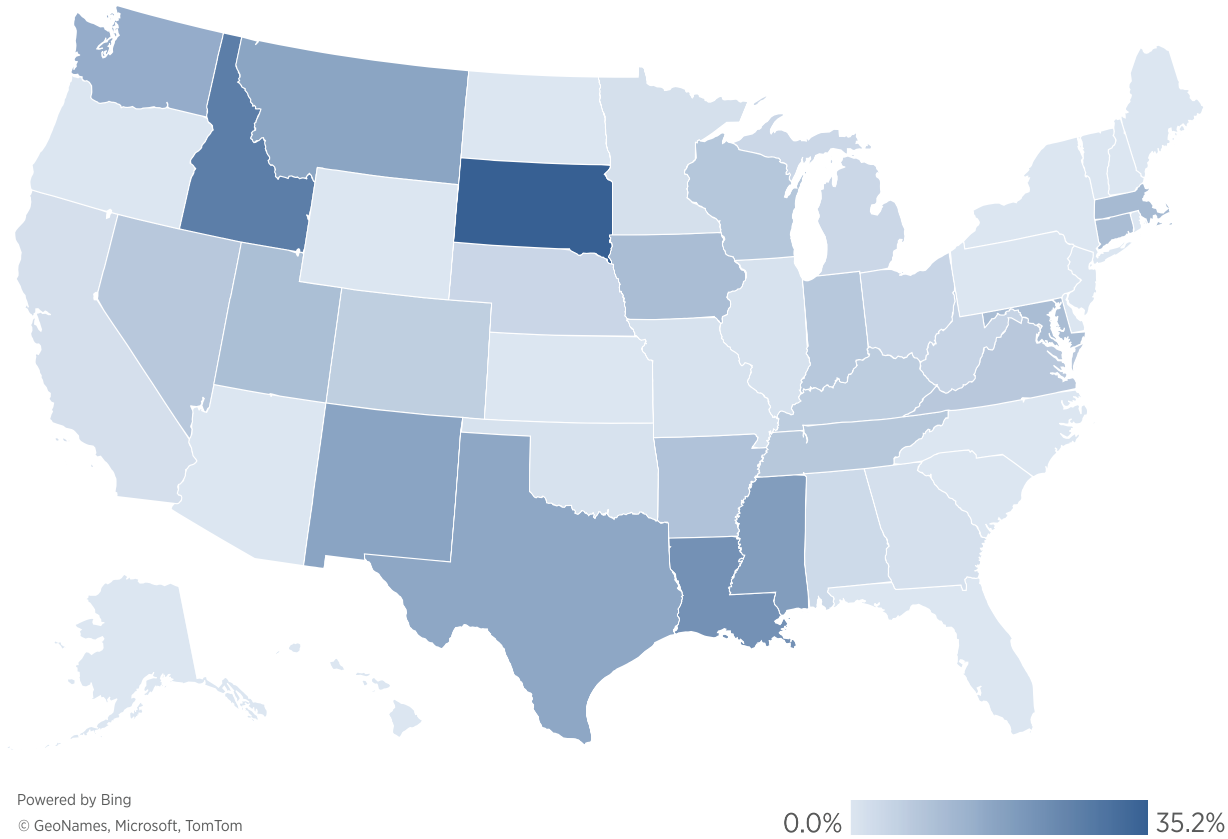
- It was not completed by community banks in every U.S. state and territory. (See map in Figure 1.)
- Respondents participated on a self-selected basis (a "convenience sample").
- Respondents did not necessarily respond to every question in the survey.
- Detailed statistical testing, which would be required to definitively quantify the extent to which the surveyed banks were representative of the overall industry, was not conducted.

Given these limitations, the conclusions in this year's survey report should be judged accordingly. Because each respondent did not answer every question, responses are expressed as percentages of respondents to specific questions.

Because of rounding, not all percentages will sum to exactly 100.

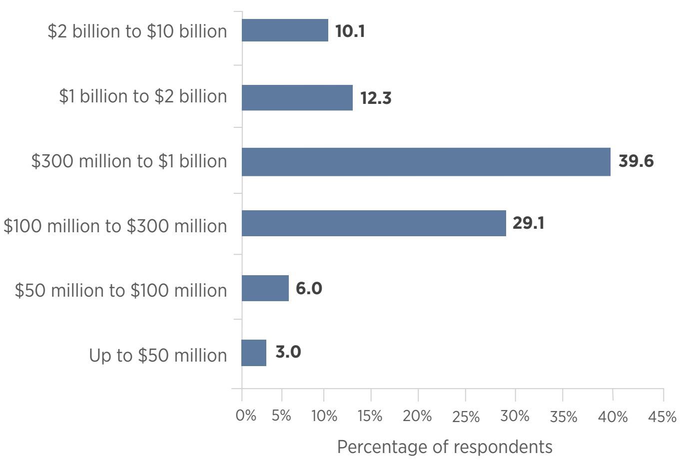
Nevertheless, the responses from the 2025 CSBS Annual Survey provide valuable insights for researchers, regulators, bankers, and policymakers into how the nation's community banks experience key internal and external risks, the marketplace for banking products and services, technology, competition, liquidity and funding, compliance costs, merger and acquisition activity, and this year, deposit insurance and bank fraud.

FIGURE 1
Survey participation rate by state



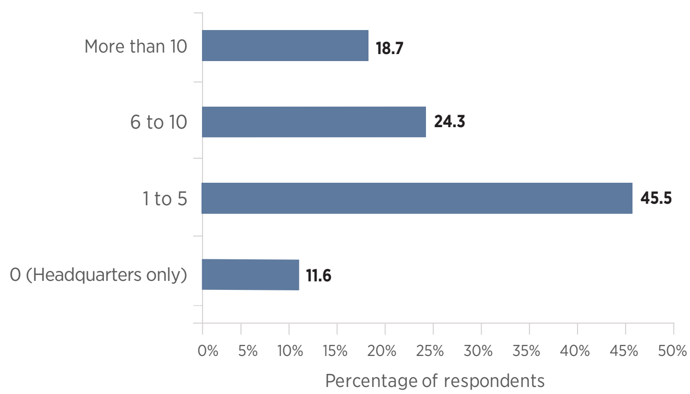
Participants were from 32 states. The participation rate was highest in South Dakota. Texas had the largest number of respondents, with 62 banks responding.

FIGURE 2
Asset size of surveyed banks



Of the banks surveyed, roughly 69% had assets between $100 million and $1 billion. More than 22% of surveyed banks fell within an asset-size range of $1 billion to $10 billion, while 9% had assets of less than $100 million.

FIGURE 3
Number of branches of surveyed banks



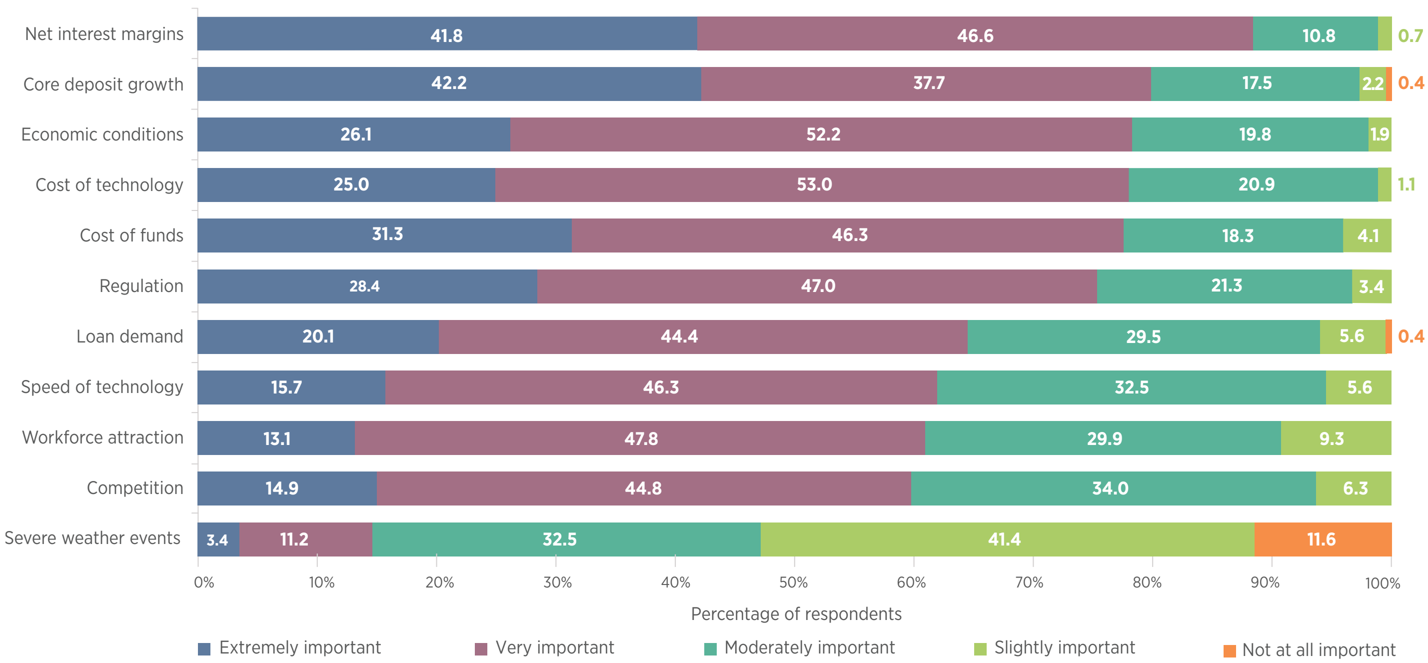
Although close to half of all banks had between one and five branches, significant dispersion was evident, with nearly 12% of banks having no branches and approximately 19% having more than 10 branches.

EXTERNAL RISKS

At the time of the 2025 Annual Survey, heightened uncertainty around growth prospects for the U.S. economy loomed over the outlook. Though labor market conditions remained stable, and inflation was still somewhat elevated relative to the Federal Reserve's inflation target, forecasters generally viewed near-term risks for unemployment and inflation as weighted to the upside. Following 100 basis points in policy easing in late 2024, the federal funds rate remained in a range of 4.25% to 4.5% throughout the survey collection period. Within this landscape, community bankers reported that net interest margins and core deposit growth were the most important external risks facing their institutions.

FIGURE 4

How important are the following external risks to your bank today?



Respondents identified net interest margins as the most important external risk in the 2025 Annual Survey, with 88% of respondents selecting it as either "extremely important" or "very important." This share has changed little in recent years and was essentially unchanged from the 2024 Annual Survey, when net interest margins ranked third in importance among surveyed banks. The move from third to first this year reflects less concern from bankers over funding costs and regulation, which were essentially tied for first in last year's survey, with nearly 89% of respondents naming them as either extremely or very important.

Core deposit growth was viewed as the second most important external risk, with nearly 80% of respondents naming it as either "extremely important" or "very important." This share was down somewhat from 84% in last year's survey, consistent with some easing in short-term interest rates over the last year. Nevertheless, submitted banker comments highlighted the ongoing challenges to growth in the current climate.

Economic conditions, cost of technology, and cost of funds were essentially tied as the third most important external risk, with roughly 78% of respondents naming them as either extremely or very important risks. While these shares were broadly similar to

Banker Perspective

The overall resilience of the economy has been a pleasant surprise on the upside. There is a lot of uncertainty in the customer world—on the borrower and client side—about how long this can continue in the face of persistently higher rates, creeping inflation, and the on-and-off threat of tariffs. Everyone is somewhat surprised at how well the economy is performing despite these challenges.

That said, we are starting to see some early signs of concern in the industry. Certain loans are moving from pass to special mention. Special mention is the first level of review—an indicator that something warrants closer attention. These are usually minor issues, such as collateral values declining slightly, cash flow being affected by lower sales, or higher costs of goods sold. These trends are starting to filter in. I think this is a slow-moving process, but I remain optimistic it will resolve itself.

—Noor Menai, CTBC Bank USA
Los Angeles, California

last year's results for economic conditions and cost of technology, the share of respondents naming cost of funds as a top risk fell 11 percentage points from the 2024 Annual Survey. This likely reflects less pressure on funding costs, as short-term interest rates have come down since the time of last year's survey, following 100 basis points in rate cuts in late 2024. However, banker comments did highlight ongoing pressure on funding costs from nonbank competitors.

Meanwhile, bankers expressed less concern about regulation in the 2025 Annual Survey; the share of respondents identifying regulation as an extremely or very important external risk fell 13 percentage points, to 75%, in this year's survey. This change in sentiment is consistent with broader market views that the political landscape has shifted toward less regulation in the banking industry.

Banker Perspective

Some of the regulations that we were really concerned about have been put on hold. For instance, the regulators have put a pause on Section 1071 (of the Dodd-Frank Act). This is big for us because this is an onerous regulation for the bank and for our small-business customers. Our customer base is very independent, and they don't like to feel like they're being tracked. They don't want to have to disclose more than what is required of them.

—Mark Packard, Central Bank
Provo, Utah

RISK OF INFLATION

The Federal Reserve targets 2% personal consumption expenditures (PCE) inflation as part of its dual mandate and closely monitors "core" PCE inflation, which removes the volatile components of food and energy. As of June 2025, the annual PCE inflation rate was 2.6%, while core PCE inflation was 2.8%, measured on a 12-month basis. These were down from highs of 7.2% and 5.6% in June 2022 and February 2022, respectively.

With inflation still somewhat above the Federal Reserve's 2% target, bankers were asked to rank the effects of inflation on their banks. Community bankers once again cited deposit costs as the most impacted by inflation, though the share of respondents citing this concern as "most impactful" fell from 59% last year to 46% this year—likely reflecting an easing in inflation and short-term interest rates since last year's survey. Personnel expenses were the second most impacted by inflation, according to 23% of respondents. Operating expenses outside of personnel were also impacted by inflation, with 19% of respondents citing these as the most affected, up from just 8% last year.

Roughly 75% of respondents thought inflation-related challenges were likely to persist, up 3 percentage points from last year. That the majority views the effects of inflation as persistent could reflect the effects on price levels for expenses related to personnel and other operating expenses, because these would be less likely to come down (than, say, funding costs) as inflation eases. However, respondents predominantly view inflation challenges as manageable, a positive sign for overall bank health. Only 8% of community bankers expected core inflation to return to the Federal Reserve's target by the end of 2025, while 40% of respondents anticipated this to occur in 2026. Roughly 31% expected a return to target by 2027 or later, while 21% were unsure.

FIGURE 5

How would you rank the following effects of inflation on your bank in terms of level of impact?

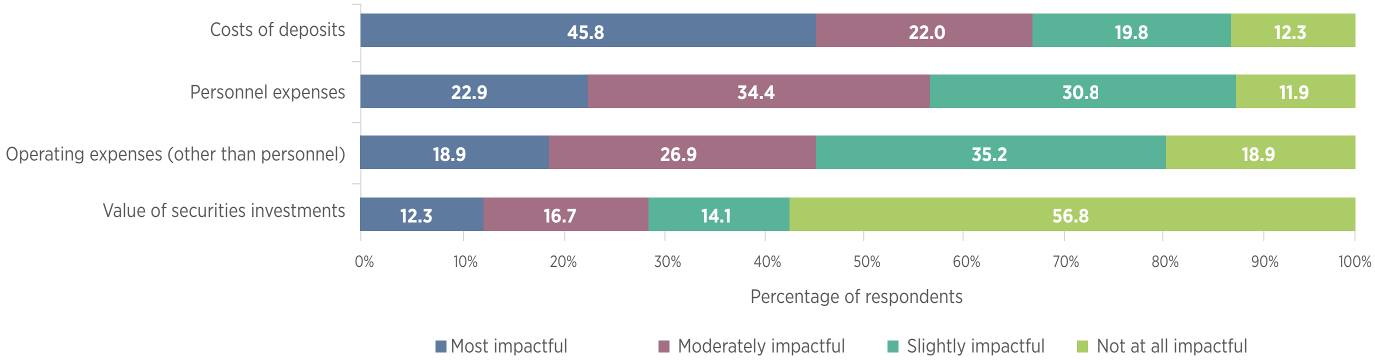


FIGURE 6

How does your bank view inflation challenges?

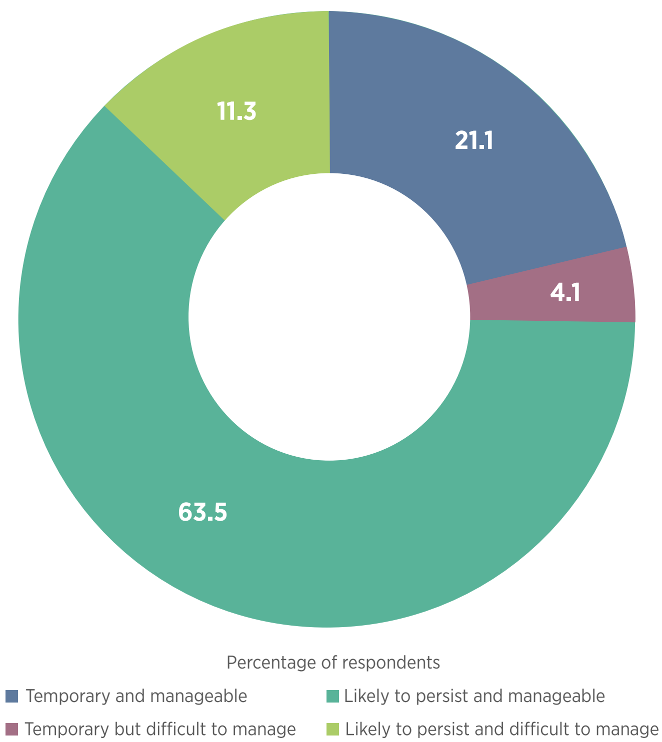
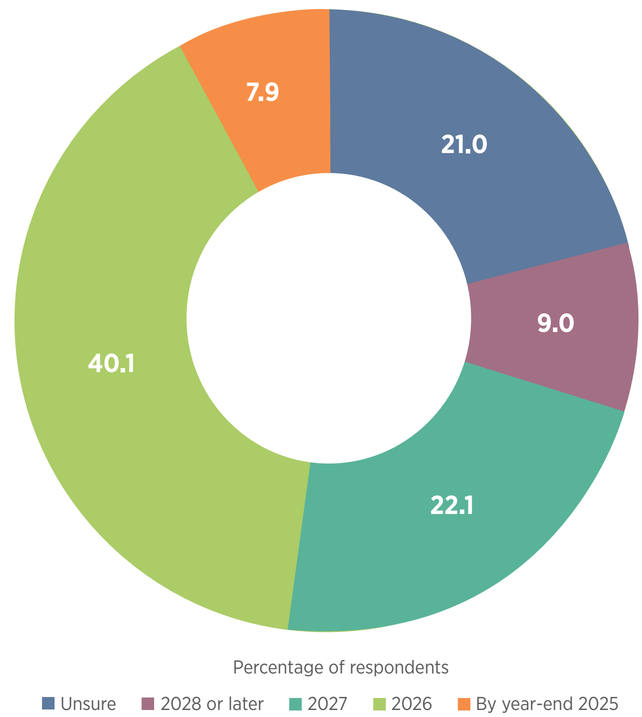


FIGURE 7

When do you expect the year-over-year rate of core inflation to decline to the Fed's 2% target?

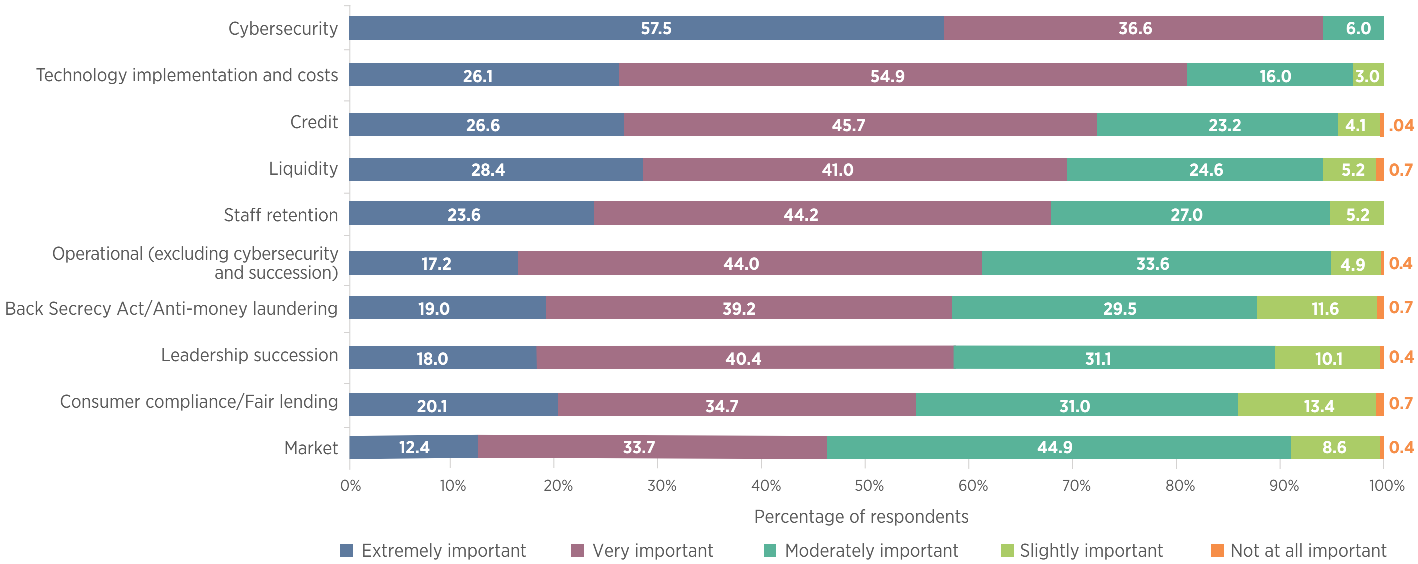


INTERNAL RISKS

While every community bank faces unique risks, some themes carry across the industry and persist from year to year. In identifying the most important internal risks facing their banks, survey respondents once again named cybersecurity and technology implementation and costs as the No. 1 and 2 top internal risks, respectively. While cybersecurity has held the top spot since being introduced in 2018, risk from technology implementation and costs has risen to second in just the last two years, as community banks strive to adopt technological advances in the banking industry. Meanwhile, credit rose to third in this year's survey, even as the share of bankers citing this as a top risk was little changed from last year. This result came as bankers reported relatively less concern associated with liquidity and staff retention, moving these risks down to the fourth and fifth spots, respectively.

FIGURE 8

How important are the following internal risks facing your bank today?



Cybersecurity was identified as the top internal risk in this year's survey. Roughly 94% of surveyed community bankers cited this risk as either "extremely important" or "very important." This share was down slightly from 96% in last year's survey but remains well above all other internal and external risks identified in the survey.

Technology implementation and costs came in as the second most important internal risk in this year's survey, with 81% of respondents viewing this internal risk as either "extremely important" or "very important." This share has steadily increased over the past few years, likely reflecting the importance of keeping up with technological advances in the banking industry.

Credit rose to third in this year's ranking of internal risks by community bankers, with 72% of respondents indicating that it was either an "extremely important" or "very important" risk. Despite rising to the third spot overall, this share was essentially unchanged from the 2024 Annual Survey.

Banker Perspective

We continue to put more resources into cybersecurity and technology risk, which has grown rapidly as part of our cost structure. We've invested heavily in systems and processes and added staff to review outputs to protect customers and prevent fraud. Fraud is not yet a large loss item for us, but it could be. Recently, along with hundreds of other banks, we were targeted by AI-assisted fraudsters who obtained customer data from outside sources and purchased lists. They knew exactly who our customers were.

Another bank in our market experienced the same attacks.

Fraudsters called business customers, impersonated the bank, and attempted corporate account takeovers by asking for login information. One customer provided the information, realized it quickly, and called us within an hour—yet $16,000 had already been transferred. That may not seem large, but for that business customer, it was significant.

—Lloyd Hamm Jr., River Run Bancorp
Newburyport, Massachusetts

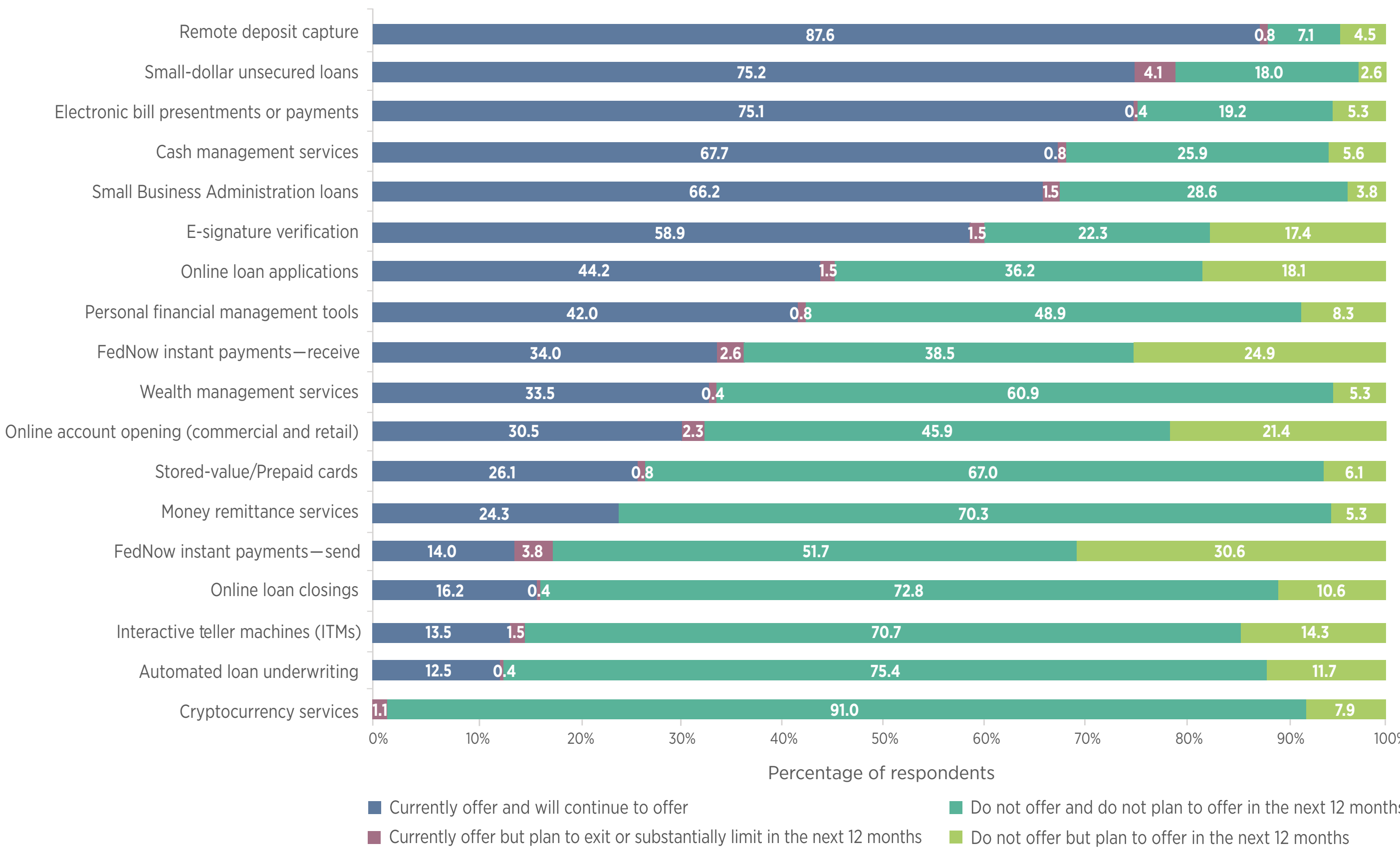
Additional Internal Risks

- **Liquidity** fell to fourth in this year's survey, as the share of respondents naming it as either an extremely or very important risk eased from 78% in 2024 to 69%, suggesting community banks are facing less pressure from liquidity tightening relative to that in previous years.
- **Staff retention** ranked fifth among internal risks, with 68% of respondents naming it as an extremely or very important risk. This share has eased steadily year to year from a high of 85% in the 2022 Annual Survey, as labor market shortages dissipated, creating less competition for staff.
- Banker concerns over **consumer compliance and fair lending** fell in this year's survey, with only 55% of respondents ranking it as an extremely or very important risk, down from 66% in 2024.
- Bankers cited several other internal risks in their narrative responses to the survey, including fraud detection and prevention, as well as reputational risk.

PRODUCTS AND SERVICES

FIGURE 9

What are your bank's intentions regarding the following financial products or services?



Online banking continued to be a key area of focus for respondents. Remote deposit capture and online bill pay (electronic bill payments) were still offered by 88% and 76% of respondents, respectively. Neither category saw any material shift from the prior year. Approximately 5% more respondents did not currently offer and did not plan to offer online loan closings within the next 12 months, now at 73% up from 68% the prior year. However, there was no material shift across responses in banks that offer online loan applications.

Survey responses around FedNow instant payments increased in banks now offering the service. The magnitude of this increase is roughly the same as the decline in banks planning to offer the service in 12 months from the prior year's survey. Suffice it to say, it appears that roughly the same number of banks planning to adopt these services in last year's survey followed through. This is true for both the sending and receiving aspects of FedNow. The percentage of banks responding that they do not offer these services nor do they plan to offer them in the next 12 months remained the same for sending payments, but did increase from 32% to 39% for FedNow payment receiving services. These remained the two highest areas where respondents indicate plans to begin offering these services within the next 12 months.

Wealth management services declined slightly in terms of current offers, with 34% currently offering them, down from 36% in last year's survey. Offerings of personal financial management tools were little changed since the prior survey, with 43% of respondents currently offering them and 8% planning to add them in the next 12 months.

Surveyed banks continued to report little interest in offering cryptocurrency services, with roughly 99% of respondents reporting they were not currently offering these services and 92% not planning to offer them in the next 12 months. While cryptocurrency services were still overwhelmingly not offered by respondents, there was a slight increase in the number of banks planning to initiate cryptocurrency offerings, from 7% last year to 8% this year.

Banker Perspective

This might sound a bit nerdy, but I'm excited about the potential of blockchain, distributed ledgers, and decentralized finance.

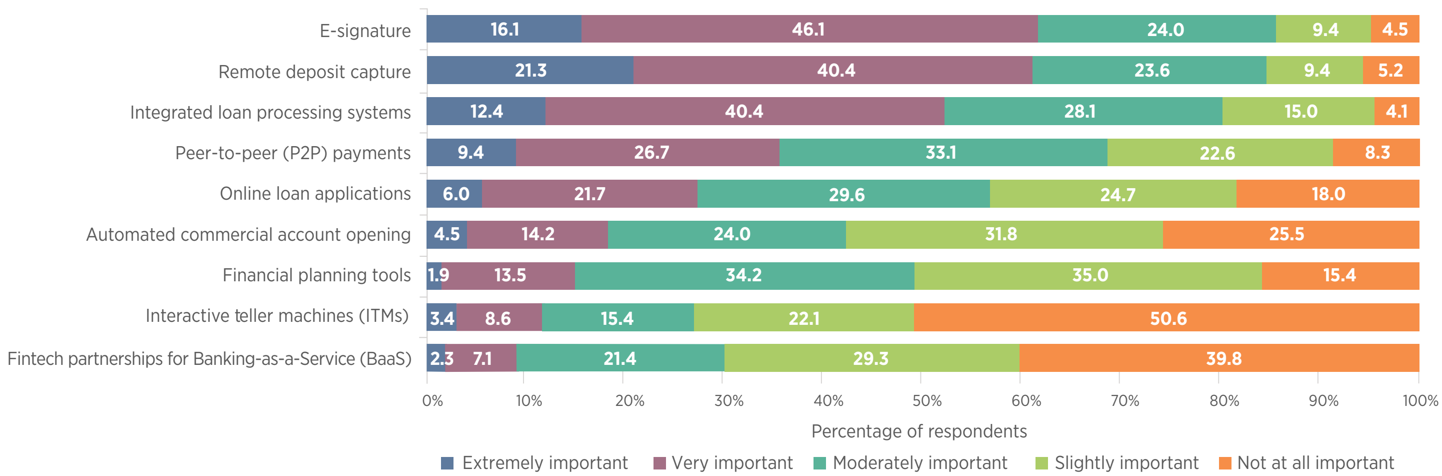
Blockchain brings transparency. I know AI is the fashionable answer right now—and I'm also optimistic about AI—but I'm equally excited about blockchain's potential. Coming from a back-office and consumer banking background, I see tremendous value in the speed and efficiency these technologies offer, and in how they can integrate more seamlessly into people's financial lives. Today's consumer banking tools often serve the affluent well but leave lower-income customers behind. With advancements like AI and blockchain, I see a path toward providing meaningful financial tools—even for those living paycheck to paycheck—that can genuinely help improve their financial standing. I'm also encouraged that the government has moved from a "closed for business" posture to one that's more open to innovation and dialogue.

—Noor Menai, CTBC Bank USA
Los Angeles, California

TECHNOLOGY AND TECHNOLOGY SERVICES

FIGURE 10

How important are the following technologies for your bank?



Community bankers once again viewed e-signature and remote deposit capture as the most important banking technologies for their banks, with these technologies receiving the largest share (about 62%) of "extremely important" and "very important" responses.

Integrated loan processing systems also ranked highly among surveyed bankers, with roughly 53% of respondents classifying this technology as "extremely important" or "very important."

Bankers placed the least importance on technologies related to financial planning tools, interactive teller machines, and fintech partnerships for Banking-as-a-Service (BaaS).

FIGURE 11

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

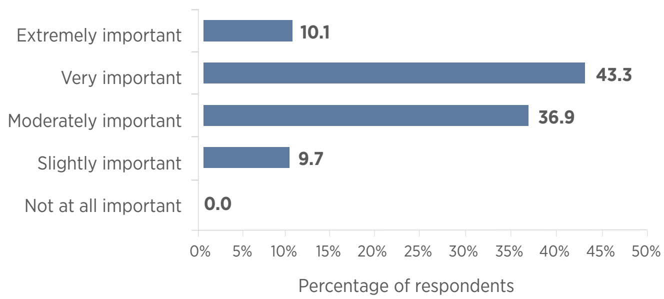
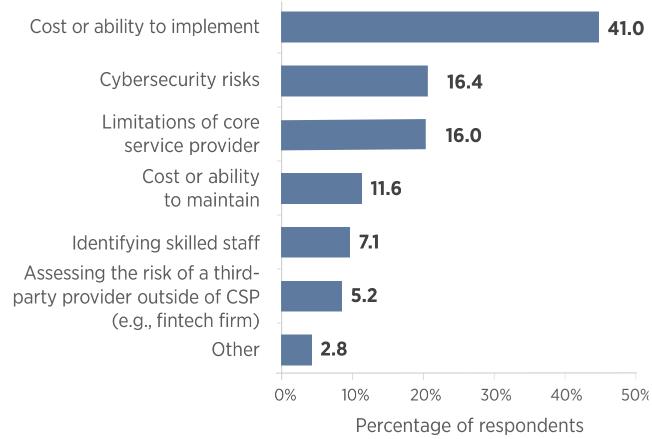


FIGURE 12

What is the most significant impediment to adopting new technologies?



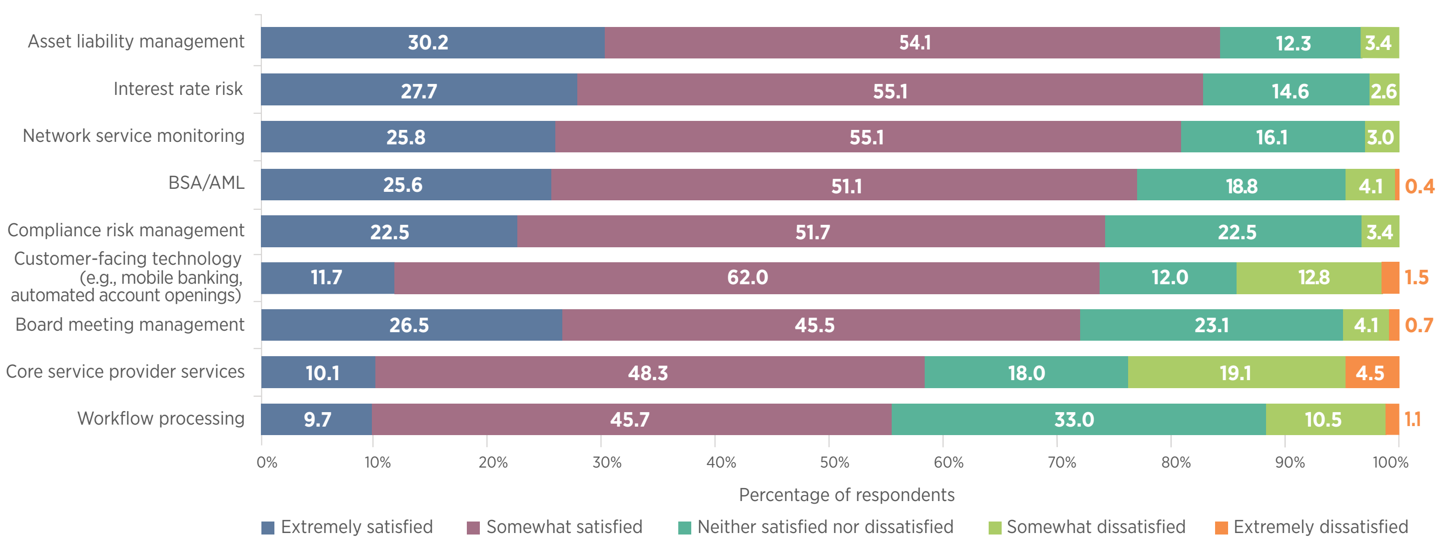
Nearly all surveyed bankers identified the adoption of new or emerging technologies as important, with 10% viewing them as "extremely important" and 43% as "very important." No respondents viewed the adoption of new or emerging technologies as "not at all important."

Costs and implementation remained the largest impediment to adoption, with 41% of respondents citing this barrier, down from 46% in 2024. Respondents cited both cybersecurity risks and limitations of core service providers as the next largest impediments to adoption, each collecting 16% of survey responses.

In their narrative responses, several bankers cited internal resource availability, including time and staffing, as another hurdle for technology implementation.

FIGURE 13

How satisfied are you with the effectiveness of your bank's technology in the following areas?

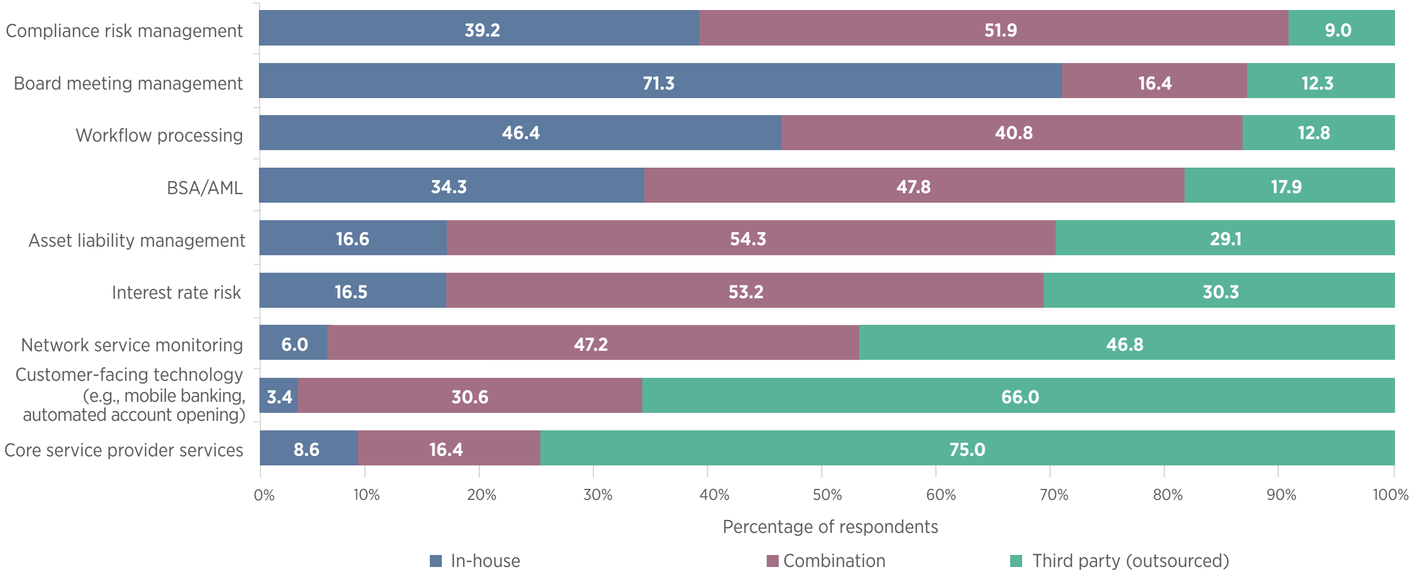


Surveyed bankers were generally satisfied with the effectiveness of technology across all measured areas. Asset liability management, interest rate risk, network service monitoring, and Bank Secrecy Act (BSA)/anti-money laundering (AML) each collected more than 75% of responses as either "extremely satisfied" or "somewhat satisfied."

Meanwhile, community bankers expressed the lowest level of satisfaction in technologies related to core service provider services and workflow processing. These were the only two services with less than 60% of banks expressing they were at least "somewhat satisfied."

FIGURE 14

How are your technology needs for the following services being met?

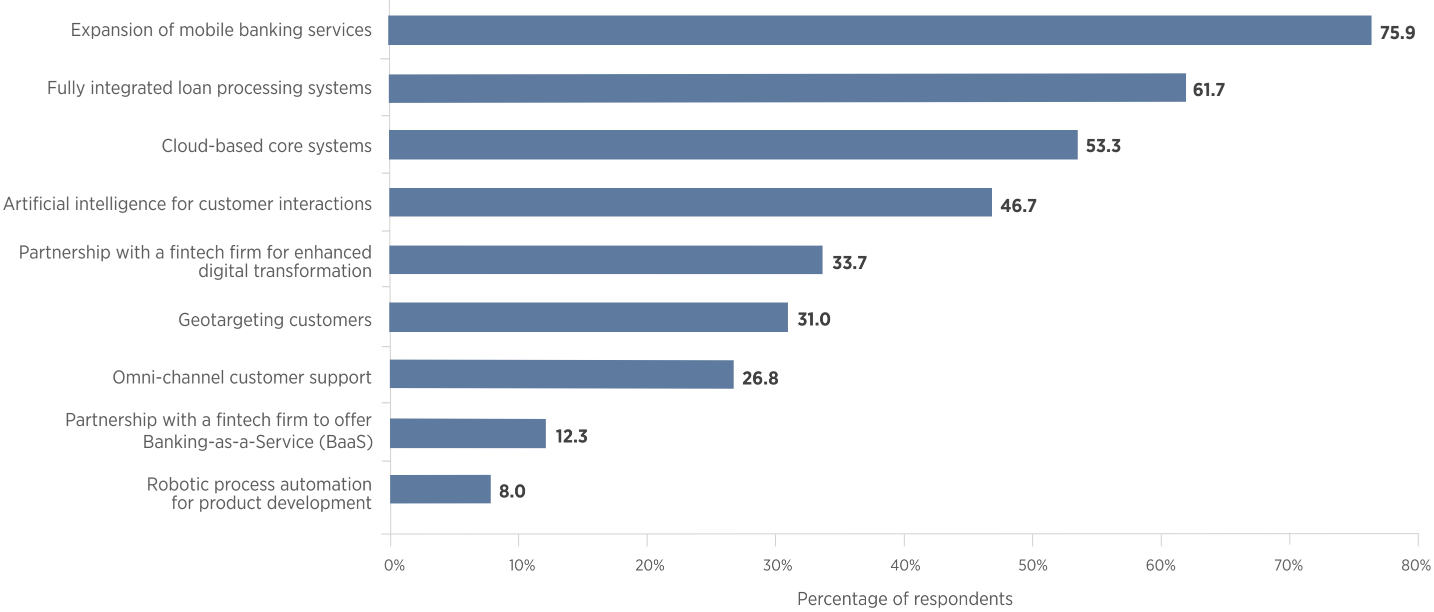


In terms of how community banks meet their technology needs, asset liability management, interest rate risk, and compliance risk management services were commonly handled by a combination of third-party vendors and in-house staff for most respondents.

Core service provider services and customer-facing technology were the most common technologies outsourced to third-party vendors, as reported by 75% and 66% of respondents, respectively. Surveyed bankers identified board meeting management and workflow processing as the most likely to be done in-house.

FIGURE 15

What technological developments will be promising opportunities for your bank over the next five years?



NOTE: Participants were asked to select all that apply.

Looking ahead over the next five years, bankers showed the most optimism for technological developments related to expanding mobile banking services, with roughly 76% of bankers identifying them as a promising opportunity for their banks. Nearly 62% of respondents viewed fully integrated loan processing systems as a promising opportunity. Excitement surrounding cloud-based core systems climbed to 53% of respondents, up from 42% last year. Artificial intelligence for customer support rose to 47%, a 16 percentage-point increase since its initial inclusion in the 2024 Annual Survey. In contrast, respondents saw little opportunity in areas related to partnering with fintech firms for BaaS or robotic process automation.

In their narrative responses, community bankers cited several other promising technological opportunities over the next five years, including:

- Artificial intelligence for operational efficiency
- Fraud-detection technologies
- Cost-efficient process automation

When asked about various challenges to implementing new technologies, community bankers viewed each listed challenge as more difficult relative to 2024. Roughly 66% of bankers expected cybersecurity risks to pose the most difficult challenge to implementing new technologies over the next five years, up from 42% last year. Core processor responsiveness jumped from 13% last year to 62% this year, shifting from the seventh to second most difficult challenge. Spend rate saw the greatest increase year over year, with 59% of bankers seeing it as a challenge to implementing new technology over the next five years, compared to 1% last year.

Banker Perspective

On the positive side, AI will dramatically change how we handle credit. For example, we conduct thousands of annual commercial credit reviews that require analyzing financials, tax returns, and market conditions. AI could perform 80% to 90% of that work, leaving the credit analyst to review for accuracy and validity. This could improve credit quality, enhance problem identification, and significantly reduce the cost of annual reviews.

—Lloyd Hamm Jr., River Run Bancorp
Newburyport, Massachusetts

Banker Perspective

Cyber is changing faster than any of us can process, and the rate of change is really my greatest concern. … It's a concern on two fronts. First, the obvious concern is that we have to protect against everything, yet a criminal has to hit only one time. So, how do we keep every door closed, every window latched, and every lock turned to keep our clients and their data safe? … On the flip side of that, the rate of change in technology is also enabling efficiencies and systems at a scale and scope that we've not had access to before. … While we are really concerned about keeping things safe, keeping the bad guys out, we're also concerned to what extent we might be falling behind.

—Clayton Legear, Merchants & Marine Bancorp Inc.
Pascagoula, Mississippi

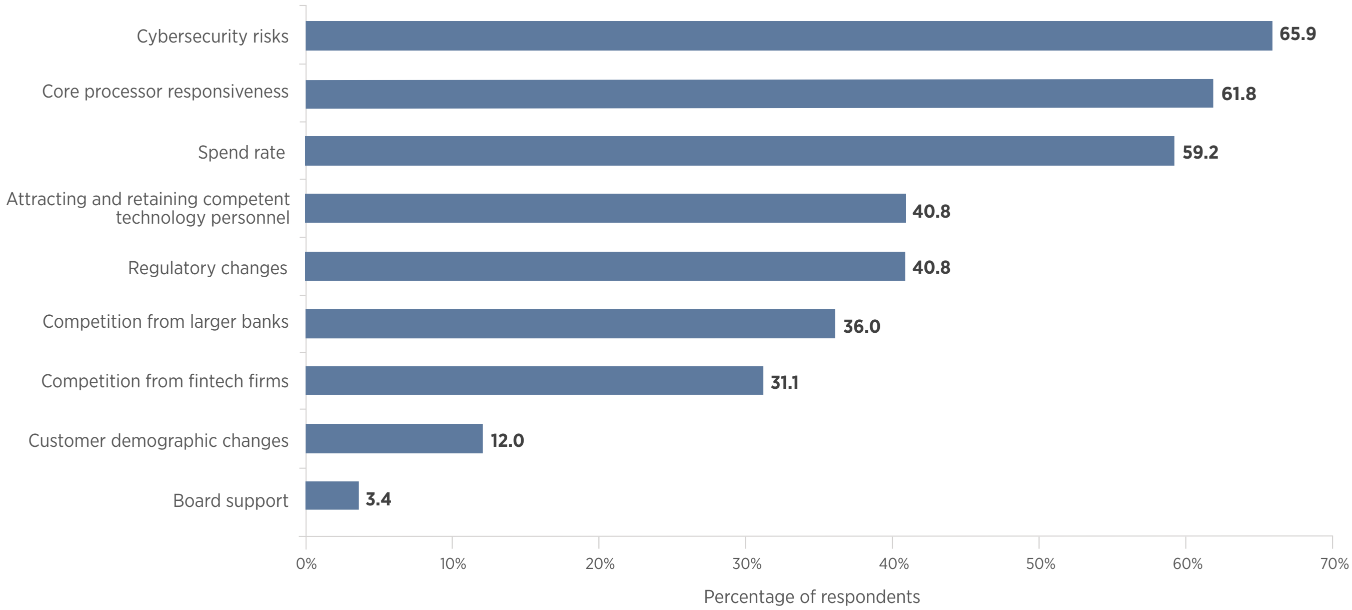
Roughly 41% of survey respondents cited attracting and retaining competent technology personnel and regulatory changes as additional challenges. Other commonly identified challenges included competition from larger banks (36%), competition from fintech firms (31%), and customer demographic changes (12%).

In their narrative responses, community bankers highlighted additional impediments to technology implementation, such as vendor risk management and challenges surrounding internal implementation, including training staff.

Most survey respondents (68%) reported that addressing the cryptocurrency needs of bank customers was not an important aspect of bank business. The percentage of community banks reporting addressing the cryptocurrency needs of customers as "not at all important" was down from 75% in last year's survey but up from 51% in 2022.

FIGURE 16

What do you see as the most difficult challenges to implementing new technology over the next five years?



NOTE: Participants were asked to select all that apply.

FIGURE 17

How important is meeting the cryptocurrency needs of customers at your bank?

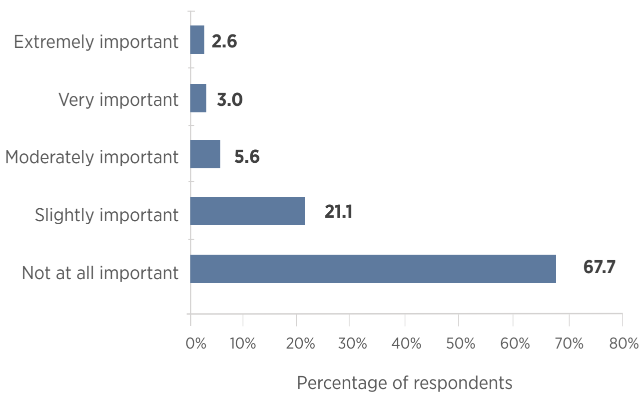
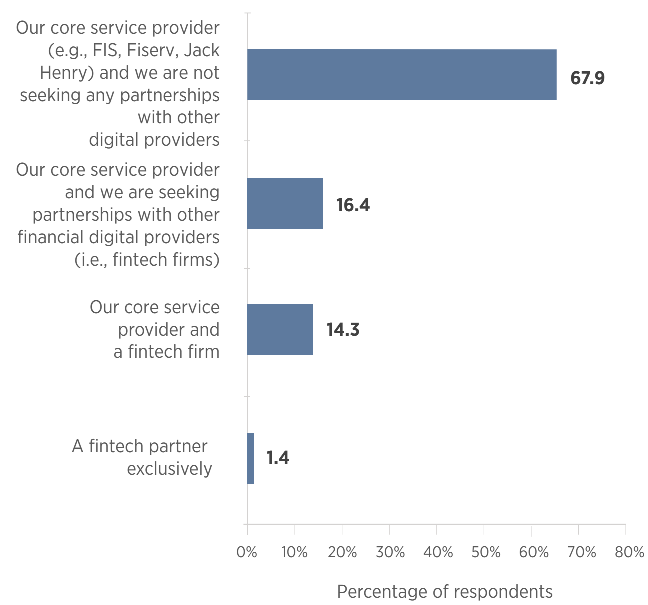


FIGURE 18

On whom does your digital banking platform rely?

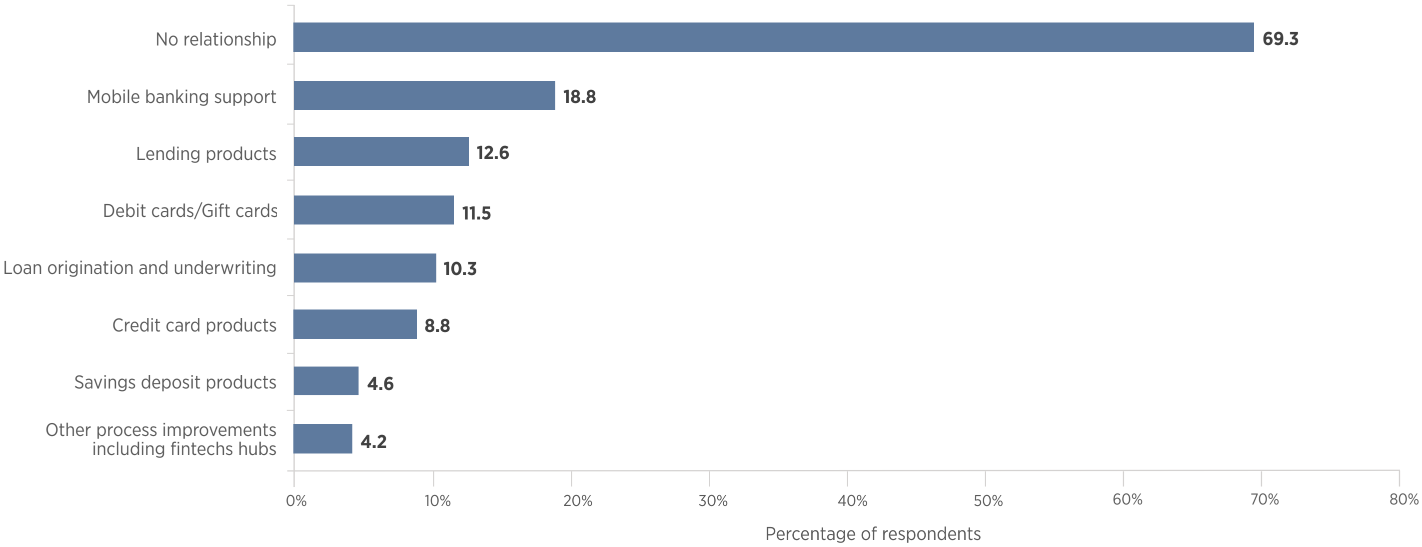


Core service providers remained the primary source of digital banking products and services. Over two-thirds of respondents reported relying on core service providers for digital banking products and services and were not seeking any partnerships with other digital providers, such as fintech firms. Meanwhile, 16% of bankers identified using core service providers while also seeking partnerships with other financial digital providers. A smaller share, 14%, relied on both core service providers and fintech firms for their digital product and service offerings.

Banking relationships with fintech firms were most common for services such as mobile banking support (19%), lending products (13%), debit/gift cards (12%), and loan origination and underwriting (10%). However, most respondents (69%) reported no relationship with a fintech firm.

FIGURE 19

If you have a relationship with a fintech firm, what is the nature of the relationship?



NOTE: Participants were asked to select all that apply.

COMPETITION

FIGURE 20

Who is your primary competitor for the following products and services?

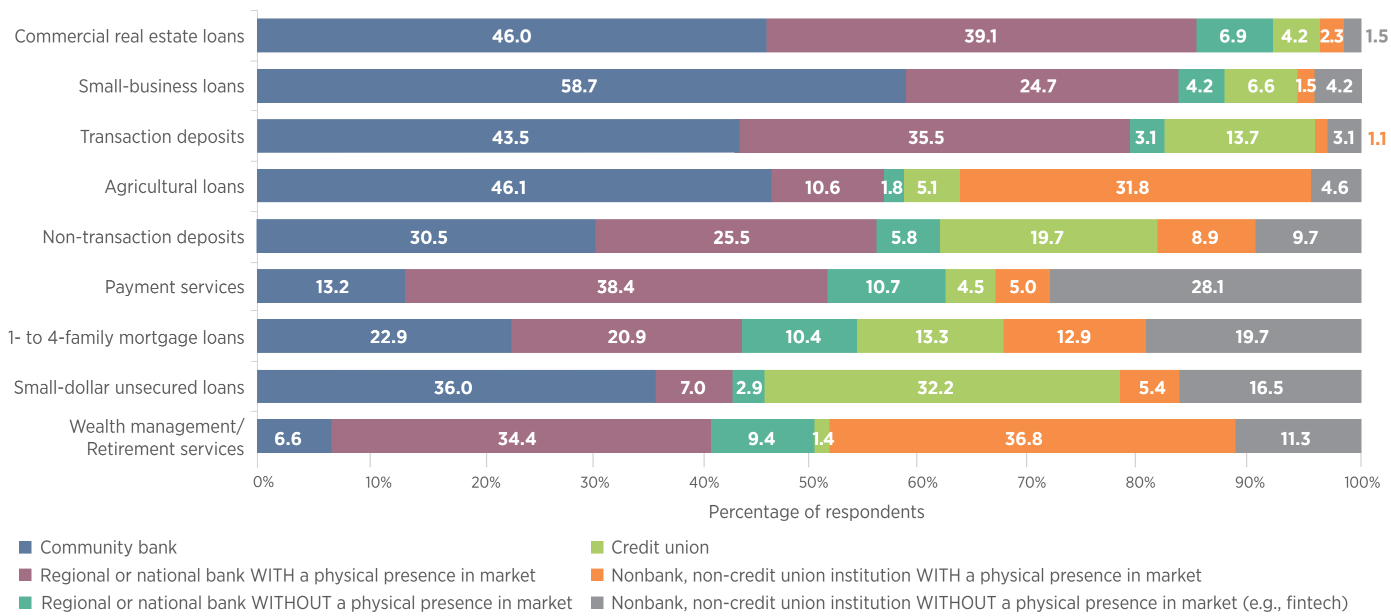
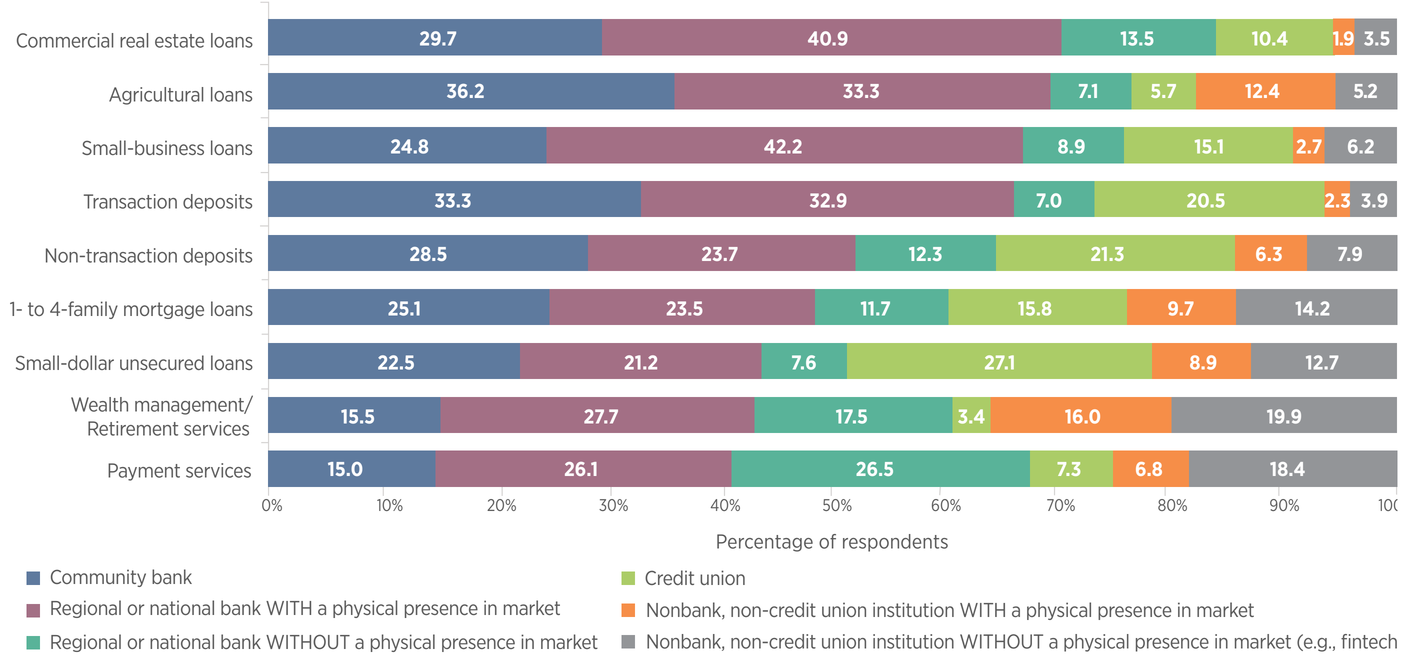


FIGURE 21

Who is your secondary competitor for the following products and services?



Competition for banking products and services remained high. Other community banks were the most-cited primary competitor overall; however, competition from community banks declined in seven of the nine measured categories relative to last year's survey. This indicates increased competition from other financial institutions.

A listing of the top community bank competitors across the nine product and service lines is shown in Table 1. A complete breakdown of how community banks experienced competition from community banks, regional and national banks, credit unions, and nonbanks can be found in Figures 20 and 21.

The largest change since the prior year's survey was in competition for payment services. Competition from nonbanks without a physical presence in the area increased to 28%, up 7 percentage points from the prior survey. Competition for payment services was still dominated by local regional banks; 38% of respondents cited them as the primary competitor.

In the wealth management space, competition from nonbanks with a physical local presence was the No. 1 cited response, followed closely by local regional banks.

TABLE 1

Primary competition for community banks

Product or Service Line	Top Competitor 2025		Top Competitor 2024		Top Competitor 2023	
Small-business loans	Community bank	58.7%	Community bank	62.5%	Community bank	62.4%
Agricultural loans	Community bank	46.1%	Community bank	45.4%	Community bank	47.6%
Commercial real estate loans	Community bank	46.0%	Community bank	51.1%	Community bank	52.0%
Transaction deposits	Community bank	43.5%	Community bank	41.2%	Community bank	47.5%
Wealth management and retirement services	Nonbank (in-market)	36.8%	Regional or national bank (in-market)	34.6%	Nonbank (in-market)	40.5%
Small-dollar unsecured loans	Community bank	36.0%	Community bank	36.3%	Community bank	40.3%
Payment services	Regional or national bank (in-market)	34.8%	Regional or national bank (in-market)	39.6%	Regional or national bank (in-market)	37.7%
Non-transaction deposits	Community bank	30.5%	Community bank	32.6%	Community bank	33.2%
1- to 4-family mortgage loans	Community bank	22.9%	Regional or national bank (in-market)	25.9%	Community bank	30.4%

Relative to other competitors, community banks continued to compete the most with one another for small-business, agricultural, and commercial real estate loans. Community banks also competed heavily with local nonbank, non-credit union institutions for agricultural loans. Regional or national banks with a physical presence in the market were a common secondary competitor for these three loan types.

While deposit levels have stabilized since 2023, competition for deposits remained elevated. The 2025 Annual Survey showed ongoing competition from community banks and local regional banks for transaction deposits and increased competition from out-of-market nonbanks for non-transaction accounts.

Community bankers also answered questions on how competition for deposits and loans impacts their pricing decisions. Regarding how often banks respond to changes in local market rates on loans, 25% of bankers responded "always," and 72% responded "sometimes." Relative to the 2024 Annual Survey, the share responding "always" was up from 18%, while the share responding "sometimes" was down from 79%, bringing the results back in line with the 2023 Annual Survey. Bankers were also more likely to "always" respond to changes in local market rates on deposits in this year's survey relative to last year, with 32% of bankers indicating this behavior, up from 24% last year and closer to the 28% reported in 2023. It's important to note that 2023 included the tail end of the most recent interest rate hiking cycle, while currently we are in the middle of a less-active interest rate environment following 100 basis points in policy easing in September through December 2024. In this context, it is likely that rates were increasing back in 2023 and are decreasing now in 2025.

FIGURE 22

How often does your bank respond to changes in local market rates on loans?

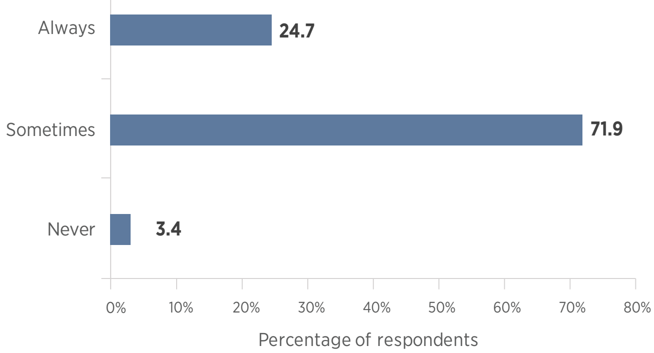


FIGURE 23

How often does your bank respond to changes in local market rates on deposits?

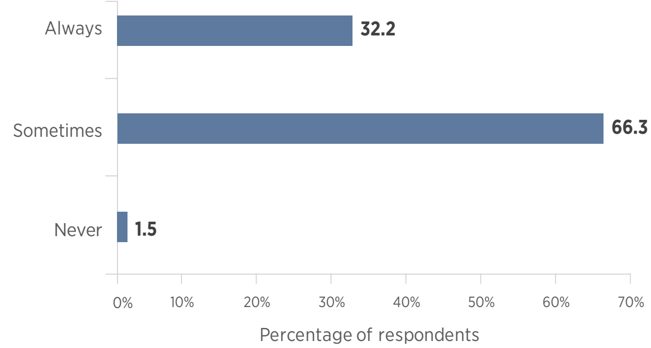
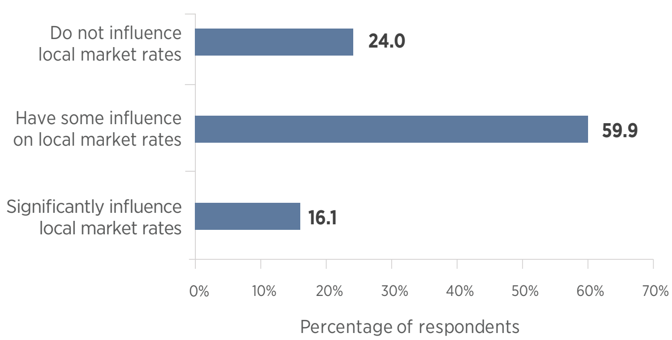


FIGURE 24

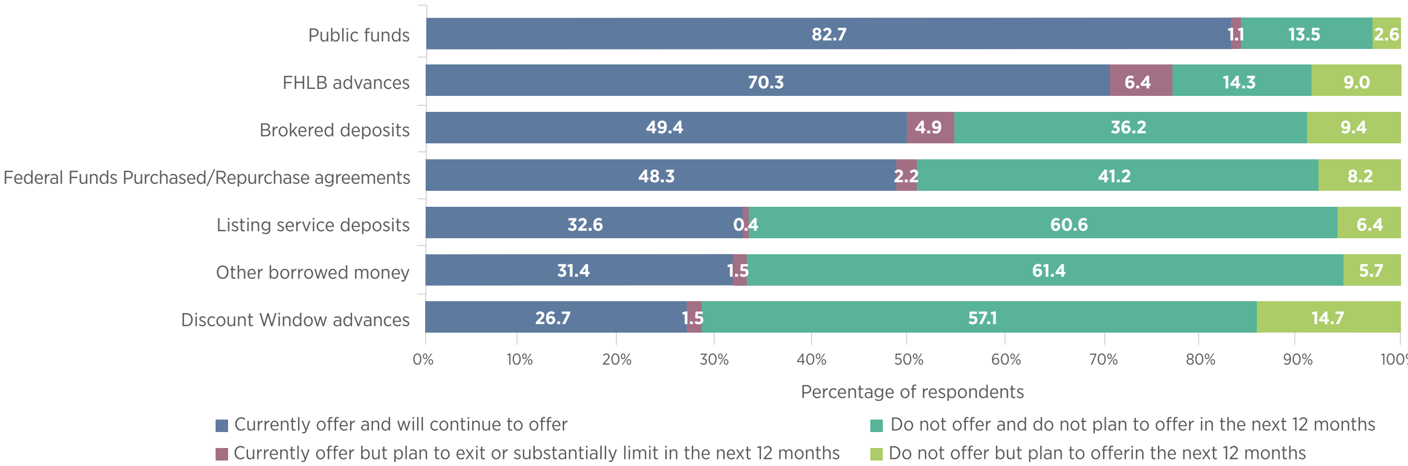
How do your bank's pricing decisions on loans and deposits influence local market rates?



In terms of whether their pricing decisions influence local market rates, 16% of bankers reported they "significantly influence local market rates," and 60% reported they "have some influence on local market rates." This compared with 14% and 63%, respectively, in 2024.

FIGURE 25

What are your bank's intentions regarding the following wholesale funding sources?



In general, wholesale funding utilization practices, as measured by survey responses, have not changed substantially since 2024. Nearly 49% of respondents indicated they continue planning to use purchased federal funds, up from 43% the prior year. Additionally, only 41% of respondents stated they have no plans to use this service, compared to 48% in 2024. This may be partly influenced by interest rate movements, which have declined compared to a year ago and thus would impact the pricing of federal funds purchased.

TABLE 2

Wholesale funds (in billions $)

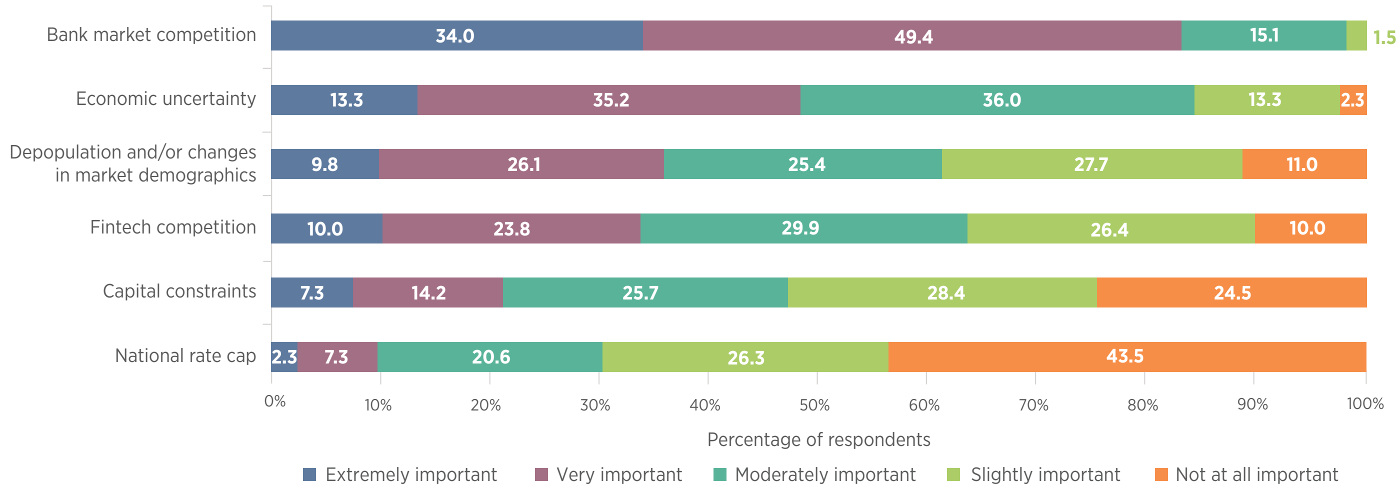
	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024	March 31, 2025
Brokered deposits	$78.0	$132.7	$173.8	$189.0	$191.2
Federal Home Loan Bank advances	$59.2	$118.7	$134.5	$134.7	$122.3
Other borrowed money (total)	$76.9	$133.2	$182.1	$147.4	$132.8
Fed funds purchased and repurchase agreements	$23.5	$27.6	$24.9	$22.3	$21.7
Listing service deposits	$16.9	$16.7	$16.9	$16.9	$17.5
Reciprocal deposits	$75.6	$84.8	$161.3	$188.8	$193.8

NOTES: Dollar amounts are collected quarterly for community banks and reported in billions of dollars.
Data are obtained from *Call Reports* published by the Federal Financial Institutions Examination Council.

Wholesale funds continue to make up a meaningful portion of total bank funding. It is important to note that "other borrowed money" includes loans from the now dissolved Bank Term Funding Program that was enacted in March 2023. It is unsurprising that this category saw a decline year over year from 2023 to 2024 because these funds rolled off along with the program, and it appears that they were largely absorbed by the reciprocal deposits category. Given that 2023's bank failures were due in part to excessive holdings of uninsured deposits, the insured benefit of reciprocal brokered deposits makes them an attractive location for maturing Bank Term Funding Program funds. Since year-end 2023, other borrowed funds declined $49 billion, while reciprocal deposits increased by $33 billion, or roughly two-thirds that amount. Brokered deposits increased by $17 billion over the same period.

FIGURE 26

How important are each of the following potential challenges to attracting and retaining core deposits?



Core funding continues to be an extremely important issue among survey respondents. Nearly 80% of respondents cited core deposit growth as either “extremely important” or “very important.” Funding costs were cited by 78% of respondents as either “extremely important” or “very important,” as well. (See Figure 4.) When asked which challenges were most important when attracting core deposits, market competition remained the most common answer, with 83% of respondents naming it either “extremely important” or “very important.”

Historically, deposit rates begin to decline meaningfully around five quarters after the first interest rate cut. Given that the first cut was in September 2024, this historical relationship suggests meaningfully lower deposit rates sometime in 2026. Another important thing to consider is whether competition or the potential for easing policy rates plays a bigger role in moving deposit rates. From 2024:Q4 to 2025:Q1, funding costs for community banks declined 24 basis points, from 2.95% to 2.71%.

TABLE 3

Cost of deposits and funding (%)

	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024	March 31, 2025
Cost of deposits	0.37%	0.57%	2.34%	2.84%	2.64%
Cost of funds	0.41%	0.63%	2.25%	2.95%	2.71%

NOTES: Percents are collected quarterly for community banks. Data are obtained from the *Uniform Bank Performance Report*.

As in previous surveys, bankers identified the compliance portion of costs they incurred in personnel, data processing, legal services, accounting and auditing, and consulting services. There were no substantial changes from trends in prior years. The "accounting and auditing" and "consulting and advisory" expense categories had the highest mean percentages attributable to compliance, at 36% and 29%, respectively. These categories have been the top two for the last seven years. On average, compliance constituted merely 13% of "personnel" expenses, the lowest of all the categories; despite this, the category comprises 58% of total compliance expenditures.

Banker Perspective

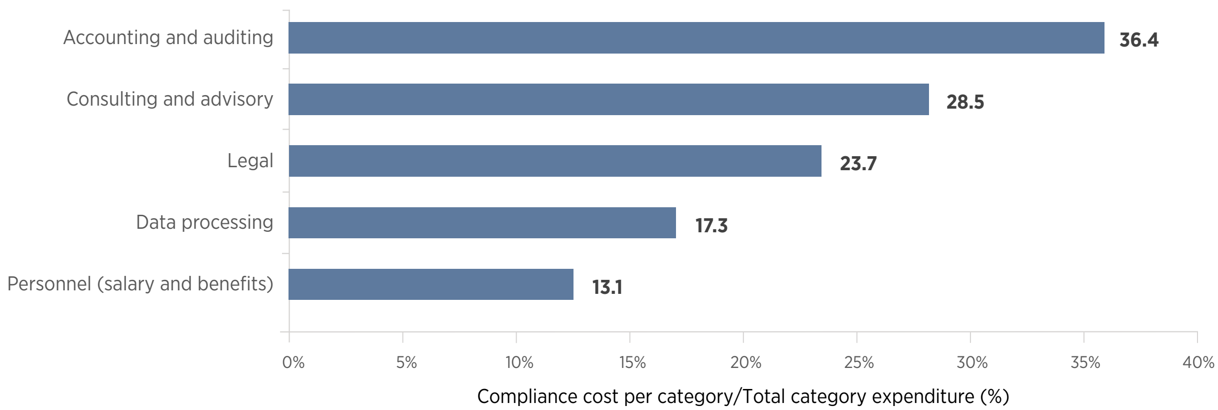
In regard to compliance costs, there are ancillary costs that are hard to track, such as the time spent by customer service reps to make sure that Know Your Customer forms are completed accurately. I'll give you some percentages that don't include those ancillary costs: Over the last five years, our compliance labor costs have increased 58%. Our software costs increased 74% during the same period, so our overall compliance costs have increased by about 62%. I don't look at what other people are spending, and we don't have a massive compliance area, but we still have four full-time people and one part-time person in the area.

Hopefully, with the help of AI or other technology, we will be able to slow down the increased cost of ongoing and increasing regulation.

—Mark Packard, Central Bank
Provo, Utah

FIGURE 27

What portion of the following expense categories are attributable to compliance?

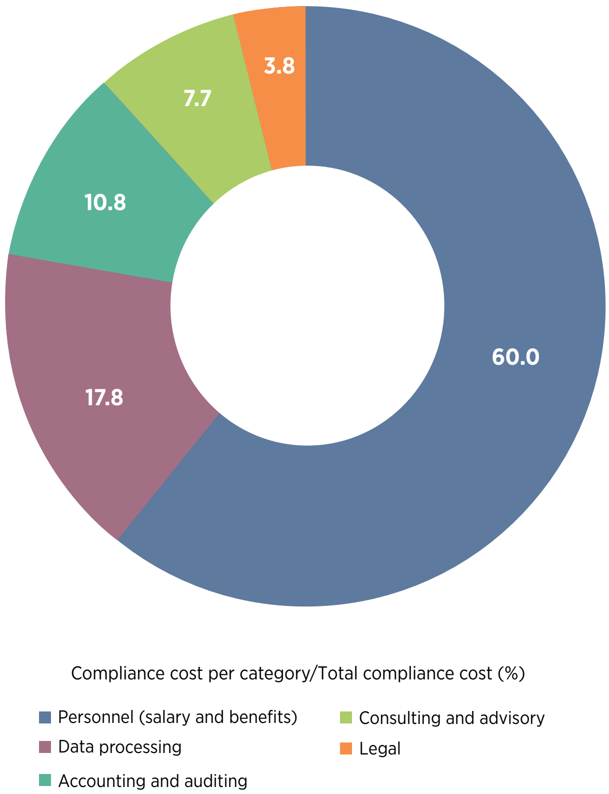


NOTE: Percentages represent a simple average of survey responses.

This year, bankers were asked to report the percentage of compliance costs attributable to groups of regulations, laws, or reporting requirements. On average, safety and soundness, money laundering, and consumer protection costs accounted for 27%, 25%, and 23%, respectively, of total compliance expenses.

FIGURE 28

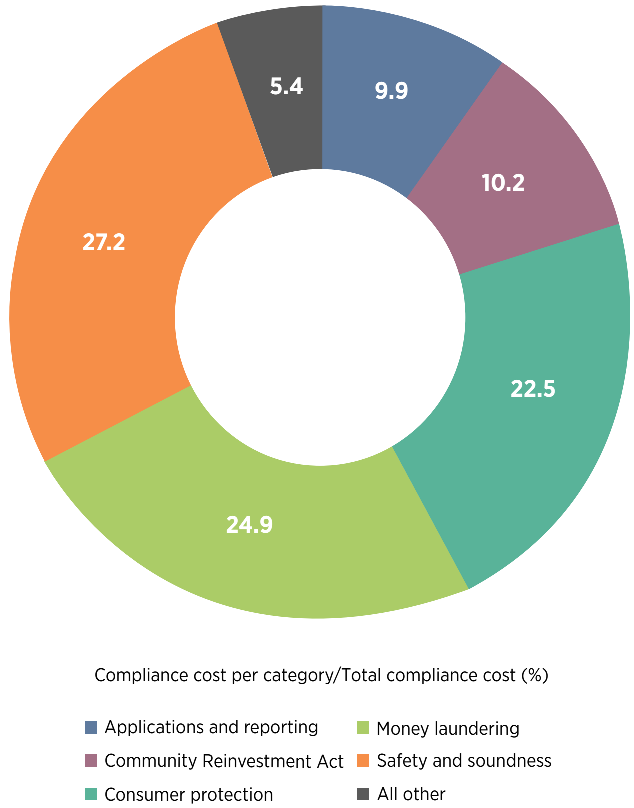
What share of total compliance cost is allocated to the following expense categories?



NOTE: Percentages represent a simple average of survey responses.

FIGURE 29

What percentage of compliance cost is attributable to the following regulations, laws, or reporting standards?



NOTE: Percentages represent a simple average of survey responses.

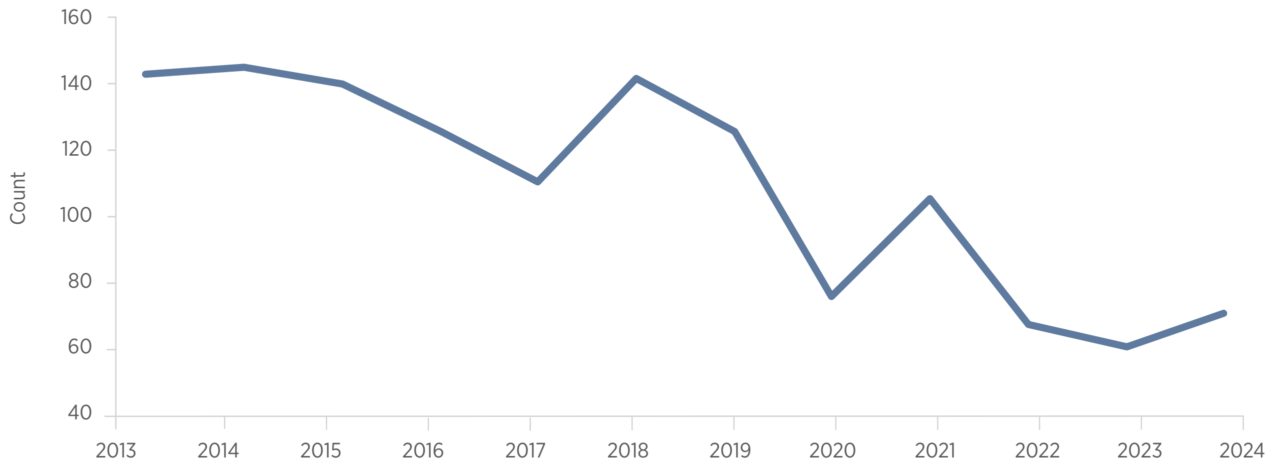
Banker Perspective

Compliance has grown significantly over the past decade, and it seems like new regulations are added, but nothing ever goes away. … That money isn't all wasted, because I think there's some place for regulation so it's not the Wild West. I think community banks have the customers' best interests at heart and want to do what's best for them.

—Lindsay Spitzer, Bluff View Bank
Galesville, Wisconsin

FIGURE 30

Annual number of bank mergers



SOURCE: *FDIC Merger Decisions 2013-24.*

The annual number of bank mergers increased in 2024 for the first time in two years but remained below 2021 levels. In September 2024, the FDIC and the Office of the Comptroller of the Currency implemented new policies that would increase scrutiny of bank mergers.[2] These policies were rescinded in May 2025, which could encourage new merger and acquisition (M&A) activity.[3] M&A activity continues to face headwinds from higher interest rates, inflation, and overall economic uncertainty. Nevertheless, annual M&A activity is expected to rise in the future because of lower economic tail risks and a more favorable regulatory environment.

Banker Perspective

I've read that M&A is picking up some and is expected to increase, but I think there's still a place for small, independent banks. Everyone tells you that you must get bigger to survive or achieve economies of scale. But I think that we're evidence that there's still a sweet spot of size, profitability, highly personalized customer service, and employee engagement. We're small, but it's like a family, and I think that's important. We've tried to be intentional about management succession and ownership succession because we feel like we've got a good thing going. Unfortunately, the industry will continue to consolidate.

—Lindsay Spitzer, Bluff View Bank
Galesville, Wisconsin

[2] For more information, see "FDIC Board of Directors Approves Final Statement of Policy on Bank Merger Transactions," Federal Deposit Insurance Corp., Sept. 17, 2024, press release, and "OCC Approves Final Rule and Policy Statement on Bank Mergers," Office of the Comptroller of the Currency, Sept. 17, 2024, news release.

[3] For more information, see "Statement of Policy on Bank Merger Transactions: Rescission and Reinstatement," Federal Deposit Insurance Corp., May 20, 2025, financial institution letter, and "OCC Issues Interim Final Rule on Bank Mergers," Office of the Comptroller of the Currency, May 8, 2025, news release.

In the 2025 Annual Survey, 12% of respondents reported that they received and seriously considered accepting an acquisition offer in the last 12 months. This was double the 6% reported in 2024 and 2023. Inability to achieve economies of scale continued to be the top reason for consideration for the second year in a row; 61% of respondents deemed it either "extremely important" or "very important."

Meanwhile, 14% of respondents reported making an offer to acquire or merge with a target institution in the last 12 months. This was up from 12% in both 2024 and 2023. Achieving economies of scale was cited as the primary rationale for making an offer, with 76% of respondents considering it either "extremely important" or "very important." Achieving economies of scale has been the most important reason for offers since 2022.

FIGURE 31

Have you received and seriously considered accepting an acquisition or merger offer in the last 12 months?

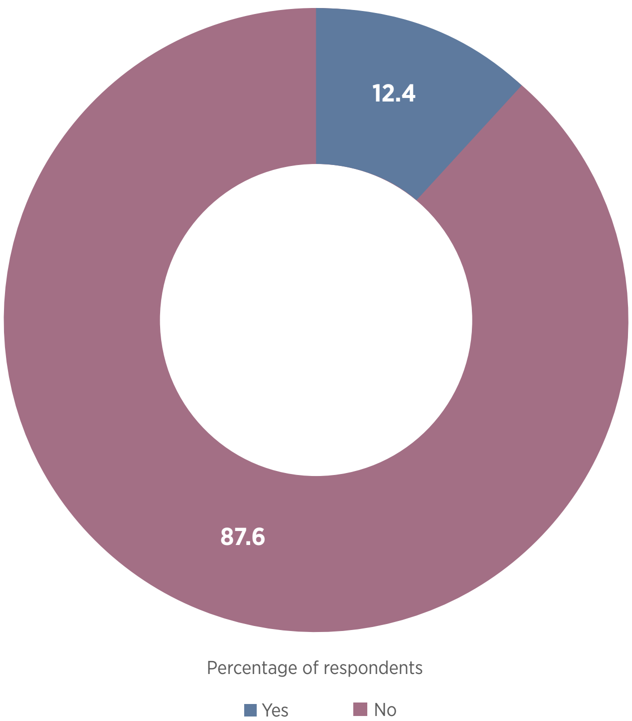
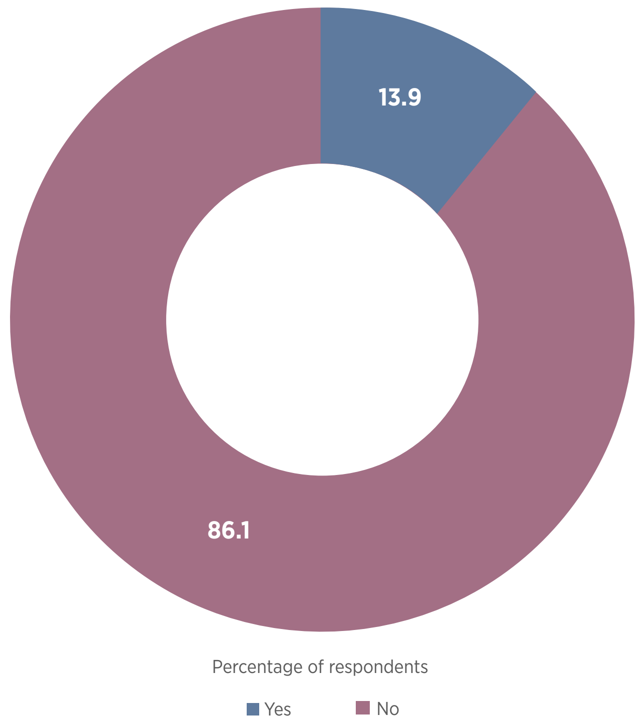


FIGURE 32

Have you made an offer to acquire or merge with a target institution in the last 12 months?



Banker Perspective

Going forward, I think there's pent-up demand on the sell side. We are regularly approached by banks that are looking to exit, and I don't know that that slows down. I think we have a way to go before consolidation stops and we see fundamental resets of the banking business model. I don't know if we'll ever see capital flow back into banking like it did in the 20th century. Having said that, I'm excited because I think there is a path toward reaching size and scale within the community bank ecosystem and reimagining what it could be. I think for those who are willing to put in the work and get satisfaction from making a difference and impacting their community, banking is a great path forward, because a lot of folks will not have the tenacity to stick it out.

—Clayton Legear, Merchants & Marine Bancorp Inc.
Pascagoula, Mississippi

FIGURE 33

How important were the following factors in your decision to seriously consider accepting the acquisition or merger offer?

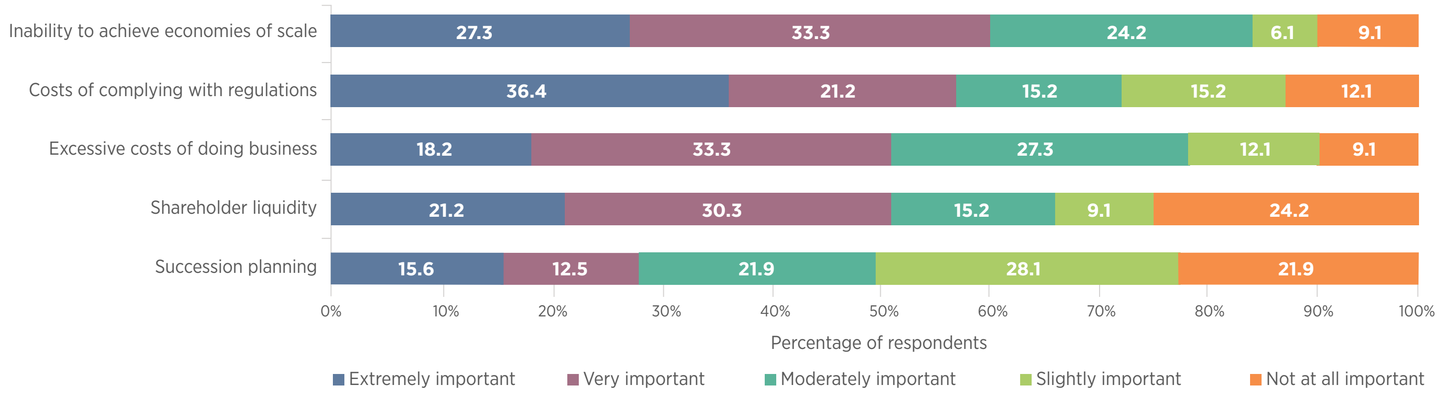
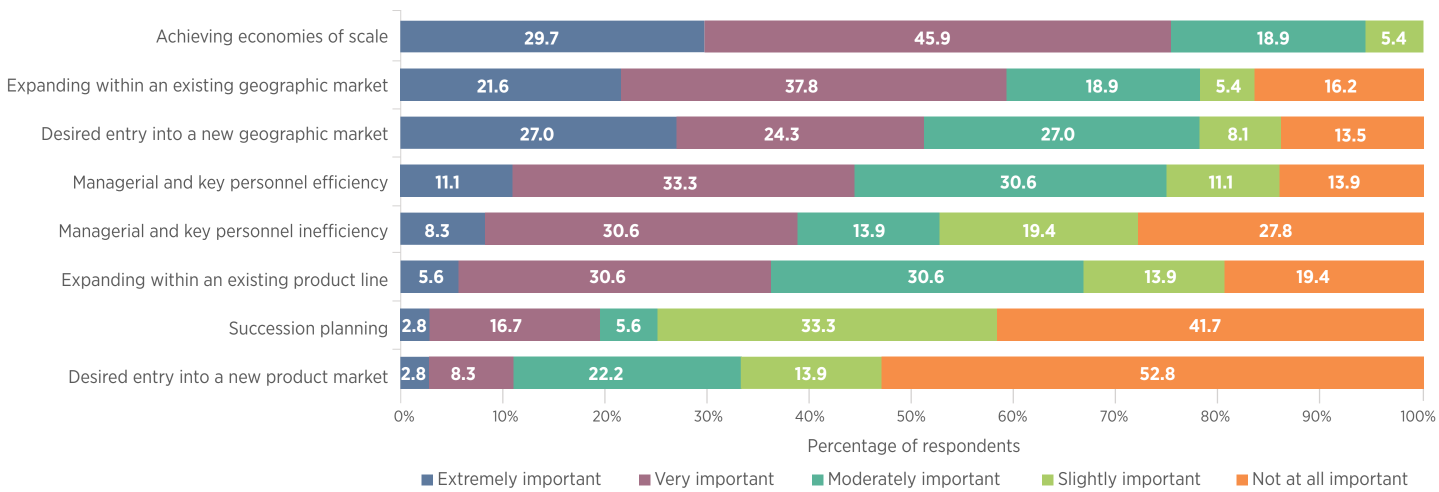


FIGURE 34

How important were the following motivations to make the offer?



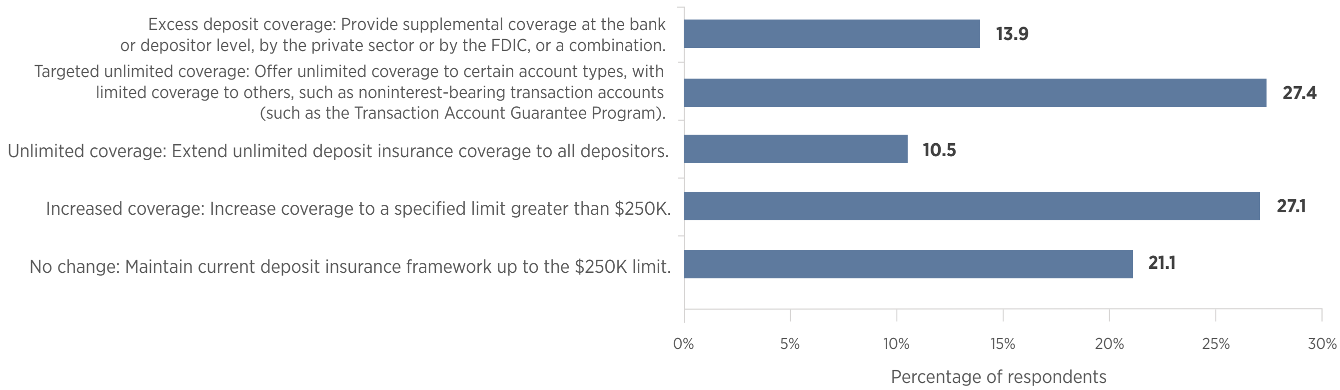
SPECIAL QUESTIONS

Deposit Insurance

On the topic of deposit insurance, most respondents (79%) reported they would alter the current deposit insurance framework. Of those respondents, the most common solutions were targeted unlimited coverage and increased coverage. Targeted unlimited coverage would consist of unlimited coverage to certain account types, with limited coverage to others, such as noninterest-bearing transaction accounts. Under increased coverage, deposit insurance limits would be greater than the current $250,000. According to those participants who favored raising deposit insurance limits, the majority (72%) favored a new limit of $500,000, while 21% would raise the limit to $1 million, and just 7% would put the limit somewhere between the current and $500,000. Other options weighed by respondents were excess deposit coverage and unlimited coverage, which received less support.

FIGURE 35

If you were to update the deposit insurance rules, which of the following solutions would you prioritize?

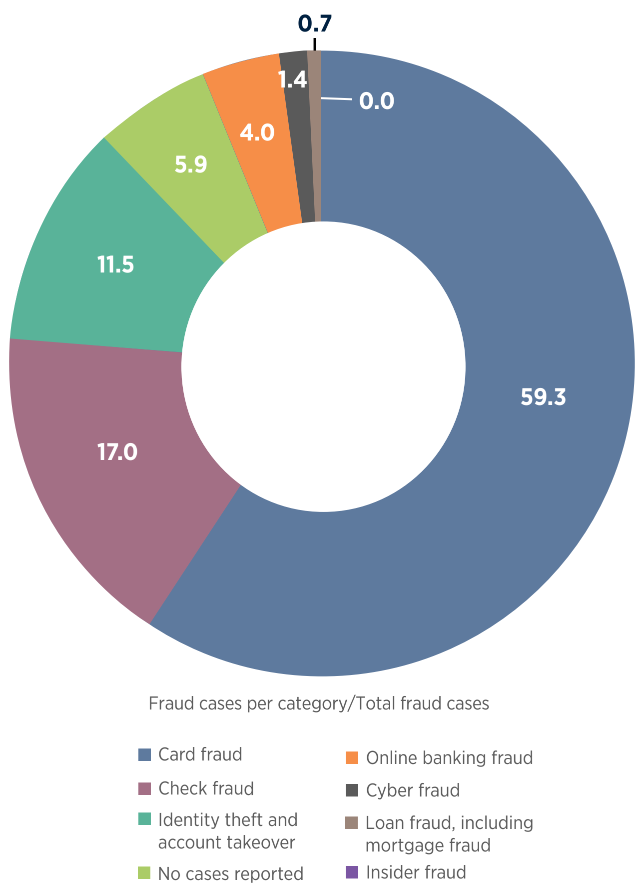


Fraud

Community bankers were surveyed on various types of fraud experienced by their institutions in 2024. Bankers reported the highest incidence of credit and debit card fraud, with 59% of reported fraud cases attributed to this category. The second most common type of fraud was check fraud (17%), while 12% of fraud cases were related to identity theft and account takeover. Dollar amount losses were highest among credit and debit card cases, with 39% of reported losses stemming from this type of fraud. Check fraud accounted for 30% of reported losses, while identity theft and account takeover resulted in 11% of losses among survey respondents.

FIGURE 36

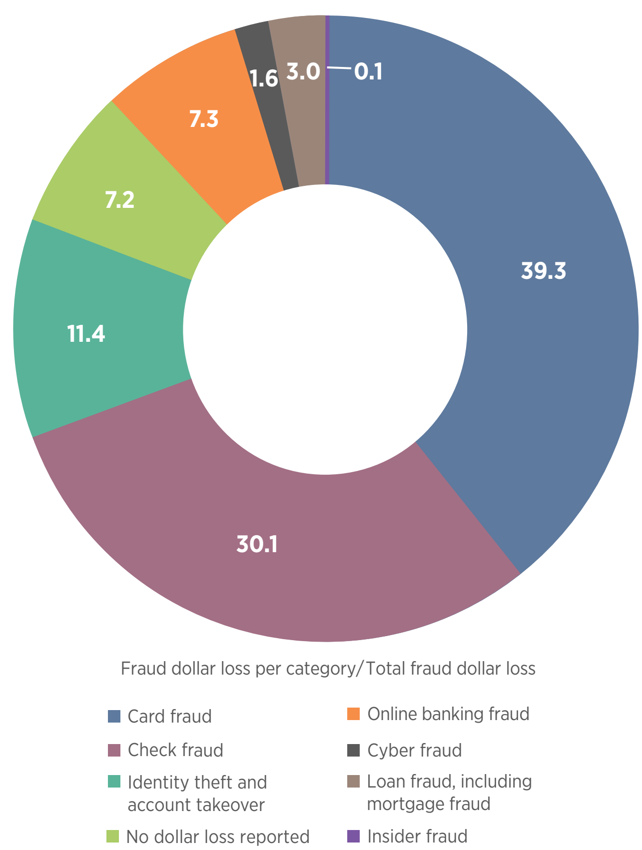
What portion of total fraud cases at your bank are attributable to the following fraud types?



NOTE: Percentages represent a simple average of survey responses.

FIGURE 37

What portion of total dollar losses from fraud at your bank are attributable to the following fraud types?



NOTE: Percentages represent a simple average of survey responses.

Banker Perspective

Fraud is huge right now—we're seeing innovative fraud being developed with AI and old-school fraud such as check-washing. We must be observant and diligent. There's no way to avoid all of it. There are procedures that can be put in place, people must continue to be proactive, and we must implement extra processes with AI and similar tools that can help. Fraud is always changing and evolving. We also need to change and evolve.

—Mark Packard, Central Bank
Provo Utah

CONCLUSION

This 12th Annual Survey of Community Banks provided community bankers with an opportunity to share their views on the most pressing topics across the banking industry today.

For the eighth consecutive year, cybersecurity topped the list of internal risks facing community banks. With the rapid pace of technological innovation and adoption, it was no surprise that community bankers viewed technology implementation and related costs as the second-highest internal risk for their institutions and the overall cost of technology as essentially tied for the third-highest external risk. When asked about challenges to implementing new technologies, community bankers viewed every aspect of implementation as more challenging relative to the 2024 Annual Survey. However, survey respondents also saw opportunities with respect to technological developments—including expanding mobile banking services, fully integrating loan processing systems, and adopting cloud-based core systems—topping the list of promising advancements. While community bankers expressed little interest in adopting cryptocurrency services, the survey period ended just prior to the signing into law of the GENIUS Act. This will surely be a topic of discussion in the banking and payments industries in the months and years to come.

As shown in recent readings of CSBS's Community Bank Sentiment Index, community bankers have become more optimistic on the regulatory climate—a sentiment that can be seen in the 2025 listing of external risks facing community banks, where regulation slipped from a near tie for first last year to sixth this year. Indeed, the share of bankers identifying regulation as an extremely or very important external risk fell 13 percentage points year over year, to 75%.

While views on regulation shifted notably since last year's survey, risks related to net interest margins, core deposit growth, and funding costs were again ranked high in importance by community bankers—a consistent result year to year. Bankers did express somewhat less concern on both core deposit growth and funding costs relative to the 2024 Annual Survey, likely reflecting the decline in short-term interest rates and a relative easing in competition for deposits. Nevertheless, with heightened economic uncertainty at the time of the survey, community bankers indicated more worry with respect to economic conditions and ongoing concern related to credit risk.

Community banks continued to view other community banks as their top competitor across most product and service lines, but this year's results indicated growing competition from nonbanks. In particular, nonbanks without a physical market presence were cited as the second most common primary competitor for payment services, while the primary competitor remained larger local banks. In addition, community banks viewed nonbanks with a physical market presence as their top competitor for wealth management and retirement services. These results indicate the ongoing competition that community banks face across the broader financial services industry—a theme likely to continue in the years ahead.

Fraud continued to be a significant source of concern for community bankers. They frequently detailed specific fraud challenges in the comments section of the survey. To better understand the fraud challenges faced by community bankers, the 2025 survey, for the first time, gathered information on common types of fraud, as well as the dollar losses associated with each type. The findings were eye-opening. Community bankers reported that credit and debit card fraud was both the most common and most costly type of fraud, followed by check fraud then identity theft and account takeover. Indeed, comments from community bankers reported the growing incidence of AI-generated voices used in fraud calls but also the ability to leverage AI to identify and therefore reduce fraud going forward. These examples highlight the tension between the costs and opportunities related to technological innovation.

Findings from the 2025 Annual Survey provide valuable insights into opportunities for community banks and also the pressures on the community bank business model. Historical survey results can be viewed on the CSBS website at csbs.org/survey. These results continue to demonstrate that community bankers remain resilient despite myriad challenges over the years. Through financial crises, changing regulatory landscapes, and even a global pandemic, community bankers have endured, serving their customer bases and remaining relevant in times of rapid change.

2025 Five Questions for Five Bankers

1. **It is a unique time for the U.S. economy, with conflicting data showing strength and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?**

2. **New leadership at the federal banking agencies and Congress seem focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?**

3. **What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?**

4. **What worries you most about the cyber landscape and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?**

5. **Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?**

Lloyd Hamm Jr.

River Run Bancorp, President and CEO
Newburyport, Massachusetts

Lloyd L. Hamm Jr. is a seasoned financial executive with extensive leadership experience in banking, credit unions, and higher education. Currently serving as president, CEO, and board co-chairman of River Run Bancorp, he led the creation of a $3.6 billion mutual holding company. Previously, as CEO of Newburyport Bank and Homefield Credit Union, he drove significant growth, financial turnarounds, and strategic transformations. With over 25 years at Eastern Bank, he played a key role in expanding assets from $400 million to $9 billion. His expertise spans strategic planning, risk management, technology, operations, business line inception and growth, mergers, and operational excellence. A Harvard Business School General Management Program alumnus, he has served on numerous boards and advisory committees, demonstrating a strong commitment to community and economic development.

It is a unique time for the U.S. economy, with conflicting data showing strengths and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?

For context, I'm the CEO of River Run Bancorp, the mutual holding company for Newburyport Bank. We merged with Pentucket Bank, bringing its holding company into ours, and on July 1, we merged with Rollstone Bank in the Nashua River Valley. Now we have three banks with about $3.6 billion to $3.7 billion in assets. We've centralized all back-office functions—credit, HR, accounting, finance, technology, marketing, communications, and training—at the holding company.

This structure lets us hire talent and purchase technology at a $5 billion scale, then deliver those services back to the banks. The banks themselves are commercial and retail organizations. Our loan mix is roughly 40% residential and 60% commercial. Residential originators remain in the banks, while all processing, underwriting, secondary market packaging, closing, and quality assurance occur centrally. A loan processor may be working on loans from multiple banks—one from Pentucket, two from Newburyport, and one from Rollstone—creating efficiencies and justifying our technology platform.

The banks focus on originating loans. For each loan, they choose whether to keep it in our portfolio or sell it in the secondary market. If it's sold, we recognize the fee income and credit it to the bank's income statement. On the commercial side, we increasingly use participations within our own family of banks. If we originate a $15 million loan but only want to hold $7 million, the other $8 million can be taken up internally.

Overall, I'd say the economy is strong and strengthening. We are seeing some weakness, much of it policy-driven, across our three banks. Rollstone operates entirely in Massachusetts, while Pentucket and Newburyport also serve New Hampshire. In our Massachusetts portfolio, health care financing has weakened. Our largest nonperforming asset is a nursing home group, and we won't lend in that space going forward. These facilities have become financially unviable due to how the commonwealth has treated reimbursements. For example, this borrower needed several months of cash to cover delayed Medicaid and Medicare payments. Payments are now in arrears because the state redirected funds to other priorities, leaving these organizations without liquidity. I know many other banks have similar issues.

This isn't isolated to our three nursing home loans—it's systemic in the region. It doesn't reflect broader economic softness—there is strong demand for senior care housing—but the state's reimbursement rates and timing have put these loans at risk. The state has appointed a receiver to take over and sell the nursing homes, and we're in the final bid stage for our exposure.

Another area showing weakness is retail space. While we haven't seen many outright retail or restaurant failures, we are seeing closures, likely a mix of normal turnover and post-COVID fatigue.

Housing prices are extremely high in our market. In Newburyport, an 800-square-foot, two-bedroom, one-bath condo—without a water view—can sell for $800,000 to $1.2 million. First-time buyers are effectively priced out, even though we're 50 minutes from Boston. Housing costs will eventually affect our ability to attract and retain employees. In Massachusetts, the groups leaving the state the fastest are 60+-aged residents moving South with accumulated wealth and 24- to 32-year-olds leaving after college for more-affordable, higher-quality-of-life markets. Young adults are frequently leaving for markets like Tennessee, the Carolinas, Colorado, and Texas. Ultimately, this will have a negative impact. But today the economy is strong enough to absorb it.

Massachusetts unemployment has risen above the national average for the first time in about 25 years—around 4.1%. Roughly 3% of the population is unemployable or in transition, so this isn't a crisis, but the trend is notable. In the Boston market, housing supply has increased but population has declined. A triple-decker that once held three families of four now might house two adults in a $2 million South Boston condo. Household sizes are shrinking. Population is declining, while per-household space hasn't changed much—two-bedroom condos now house two people instead of four to six a generation ago. We absolutely need more housing, programs to encourage construction, and regulatory relief to make housing feasible and affordable to build, sell, and market.

New leadership at the federal banking agencies and Congress seems focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?

I think regulators have already made some great moves, like eliminating Section 1071 [of the Dodd-Frank Act] reporting on the commercial side. For two banks, we estimated compliance would have cost about $330,000 a year. Complying would have required hiring additional staff, as certain employees couldn't take on that work. Removing that burden is a step in the right direction. We've always had strong relationships with the FDIC and the Massachusetts Division of Banks and all other regulators, and I expect that will continue. That said, I am concerned that agency buyouts have removed a lot of experienced talent from the marketplace. Our state Division of Banks is terrific, and we have a great commissioner, but they've struggled with losing staff to the FDIC for years. Fortunately, our relationships and ratings remain strong. Even so, the loss of experienced talent means we (and many other banks) spend more time and resources retraining examiners and explaining routine matters.

Over the last 10 years, spanning both my credit union and banking experience, our compliance costs have tripled. For example, the BSA [Bank Secrecy Act] became critical after 9/11 and has only grown more complex in terms of reporting and information requirements. HMDA [Home Mortgage Disclosure Act] reporting used to involve just a handful of fields, maybe eight. Now it's hundreds, and you must dedicate resources to ensure absolute accuracy or risk penalties if the data are wrong. We also invest heavily in BSA monitoring systems, paying hundreds of thousands of dollars annually across three banks. Whether or not those data are being fully leveraged on their end, we know we're paying for it. Overall, the compliance and regulatory burden today is very different than it was even six months ago. We're realistic—we don't expect the burden to disappear. At best, we hope it won't continue to grow. This ties into fraud management as well. One of our staff made an interesting observation: All the savings we hope to achieve with AI in the next five years could be offset by AI-driven fraud. We're already seeing this in our call centers, where AI-generated voices are used to mimic customers. Fraudsters capture voices from home calls, then use them to bypass voice recognition software. So, we're closing the front door as fast as we can, but the back door is open, too.

What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?

I think the regulators are better at the examination process than they used to be. I asked my managers for input, and one of them noted that it used to feel like a competition between the Division of Banks and the FDIC to see who could find the most "gotchas." Today, the approach feels more like a partnership. Examiners share what they're thinking about, ask how we're responding, and make suggestions to help us address issues. It's a much better relationship than in the past.

That said, we always have concerns. The CFPB [Consumer Financial Protection Bureau] is unpredictable; you never know what they'll release next. We also watch things like the Durbin bill and how it could affect debit card processing and fee income. Overall, we have a good relationship with the examiners themselves—less so with the people creating the regulations.

What worries you most about the cyber landscape, and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?

We continue to put more resources into cybersecurity and technology risk, which has grown rapidly as part of our cost structure. We've invested heavily in systems and processes and added staff to review outputs to protect customers and prevent fraud. Fraud is not yet a large loss item for us, but it could be. Recently, along with hundreds of other banks, we were targeted by AI-assisted fraudsters who obtained customer data from outside sources and purchased lists. They knew exactly who our customers were. Another bank in our market experienced the same attacks. Fraudsters called business customers, impersonated the bank, and attempted corporate account takeovers by asking for login information. One customer provided the information, realized it quickly, and called us within an hour—yet $16,000 had already been transferred. That may not seem large, but for that business customer, it was significant.

These penetration attacks are recurring. We constantly remind customers never to give out their information and that we'll never call to request it, but not every customer will remember that. Customers often assume a call is legitimate and provide the information. Much of this fraud appears to originate overseas, and AI will make distinguishing fraudulent from legitimate transactions even more difficult.

On the positive side, AI will dramatically change how we handle credit. For example, we conduct thousands of annual commercial credit reviews that require analyzing financials, tax returns, and market conditions. AI could perform 80% to 90% of that work, leaving the credit analyst to review for accuracy and validity. This could improve credit quality, enhance problem identification, and significantly reduce the cost of annual reviews.

We also use an "AI bot" for customers. Those who opt in can use our bot "Penny," available in the call center, mobile app, and online banking. For example, a customer can ask, "How much did I spend at restaurants last month?" Penny reviews transactions and responds—for example, "You spent $385 at restaurants," and can even identify the merchant with the highest spend. Customers are increasingly comfortable using these tools. We see this as an opportunity to strengthen customer engagement without adding staff. Payment systems are improving, but customer branch visits are down. When I started, each branch averaged seven staff, now it's just above three. People do business with people—that won't change—but after that, technology handles most transactions. We can close and record an SBA [Small Business Administration] loan in 24 hours, thanks to these systems.

Technology continues to advance, and in banking we're still at the very beginning of its potential impact. We haven't yet begun using technology to design the next generation of financial services. I gave one of our bank boards an example of how I see AI evolving over the next three years. Right now, fast-food chains push customers to use kiosks, which can be frustrating because you must navigate the menus yourself. Imagine replacing that with a fully conversational AI bot. You could walk up, say "I'd like a No. 3," and the AI bot would guide the order like a human, maybe better. Expanding AI capabilities will remove current frustrations and move technology to the next level.

Personally, I use AI daily. For example, I asked our law firm yesterday about consolidating our three bank charters under a single regulator, and they sent back a very thorough 19-page memo. I ran it through AI, which summarized it into two pages. I shared that summary with my chief administrative officer and CFO to decide next steps—no need to waste time on 19 pages. This is a real boost to productivity and efficiency. I also think my writing has improved. I dictate what I want to say for board, regulator, or staff memos into AI, get a draft back, and then edit it into a consistently better final product.

If the rest of the company isn't using these tools, we're missing opportunities. We're also working with Microsoft to create a proprietary Copilot environment, so bank and PII [personally identifiable information] data stays secure in a private Azure instance. This setup allows us to leverage AI engines while keeping all data secure. We're conscious that this is a new frontier, and early adopters take risks, but we want to get good at it quickly while protecting sensitive data. We want to advance as fast as possible, but protecting data—especially PII—is essential.

Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?

There are still many community banks in the Northeast. I often describe the evolving situation as everyone is talking to everyone because fewer banks remain today, and fewer can remain completely independent. Another way I describe it is a tidal wave coming toward community banks. Margin pressure, efficiency challenges, technology, talent costs, and compliance constitute the wave. We all need to move to higher ground—some banks will try to stand still, some will merge early, and others will climb alone. Our approach is to bring other community banks into our model so we can "climb higher and faster" together. Consolidation is happening nationwide, and I expect it to accelerate in the Northeast because of the sheer number of smaller institutions.

I probably wouldn't start a de novo today due to the regulatory environment, technology costs, and capital requirements. Early in my career, mutual-to-mutual mergers used to allow pooling of balance sheets—you simply combined them. With our recent Rollstone acquisition (two mutuals coming together), we had to mark every loan and deposit to current market value. We paid nothing for the institution, but the accounting marks for this small community bank totaled $50 million. That's capital we can't use for growth or other acquisitions. I know regulators don't control the accounting rules, but mark-to-market has real consequences. Mark-to-market accounting has hampered the ability of mutuals to merge without seeking secondary capital sources.

I'm excited about mutual capital certificates, which I've seen implemented by a bank in New Hampshire and a bank in Kentucky. They're like CDs that pay above-market rates but count as tier 1 capital for a mutual. Treated as tier 1 capital, these certificates let a mutual raise capital without issuing stock.

For example, if our holding company issued $150 million, I could downstream $50 million to each of my three banks. With a 10% leverage ratio, $50 million per bank could support $500 million in new loans. Over five years, we could grow by about $100 million annually, using deposit growth first and secondary markets as needed. This would expand our loan volume, community impact, charitable giving, employee base, and small-business and mortgage lending. The organization would remain independent, paying interest on the certificates. $500 million in loans at a 3% margin generates $15 million a year, which could retire the capital over about five years.

After five years, the capital certificates could be retired or issued again. A secondary capital source like this would help mutuals grow without going public and could even support de novo formation. As a mutual, we don't need a 110-basis-point ROA [return on assets]; 75 is fine. I'll give up 20 to 25 basis points to be the best employer, best serve our customers, reinvest in our communities, and build our brands for decades to come.

I tell our team: "Out-local the big banks, and use the holding company to out-talent and out-tech the small banks"—that's our winning sweet spot. At the holding company, a $1 billion bank can get a seat. Its local board remains, board members still earn fees, and the executive committee could potentially get three seats at the holding company board. They have input, but the holding company makes final decisions. This model works well. For banks under $1 billion—say, $300 million—the model is different. They would merge into one of our existing banks, receive seats on the local bank board, and become part of the larger structure. These mergers provide all the benefits of the holding company; they likely can't maintain a stand-alone brand. We believe our model works with five to seven banks of $1 billion or more, not 30 tiny banks.

Recruiting and retaining board members haven't been issues for us. Some responsibilities now rise to the holding company board, and local directors are adjusting to having fewer responsibilities than before. I want local boards focused on growth, customer relationships, and building their brand's local reputation. They no longer need to handle compliance, accounting, or technology—that's managed at the holding company. To keep everyone informed and partnering each month, local boards receive two 30-minute presentations: one from a business line and one from an operational area (ops, tech, marketing, facilities, credit, audit, treasury, HR, cyber, IT). This keeps local boards familiar with holding company operations while focusing their authority where we want it: driving institutional success, local brand growth, charitable giving, and community investment. I'm sure some members feel a sense of loss for powers they no longer hold, but their influence remains critical in the areas that matter most locally. ■

Clayton Legear

Merchants & Marine Bancorp Inc., Chairman and CEO
Pascagoula, Mississippi

Clayton Legear is chairman and CEO of Merchants & Marine Bancorp Inc., and its subsidiary Merchants & Marine Bank. He joined the bank in 2011 and has served as compliance manager, chief risk officer, chief operating officer, and president before being named CEO. Prior to joining Merchants & Marine, Legear was a financial institution examiner and deposit insurance claims specialist for the FDIC. He holds a Bachelor of Science degree in business administration from Troy University, graduating magna cum laude, and is a graduate of the Graduate School of Banking at Louisiana State University. He is pursuing a Certificate of Management Excellence from Harvard Business School. Legear serves as vice chairman of the Mississippi State Board of Banking Review, chairman of the Federal Reserve Bank of Atlanta's Community Depository Institutions Advisory Council (CDIAC), a member of the Federal Reserve Board's National CDIAC, a member of the CSBS Bankers Advisory Board, and a member of the Mississippi Bankers Association Executive Committee.

It is a unique time for the U.S. economy, with conflicting data showing strengths and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?

Overall, credit quality in our region is relatively solid, but there are, just as you're seeing in the national data, some sectors that are giving us concern. In general, the sectors with the greatest weakness are dependent on consumer discretionary spending. Even including durable goods, we're seeing a sort of down-trading in consumer durable good purchases. People are keeping recreational vehicles (e.g., four-wheelers, boats) longer, so those dealers are really struggling. We have quite a few of those in our region since we're on the Gulf of Mexico.

We're also seeing those individuals impacted by the sustained higher cost of credit associated with floor plan lines of credit. Or in cases where there's no floor plan inventory, let's say it's a restaurant or a service business, they just have a standard working capital line of credit, and those costs result in some stresses from time to time. We haven't seen any sector completely fall apart, but there are ripples making us wonder what's going on under the surface.

Real estate has been surprisingly strong. We were ready for a real estate collapse after the pandemic, and we haven't seen that. We thought that historically low rates and the resetting of the rate regime might trickle down to increase delinquencies and occupancy issues or challenges in commercial real estate. But we haven't seen that either. Although I will say, within our organization, we still haven't seen the full brunt of repricing. I don't know if the lower rates obtained in 2021 and 2022 are keeping some issues at bay. We've looked at our data, we stress-test all loans for interest rate shocks and other shocks, and we feel good about the deals on our books, but we wonder what the environment will look like once everything normalizes.

Consumers appear resilient—it seems like they'll just consume until they're fully out of money or max out their credit cards. We're seeing this in the residential real estate market as well. We would've thought that the combination of higher prices, high interest rates, and higher homeowner insurance would keep people away. But we see just as many mortgage applications; in fact, we've closed more loans year-to-date by volume and value than we closed last year. However, we're seeing some slowdown in beach areas, with inventory increasing and days on market rising. We are also seeing pricing concessions in those tourist markets. We don't have exposure to the Florida real estate market, but the condo market there is troubling. You may remember that Florida passed strict laws regarding condo maintenance after the condo tower collapsed a few years ago. The problem is that the economic model of collecting condo owner association monthly fees in some circumstances may be insufficient to really keep some of these in play. We wonder whether that may cause ripples in other markets where we do have exposure.

New leadership at the federal banking agencies and Congress seems focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?

There are many changes I would make, and it's really encouraging for us to hear that there is awareness in the regulatory front of some of the challenges caused by limits put in place decades ago. First and foremost, the CTR [currency transaction report] threshold needs to be changed. The $10,000 limit was adopted in 1970, which, accounting for inflation, amounts to $83,000 today. It's hard to understand how reporting cash transactions around $10,000 really adds value to anyone. You can't buy much of anything for $10,000 today, and it creates a lot of unnecessary work and heartache on the part of banks. I imagine that combing through all that data isn't helpful for law enforcement either.

In addition to that, I would also love to see revision and maybe inflation-indexing for Regulation O limits. Those were passed back in the 1990s. The $100,000 limit on loans to bank executive officers for "other purposes" would translate to more than double that amount today. That limit isn't that much money today—if someone's looking to purchase something or do something, it doesn't make sense to use that loan. The Reg O limits on inadvertent overdrafts are also problematic. We have lines of credit for our directors and executive officers, but I think Reg O unintentionally forces bank executives and bank directors to no longer bank at the very banks that need their support. These limits are forcing executives to bank elsewhere because they're so fearful of running afoul of these limits or really razor-thin margins and causing the bank an issue, not to mention the embarrassment of being in a report.

I would also revisit FDICIA [FDIC Improvement Act]. The $1 billion asset threshold triggering an independent audit committee is artificially low and doesn't reflect recent legislation. Under the GENIUS Act, stablecoin issuers don't trigger a FDICIA-style audit until they've granted more than $50 billion worth of coin. How does it make sense to require banks, which are already heavily regulated, to meet FDICIA audits at $1 billion but allow a stablecoin issuer to grant $50 billion before they complete a comparable audit?

The CRA [Community Reinvestment Act] thresholds are low-hanging fruit for reform—materially raising the limits for "small bank," "intermediate small bank," and "large bank" would be awesome. I think we should also revisit the CRA's purpose and better-target it to support the American Main Street economy in 2025.

Expanding the small-bank holding company exemption would also be a big help. Today, $1 billion or $3 billion is nothing in the banking world. I would argue that's a small-bank holding company—why wouldn't that be exempt? We need to revisit that. I would also wonder if regulators want to review the large-bank threshold—though some of my small-bank peers may disagree with me. And I'm curious to what extent it adds value to having banks over $10 billion undergo a continuous exam. Maybe it adds value, maybe it doesn't add value, but speaking as a small bank, we know that some continuous exams require a lot of examiner resources. It would be great if some of the more-senior examiner experience could be freed up to help risk-based, educated decision-making and evaluation of our community banks.

We've tried to tabulate our compliance costs, and frankly we stopped the calculation in excess of about $2.5 million. I know there's more cost than that. There are direct obvious costs associated with compliance: personnel expenses for our compliance teams, personnel expenses for our AML/CFT [Anti-Money Laundering/ Countering the Financing of Terrorism] teams, the specific software that they use in the case of the BSA [Bank Secrecy Act] software or compliance software. In addition to specific training and so forth, we have to take a step back and consider that many of our systems have added modules and layers of complexity that are really required for compliance purposes. We need an overly robust internet banking platform that conforms with FFIEC [Federal Financial Institutions Examination Council] guidelines and other requirements. Once we took a more expansive view, we realized that we really can't parse out those expenses. There isn't a neat way to quantify that we have the core system required to operate the bank and then all the other stuff of that core system to help us check boxes from a compliance standpoint.

Our compliance costs have expanded tremendously in the last five years, especially for full-time employees, allocated directly to consumer protection compliance or AML/CFT. We have more than doubled the staff. We're a $730 million bank. We have four full-time folks in compliance and three full-time folks in AML/CFT. And that's a huge increase compared to just a few years ago. If we look back five years, the bank has grown roughly 12%, but this staff has more than doubled. A very significant amount of our time and attention goes to meeting the expectations that are put on us from a regulatory standpoint. And of course, there must be safeguards. We have the blessing of using insured deposits to conduct our business, so there must be safeguards. We just feel that many of those safeguards, rules, and expectations may not necessarily have been as well-thought-through as they could have been.

What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?

We've seen a lot of changes, and frankly, some have been very positive. For instance, we really appreciate the hybrid format for bank exams. I can remember being a young examiner myself, having to be prepped on the optics associated with all of us folks rolling in the bank in a small town—you have to be careful about what you do and where you go and what you say, because you don't want people in that local community to think something's wrong with their bank. You can trigger a bank run. And having the hybrid format is a real help not only for that, but it's really a logistical help for our team. Figuring out how to house a consistently large exam team on site can be a burden at times. We also try to maintain team support for on-site examiners, so that if they have a question, then team members are available. But if that exam goes on for four to six weeks, then we lose four to six weeks of productivity in most cases from our most highly compensated, in-demand team members, because we want them to be available for examiners. So, the hybrid exam is a huge step forward.

Being able to upload loan documents and create a curated listing of documents that the exam teams need is a huge help. So big, big progress there. We also appreciate the listing of all supervisory recommendations in the transmittal letter. It's nice to have a one-page recap. So there have been positives.

The challenges we've faced recently have really stemmed from the continually shifting expectations and the reinterpretation of long-standing rules and regulations. It sometimes feels like certain circles on the federal side have a "flavor of the month" club—what are we going to reinterpret today? One clear example was when the FDIC reinterpreted the flood insurance rules to say that if a commercial mortgage had a dragnet clause, then anytime a new mortgage with a dragnet clause was granted, the bank had to redisclose all properties in flood zones that might be impacted. For a period, we saw enforcement actions and CMPs [civil money penalties] across our region tied to that interpretation. Then, almost overnight, that focus disappeared and was replaced by the "representment issue"—FDIC's focus on NSF [non-sufficient fund] fees caused by multiple presentments of the same item. What made this even more challenging was that the FDIC began citing banks in 2022 through enforcement actions before any formal, written guidance was issued by FDIC or any other regulator. The rapid shifts in expectations, interpretations, and reinterpretations have been more onerous for us in the last few years than I can remember. It's been very challenging and has consumed significant time and energy.

Another concern has been the loss of seasoned, stable exam talent. We've seen it most at the federal level (and to a lesser extent with the state bank department) with the retirement of seasoned examiners with 20 to 30 years' experience. There's not a great answer to backfill that experience gap. And so, we've seen consistently younger examiners, which is fine, but we've seen examiners who may lack perspective, knowledge, or more-senior examiner experience onsite with them to help them orient through the exams.

In addition to that, we've seen a real push to homogenize exam staffing within the FDIC. In other words, there seems to be an attitude that if you have commissioned examiners in one office, they should be proficient in examining banks in another office. And so, in essence, we have out-of-market examiners coming in very routinely and there seems to be almost no concern about that. Well, sure, they're commissioned examiners and they should be able to come in, but from a bank's perspective, out-of-market lending requires additional analysis, parameters, and so forth. There seems to have been a lack of consideration given to problems coming from out-of-market examiners that lack understanding of our markets or factors that influence our economies or even just basic relationships with our banks.

We've probably seen the most pronounced shift with IT. When I was at the FDIC, IT examiners were almost an afterthought: You trained to be an examiner first and then you would go to IT school later, and maybe you'd be a subject matter expert. Well, we've seen a huge shift and a focus on information technology. We're very concerned that we've seen a repurposing of team members that have no examination experience to be IT examiners. They don't really understand examinations, and they're noncommissioned. In fact, they don't really understand IT—they're not like an IT consultant from the outside. They've gone through a couple of IT schools, and then they're let loose on a bank's IT program to conduct an exam. We've had a lot of challenges trying to help channel those examiners and help them understand how we approach IT.

What worries you most about the cyber landscape, and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?

Cyber is changing faster than any of us can process, and the rate of change is really my greatest concern. It's changing so fast. Every day is new and different. From a threat standpoint, I don't know if any bank can keep up, short of a bank like JPMorgan Chase. The banks under a few hundred billion in assets face size constraints and staff constraints.

It's a concern on two fronts. First, the obvious concern is that we have to protect against everything, yet a criminal who have to score only one hit. So, how do we keep every door closed, every window latched, and every lock turned to keep our clients and their data safe?

There are roving bands of hackers and criminals who have to score only one hit and find one vulnerability to extract whatever they want.

So, that's a huge concern—keeping things safe. On the flip side of that, the rate of change in technology is also enabling efficiencies and systems at a scale and scope that we've not had access to before. If we're talking about artificial intelligence and layering that with robotic process automation or even layering it with client interactions, there are untold levels of efficiency gains. That's not to mention the possible gains for more in-depth analysis. At some point, you could turn AI loose on credit analysis and it will pull a wealth of outside data to help you benchmark a client's cash flow. While we are really concerned about keeping things safe, keeping the bad guys out, we're also concerned to what extent we might be falling behind. How do we harness the wave or catch the wave of increased efficiency? We're spending a lot of time and energy trying to harness that in a safe way to avoid subjecting our customers to too much risk and avoiding subjecting our bank to the risk of getting left behind. We're still out paddling on the surfboard, and there are no more waves, right? Because we've missed it, and everybody else is moving forward.

I think the most challenging facet of this risk analysis is not getting overly excited by any one technology. It's easy to fall victim to what is exciting the market, what's exciting other bankers, to what everyone is talking about at the bankers' conventions or in the publications. Instead, we need to really focus on taking a very sober view of all the technology that comes in and making sure that we understand the real-use case and to what extent it does or does not fit within our existing business model, or what it can enable in the future.

For instance, we chose not to use P2P [peer-to-peer] payments. Lots of banks wanted to get set up on Zelle. But our concern was that its clunky—PayPal, Venmo, and Cash App are ubiquitous. Why would we invest the time and the money to have a P2P payment network that our clients really wouldn't use? Why does that make sense? We're spending that same sort of time and energy evaluating core platforms, for example, and figuring out whether good enough is good enough. We're realizing that in some cases we don't have to have the best of the best of the best to carry out our business strategy. I can tell you that we have no clients ever who opened an account with us solely based on our technology system. And conversely, nobody ever leaves. Others can use one of the big three software providers, but we're tired of it. We're gone.

We can allow things that maybe are smaller issues, or they should occupy a smaller slice of our focus from a technological standpoint, to consume an outsized amount of our energy and effort. We work hard to keep things properly aligned, but we are routinely evaluating the technology today. Currently, we're spending our research analysis time on artificial intelligence and stablecoin, blockchain, crypto, and all the like. Our corporate executive team is spending a lot of time and energy on those topics, and if we find there are possible-use cases, then we'll expand that team to include others as we go forward.

Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?

Frankly, I think the M&A and de novo environments are interlinked. Ultimately, I think the marginalized viability of the bank business model is the common cause leading to continued industry consolidation and fewer de novos. Capital will flow to where it can generate returns. If regulators come into a bank that is making bad loans ("speculative" loans), then that bank will be criticized: "Why are you making that loan? It clearly doesn't have cash flow. You're conceding on term. You're conceding on rate. You're going out-of-market. You're doing something that doesn't make sense. The business doesn't have a viable business model. Why are you lending them money? Don't throw good money after bad." And when we look at our industry, we see many banks that have subpar performance that have no real pathway to sustain strong performance because of their community composition and economic forces that they ultimately have no control over. It's not their fault, but we see instances in which investing in a bank is a bad idea.

And if we compare average return on equity, the Stern School of Business at New York University has a great sort of recapitulation of all the major indices, and it gives you an average return on equity for all those industries. They break banks into two broad categories: big money-center banks and regionals. Big money-center banks have an average ROE [return on equity] of 11.5%. Sounds good. Unfortunately, regionals and communities communities have ROEs of only 6.8%—so, half that of the money-center banks. And yet, other industries have much higher ROE: hospitals and health care (75%), railroads (32%), semiconductors (30%+), or retail (25%), even shoes. Shoe manufacturing has a 32% return on equity. If you take the total market return, that average is 15.9%. If you exclude financials, it goes up to 16.4%. Financials are a drag on the total market. The ROE is just not there. And so, if I'm looking at it as an investor, where am I going to invest my money? Why would I invest in a bank? Unless I'm socially conscious and believe in the community, or the banker who's forming it, or perpetuating my family's legacy by owning this bank, then I'm not going to invest in a bank. I'm going to buy NVIDIA. I'm going to buy a shoe manufacturer and make three times as much in shoe manufacturing as I would make in banking. We're confronting a realization that the business model may no longer be viable, or its viability has been marginalized through a few factors.

One such factor is outside competition. You have multiple sources of competition—it started as credit unions, then it was farm credit, and now you have fintechs. But what you're seeing now is these fintechs have cut out the middleman and are now lending directly to clients. There was a great piece in The Wall Street Journal about JPMorgan Chase wanting to get in on the private-lending action. And so, the very fintechs who were there to help us with some of the regulatory requirements are now cutting us out of the mix, and they're going directly to the client. And guess what? They're not regulated, and they're making a whole lot more money than we do. So, if you have a choice to invest in a fintech or invest in a bank, you're going to look at which one has the best returns, and you're going to go there. So, I think, ultimately, that is what is driving the dearth in de novos. If there were a viable way to make a sufficient return on capital in banking, you would see money flow into it just like you're seeing money flow into AI startups. Now you're seeing money flow into semiconductors. You're seeing money flow into certain areas because they can make a return. The challenge is the banking industry has not produced this kind of return and may not ever again.

Most of the folks that are starting or have started de novos have a plan to pump them up to a certain size and scale, and they're going to generate a liquidity event by selling them. But those who are in it to run it for the long haul must subsist on less-than-average returns—I think that's also driving the M&A environment. Many of these community banks fall into two categories: (1) either management retires, and the bank can't replace management, or (2) shareholders pass on and their heirs inherit illiquid stock in a local community bank in a rural part of the country that they don't care about and they're not going to be involved in. The heirs just want cash, and they know they can make more money elsewhere.

Going forward, I think there's pent-up demand on the sell side. We are regularly approached by banks that are looking to exit, and I don't know that that slows down. I think we have a way to go before consolidation stops and we see fundamental resets of the banking business model. I don't know if we'll ever see capital flow back into banking like it did in the 20th century.

Having said that, I'm excited because I think there is a path toward reaching size and scale within the community bank ecosystem and reimagining what it could be. I think for those who are willing to put in the work and get satisfaction from making a difference and impacting their community, banking is a great path forward, because a lot of folks will not have the tenacity to stick it out. ■

Noor Menai

CTBC Bank USA, President and CEO
Los Angeles, California

Noor Menai is the president and CEO of CTBC Bank USA, overseeing its U.S. operations across commercial and industrial lending, commercial real estate, and retail banking in California, New Jersey, and New York. He also manages North American operations for parent company CTBC Bank Taiwan. Menai joined CTBC in 2011 and has held several leadership roles, including as executive vice president and North America regional head. Previously, he served as president and CEO of Charles Schwab Bank and held senior roles at Citigroup, Bank of America, and JPMorgan Chase. Menai holds both an MBA and a bachelor's degree in economics, computers, and information systems from the University of Rochester.

It is a unique time for the U.S. economy, with conflicting data showing strengths and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?

I agree that there is conflicting data, but the overall resilience of the economy has been a pleasant surprise on the upside. There is a lot of uncertainty in the customer world—on the borrower and client side—about how long this can continue in the face of persistently higher rates, creeping inflation, and the on-and-off threat of tariffs. Everyone is somewhat surprised at how well the economy is performing despite these challenges.

That said, we are starting to see some early signs of concern in the industry. Certain loans are moving from pass to special mention. Special mention is the first level of review—an indicator that something warrants closer attention. These are usually minor issues, such as collateral values declining slightly, cash flow being affected by lower sales, or higher costs of goods sold. These trends are starting to filter in. I think this is a slow-moving process, but I remain optimistic it will resolve itself. These indicators are tracked for a reason, and the FDIC and state agencies aggregate this data. If any area of concern emerges, it will be noticed. There can still be sudden shocks, like we saw with office space after COVID, but those tend to be isolated events.

The office space issue that arose after COVID still persists, but it has largely been priced in and addressed. Marks have been taken on that portfolio, and the market is clearing. Anyone with office exposure has disclosed it, and it has been provisioned against. That's what I would call a shock event. In contrast, the gradual weakening we see now is different. Banks are better-provisioned these days, and with CECL [current expected credit loss], methodologies have become so sophisticated that these pressures are unlikely to cause losses—but they may affect bank earnings. When that happens, banks can become conservative, which ripples through the economy. During that period, the usual trouble spots were office and hospitality, since no one was staying in hotels. Hospitality has fully recovered. Specialized property was a concern, but that seems to have stabilized.

I closely watch the consumer, which is the strength of the U.S. economy. What worries me now is the divide between consumers. Higher-income households are still spending, though moderately, with spending ticking up 1% to 2%, according to payments data from MasterCard, Visa, and major issuers like Citi and JPMorgan Chase. However, lower-income consumers are not spending as much. While gas prices have stabilized or slightly declined, the high cost of groceries and other essentials continues to affect them. My concern is that if higher-income spending slows as well, the overall spending that supports the economy could decline significantly.

New leadership at the federal banking agencies and Congress seems focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?

I think the large banks are fairly satisfied with the regulatory relief they've received, particularly around capital requirements. I know one of the investment industry rules was recently delayed for a couple of years, so if I were representing a large bank, I'd probably feel pretty content with the current environment. Community banks share some of that sentiment. It's encouraging to see a mindset in Washington that "less is more," with a balanced approach to regulation. There are still strong guardrails in place, but there is also recognition that overregulation doesn't serve anyone. This lighter regulatory touch is something we welcome.

Most areas of concern have been addressed, but two areas stand out to me: CRA [Community Reinvestment Act] and BSA/AML [Bank Secrecy Act/anti-money laundering] (with cyber now added to that list). CRA continues to be overly subjective, and there's not enough clarity on what truly meets the requirements. Similarly, BSA/AML and cyber compliance have become ever more resource-intensive, where banks must keep investing more and seeking sophistication. At some point, the proportionality between what you spend and what you return to shareholders—or reinvest in your business—becomes unbalanced. I don't see any real movement to address that imbalance right now.

The recent delay of the new CRA rule reflects how difficult it is to create practical standards. In markets like coastal cities or California, where affordability is a major challenge, small banks are often held to expectations that conflict with prudent risk management. The pool of qualified borrowers for low- to moderate-income or CRA-eligible loans is very small, making these loans difficult to originate and service. As a result, we often end up purchasing CRA loans from larger banks that can generate them simply because of their volume.

I believe compliance costs for community banks our size are between 15% and 20% of total expenses. That said, we are somewhat larger than the average community bank and take a very conservative approach. As a result, we likely have more people and resources dedicated to compliance, especially around BSA and consumer protection rules. Running a community bank means you wear multiple hats, you might have people in specific roles, but you're still deeply involved in each area. I'm essentially a quasi-BSA officer, quasi-chief risk officer, and so on.

What I've noticed is that when rules like BSA were first introduced, it felt like a partnership between banks and law enforcement. Over time, however, much of that law enforcement burden has been pushed onto banks. We're now expected to act as the first line—thinking like law enforcement officers, investigating suspicious activity, and devoting significant time and resources to tracking down leads. Depending on the examiner or the case, banks can even end up being blamed for things they aren't fully trained or equipped to detect. We're larger than most community banks, and I can't imagine how a rural bank is supposed to find someone with a law enforcement background. Maybe that will change in the future.

Another challenge is competition for talent. Each time these rules expand to include fintech or investment companies, my trained BSA officers, whom I work hard to retain, get calls offering double or triple their compensation, with the added perk of working remotely. It's not sustainable to expect banks to act as the sole front line in the fight against money laundering.

What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?

One clear trend is the loss of very senior examiners. While their examinations were serious and thorough, they also carried a sense of balance. Experienced examiners could distinguish between minor issues and real problems, relying on their judgment and experience. They would walk into a bank, establish a baseline, and give management credit for its overall performance. That balance is harder to find with the new crop of examiners. Over the past three to four years—especially since COVID and various restructurings in Washington—many seasoned staff have left the agencies. As a result, we're seeing newer examiners who, while capable, tend to be more literal in their approach. This has given recent exams a materially different tone and feel.

To be clear, these are excellent people, since the recruitment process at the agencies remains rigorous. It's not a matter of qualification. It's simply that, at this stage of their careers, newer examiners must rely on checklists and procedures. They act more like auditors, focusing on forensic detail rather than applying the kind of seasoned judgment that comes with experience.

What worries you most about the cyber landscape, and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?

Cybersecurity is one of those areas where no amount of investment ever feels enough, because the landscape keeps changing. What worries me most is the uncertainty. In other areas of risk, like trade or operational risk, the threats are more defined—we know who or what we're dealing with. Cyber is different. It's unseen, often beyond the horizon, and constantly evolving. This forces you to make tough choices: Do you guard the perimeter or focus on protecting what's inside? From experience and expert advice, we've learned that it's better to assume the perimeter will be breached at some point and focus on securing the interior.

Cyberattacks are not just about hackers in a basement; phishing and social engineering are far more common. That's why internal systems must be clean, segmented, and secured with multiple layers of protection—triple locks, double verification, and so on. You quickly run out of old metaphors to describe this new reality. This means we've had to fundamentally change workflows. For example, employees can no longer keep customer files on local hard drives or use unsecured messaging systems.

It's manageable, but cybersecurity feels like a many-headed hydra—it changes shape and form constantly, and it speaks a language that few people understand. Unlike CRA or BSA, cybersecurity isn't a language most bankers speak. I have a tech background, so I understand it a bit better than some, but I still often tell my cyber team, "Please translate this into plain English because I can't follow what you're saying."

One thing I'd add is the value of working with government resources. The FBI, state law enforcement, and even some federal agencies offer incredible support. I was surprised to learn that you can have informal conversations with cybercrime units—no lawyers required—and get practical advice. You can call an FBI cybercrime unit, ask for guidance, and they provide excellent, actionable advice and often share what threats are emerging. We've built a strong relationship with our regional FBI office, and I think most agencies have similar units dedicated to supporting banks.

This might sound a bit nerdy, but I'm excited about the potential of blockchain, distributed ledgers, and decentralized finance. Decentralized structures are where the industry is heading. Full disclosure: I sit on the board of a blockchain company, so I'm not trying to evangelize here, but it's clear where large banks, countries, and even central banks are heading. Historically, we've been resistant to change, though less so under the current administration. I don't think we've fully thought through what the support structures need to be. Are banks ready for stablecoins, digital money, and tokenization? People often talk about AI taking jobs, but I believe tokenized and programmable money has the potential to collapse processes that currently take months—like securing a mortgage—into transactions that take minutes.

This isn't a 10-year vision; these capabilities exist today. For example, floor planning for auto manufacturing and dealerships, once a major risk factor, can now be managed digitally. With a digital twin of a vehicle tracked from the factory floor, the bank always knows where its collateral is. That takes away one of the biggest risks—something that, historically, every credit risk trainer would warn you about when lending against cars.

Blockchain brings transparency. I know AI is the fashionable answer right now—and I'm also optimistic about AI—but I'm equally excited about blockchain's potential. Coming from a back-office and consumer banking background, I see tremendous value in the speed and efficiency these technologies offer, and in how they can integrate more seamlessly into people's financial lives. Today's consumer banking tools often serve the affluent well but leave lower-income customers behind. With advancements like AI and blockchain, I see a path toward providing meaningful financial tools—even for those living paycheck to paycheck—that can genuinely help improve their financial standing. I'm also encouraged that the government has moved from a "closed for business" posture to one that's more open to innovation and dialogue.

Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?

Let me give you two quick answers: one on M&A and one on de novo formation. On the M&A side, it's primarily about valuations. The indices for small and large banks are still down and not aligned with the fundamentals. Even Citi, which is famously trading below book value, isn't at a level that would spur M&A activity. As a result, deals are few and far between, especially in rural markets. Large banks still have opportunities to expand their business lines, and the recent lifting of restrictions on Wells Fargo was a welcome development. I don't think M&A will pick up significantly until valuations start to make more sense.

On the de novo side, it's often treated as a romantic notion. People talk about new banks frequently, but we already have about 4,000 banks in the country—70% of which are very small, with assets of $50 million or less. There's still plenty of potential within that existing footprint. That said, de novos make sense in underserved rural markets. I recall meeting a rural bank, while serving on the FDIC subcommittee, that had only four clients—all farmers. The bank existed to serve those farmers, and that's exactly the kind of situation where de novo formation is valuable.

There is still interest in starting new banks, but one major barrier is the "three-year rule," which requires a business plan that can't be deviated from for three years. With technology like AI and blockchain evolving so quickly, that restriction feels outdated. People starting banks today aren't 1930s-style industrialists with static models—their business plans need flexibility to adapt to new technologies and customer segments.

I've seen many enthusiastic would-be founders deflate once they hear about the rigid three-year rule. I've had dozens of these conversations, and it's clear this requirement needs to be reconsidered to allow greater flexibility for new banks. ■

Mark Packard

Central Bank, President and CEO
Provo, Utah

Mark Packard is the president and CEO of Central Bank, where he began his career as a teller in 1983. He has served as president since 2019 and CEO since 2020. He also sits on the Central Bancorporation board and was appointed to the Federal Reserve Bank of San Francisco's Salt Lake City branch board of directors in 2022. Packard is the immediate past chair of the Utah Bankers Association board of directors and currently serves on Utah's Money Management Council. He earned a bachelor's degree in business management, with a finance emphasis, from Brigham Young University and is a graduate of the Pacific Coast Banking School.

It is a unique time for the U.S. economy, with conflicting data showing strengths and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?

The economy in Utah County and Utah in general has been pretty good. We're primarily a small-business bank but have a full line of products and services for consumers too. The economy isn't as strong as it was a year or two ago, but that's not all bad, because you can't keep up the pace that it was going.

We deal a lot with residential construction, and we're seeing a bit of a slowdown in the real estate market. We see a lot of homes on the market for sale, and the time it takes for them to sell is increasing. We feel like we're at a tipping point. We don't know whether it's just a pause or whether the market will begin to decline. Commercial retail is still strong. We don't do large office projects, but the smaller office projects seem to be holding steady. That said, there's a lot of office warehouse inventory.

Silicon Slopes is another engine of growth in the area. It's been wonderful with the entrepreneurial startups we've seen. Those startups are still plugging away but aren't going as fast and furious as they had been over the past few years. Several years ago, the bank started an entrepreneurial center to help fintechs and other startups. Banks aren't known for being too entrepreneurial, but it's been a fun experience to be involved in a few facets of working with the entrepreneurial process. We're looking for the next generation of customers. We're also watching what's coming out of the entrepreneurial centers at nearby universities, whether that be University of Utah, Utah State, Brigham Young University, or other Utah colleges.

New leadership at the federal banking agencies and Congress seems focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?

Yes, regulatory relief would be welcome. Some of the regulations that we were really concerned about have been put on hold. For instance, the regulators have put a pause on Section 1071 (of the Dodd-Frank Act.) This is big for us because this is an onerous regulation for the bank and for our small-business customers. Our customer base is very independent, and they don't like to feel like they're being tracked. They don't want to have to disclose more than what is required of them.

Another example is CRA [Community Reinvestment Act]. The previous proposal was problematic.

The regulators should also increase the various thresholds for CRA, SARs [suspicious activity reports] and CTRs [currency transaction reports]. Those levels haven't been increased in a long time. The regulators should reset those levels where they feel appropriate but then index the thresholds to inflation, so they aren't stagnant and can continue to increase over time as the economy grows.

In regard to compliance costs, there are ancillary costs that are hard to track, such as the time spent by customer service reps to make sure that Know Your Customer forms are completed accurately. I'll give you some percentages that don't include those ancillary costs: Over the last five years, our compliance labor costs have increased 58%. Our software costs increased 74% during the same period, so our overall compliance costs have increased by about 62%. I don't look at what other people are spending, and we don't have a massive compliance area, but we still have four full-time people and one part-time person in the area. That's four-and-a-half full-time employees who are working on compliance all the time for us, whether that be in HMDA [the Home Mortgage Disclosure Act] or other compliance areas. I'm sure there will be continued software improvements, especially with AI, but compliance costs will continue to increase over time. Hopefully, with the help of AI or other technology, we will be able to slow down the increased cost of ongoing and increasing regulation.

What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?

We recently finished a state-run bank exam with the FDIC, and we were happy with the results. The examiners did a great job. We view our examiners as a partner to help us improve and become a better institution. We don't always agree but we respect their perspective.

We have noticed that the agency stopped hiring for a while, so there's a bit of an experience gap. They have some more-tenured examiners that know what they're doing and a lot of young examiners that are still getting up to speed. I think it's important for them to continue to retain and develop the next generation of examiners.

What worries you most about the cyber landscape, and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?

Fraud is huge right now—we're seeing innovative fraud being developed with AI and old-school fraud such as check-washing. We must be observant and diligent. There's no way to avoid all of it. There are procedures that can be put in place, people must continue to be proactive, and we must implement extra processes with AI and similar tools that can help. Fraud is always changing and evolving. We also need to change and evolve. Fraud is a major expense for the bank and is only increasing. The bank is proactive with technology to do what we can to prevent fraud.

Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?

To put everything in context, the bank started in 1891 and I'm a fifth-generation banker, so for us, the bank's not for sale. We're fine with it being a fifth-generation institution. It's more of a stewardship for us to take care of and get ready to pass on to the next generation. We don't focus on mergers and acquisitions because we're not looking to roll any other institution under the bank's umbrella, and we're not interested at all in selling or merging the bank. That said, I'm a community bank fan, and I think we need to open the spigot for de novos. Hopefully with the change in FDIC leadership, we'll see more community bank approvals on de novos. The continued consolidation in the industry stifles creativity, and it's really the community banks that will take risks with entrepreneurs out there for the innovation that they have.

I'm a community bank fan and want them to continue and thrive. Community banking is all I've known. I have always wanted to be a banker—my dad would take me to work when I was little, and I would crawl underneath his desk and eat licorice out of his drawer. And so, I equated candy with banking, but even being small and not understanding the business, I wanted to be a banker. As I've gone through and had wonderful experiences, I've found out that banking is all about the customers and being able to meet their needs. It's been a very rewarding career to service and help the customers meet their financial goals and visions. Banking is a lot of fun, and we get to play with money. It's satisfying to see those companies start small, grow, and make a difference.

Yes, if I wasn't working at my current institution, I'd be interested in starting a de novo if I could find enough people that had the same vision as I did. I'm a long-term player and would rather build a legacy than build and sell. ■

Lindsay Spitzer

Bluff View Bank, President and CEO
Galesville, Wisconsin

Lindsay Spitzer joined Bluff View Bank in 2012 and has been in banking since 2004. Spitzer held the position of chief operations officer from 2012 until 2022, when she was named president and CEO of the bank. She earned her degree in accounting from Minnesota State College Southeast. Spitzer's community involvement includes serving as board member to the City of Galesville John F. Cance Memorial Trust Fund, the Zahorik Foundation, and the Galesville Area Chamber of Commerce. She is a past board member and treasurer of The Edge Church.

It is a unique time for the U.S. economy, with conflicting data showing strengths and weaknesses across sectors. What are you seeing as far as credit quality? Are specific sectors or niches stronger or weaker in your portfolio and local market?

Right now, credit quality is probably the best we've had in a very long time. And that's been the case for several years here. We really don't have many past-dues. Just like most of the country, there's a real lack of affordable homes in our area. We're not seeing first-time homebuyers purchase a home until their 30s. Some aren't ready to do so anyway, but the ones that are ready to buy struggle with high rates and the increase in prices. We are fortunate though; even though there's not a ton for sale, we have several builders doing specs with us, so that's been a strong area for us. We're doing anywhere from six to 10 homes at a time with these general contractors, who also have their real estate licenses. They're acting as their own agents and building homes that are a great value if you've got $450,000 that you can spend. We're fortunate that there's a significant amount of construction going on right by our Holmen, Wis., branch. We're not completely insulated from all issues, but the economy is largely pretty good here.

We have a diverse local economy. The bright spots would be things like health care and manufacturing. Anybody who wants a job can get a decent-paying job right now.

We were fortunate to sell off our credit card portfolio just over a year ago. That would be a concern for us right now if we hadn't. I'd be worried about delinquencies and potential charge-offs, but thankfully that's no longer on us.

Our agriculture customers are a large part of our business. They're doing well despite high rates and low commodity prices.

Everyone's worried about tariffs, but it seems like people aren't affected yet. It's hard to know what's coming. But overall, things look pretty good in our area.

New leadership at the federal banking agencies and Congress seems focused on relieving regulatory burden. Which specific rules or regulatory thresholds would you target for revision? How much does your institution spend on compliance annually? Has that cost shifted over the past decade?

I would get rid of the Section 1071 [of the Dodd-Frank Act] rule because it's going to be burdensome, and I don't think the end data will justify the cost of implementation. That's the frustrating part—if you thought the regulators might do something helpful with the data, then it might be different, but our concern is that they will misinterpret bank data leading to concerns of discrimination where there wasn't any. We think that is a more likely outcome than uncovering true discrimination.

Compliance has grown significantly over the past decade, and it seems like new regulations are added, but nothing ever goes away. BSA [The Bank Secrecy Act] has become more onerous over time, and we have never had a law enforcement request for additional information based on something contained in one of our SARs [suspicious activity reports] or CTRs [currency transaction reports]. I'd like to see the thresholds increased for CTRs.

Our team was trying to calculate our annual compliance spending, and we believe it's probably a 1.5 full-time equivalent, and at least $100,000 per year, which is a lot for a small bank with only 23 full-time employees.

That money isn't all wasted, because I think there's some place for regulation so it's not the Wild West. I think community banks have the customers' best interests at heart and want to do what's best for them.

I'm thankful for this new administration and the way they view regulation, but I don't think it will last. I think we'll probably swing back the other way when the administration changes.

What trends have you noticed in your bank examinations in recent years? Is there anything you would change about the examination process?

Our recent exams have gone very well. Safety and soundness exams were very positive, and our interactions with examiners have been good. I think we're fortunate to have a team that understands our area. I previously worked for an agriculture-focused bank, and the examination team was from Minneapolis and didn't know anything about agriculture, which was difficult.

We haven't had a compliance exam since 2020, so we're going to have a six-year look-back period. You always hope that you're doing everything right, but a systemic issue resulting in a reimbursable error over a six-year look-back period would be a big problem. We stepped up our internal reviews when we learned they weren't going to do the last exam. We have also relied heavily on our compliance auditing company, ShareFI, to ensure compliance. We think we're doing everything well, but there could still be something that hasn't been self-identified.

What worries you most about the cyber landscape, and how does your bank keep up? How does your institution balance the potential benefits of emerging technologies, such as AI, against risks?

Unfortunately, people are probably the weakest link. You can have the best-designed systems and controls, but you can't stop somebody from opening an attachment or clicking on a link. We spend a lot of our time educating our staff on phishing attempts, and we do a significant amount of testing—we have hundreds of emails sent per month to test our staff of 27. In addition to regular testing, if employees did interact with an attachment or click on a link, then they're put in a "clickers" group, and their testing is increased significantly.

We no longer have a full-time IT person on staff. Instead, we've outsourced IT to an industry leader that works primarily with banks. As a result, we've implemented technology long before it's been required or even suggested by examiners. Before implementing any new technology, we do our research and understand what we're paying for and why it's worth it.

Mergers and negligible de novo formation have led to a shrinking number of community banks. What's your perspective on the M&A environment this year and projected into next year? What changes would you make to the M&A process, and how can policymakers encourage de novo formation? Would you consider starting a de novo today?

I've read that M&A is picking up some and is expected to increase, but I think there's still a place for small, independent banks. Everyone tells you that you must get bigger to survive or achieve economies of scale. But I think that we're evidence that there's still a sweet spot of size, profitability, highly personalized customer service, and employee engagement. We're small, but it's like a family, and I think that's important. We've tried to be intentional about management succession and ownership succession because we feel like we've got a good thing going. Unfortunately, the industry will continue to consolidate.

With respect to de novos, I applaud those willing to go through that process and work for change. But I don't think there's going to be a bunch of de novos even if the process is simplified or expedited. It's just easier to buy a charter than it is to start from scratch. I'm all for eliminating roadblocks to de novos though. ■

ACKNOWLEDGMENTS

The 2025 CSBS Annual Survey of Community Banks was administered by state bank commissioners in 32 states. A total of 268 community bankers participated. To request a print copy of this publication, email the conference committee at info@communitybanking.org. Participation in the 2025 survey would not have been possible without the efforts of the following state bank commissioners and their staff.

Alabama

Mike Hill, Superintendent of Banks
Alabama State Banking Department

Arkansas

Susannah Marshall, Bank Commissioner
Arkansas State Bank Department

California

KC Mohseni, Commissioner
California Department of Financial Protection and Innovation

Colorado

Kara Hunter, State Bank Commissioner
Colorado Department of Regulatory Agencies
Division of Banking

Connecticut

Jorge Perez, Banking Commissioner
State of Connecticut Department of Banking

Georgia

Bo Fears, Commissioner
Georgia Department of Banking and Finance

Idaho

Patti Perkins, Director
Idaho Department of Finance

Illinois

Mario Treto Jr., Secretary
Illinois Department of Financial and Professional Regulation

Indiana

Tom Fite, Director
Indiana Department of Financial Institutions

Iowa

James Johnson, Superintendent
Iowa Division of Banking

Kentucky

Marni Rock Gibson, Commissioner
Kentucky Department of Financial Institutions

Louisiana

Scott Jolly, Commissioner
Louisiana Office of Financial Institutions

Maryland

Tony Salazar, Commissioner
Maryland Department of Labor
Office of Financial Regulation

Massachusetts

Mary Gallagher, Commissioner of Banks
Massachusetts Division of Banks

Michigan

Anita Fox, Director
Michigan Department of Insurance and Financial Services

Minnesota

Grace Arnold, Commissioner
Minnesota Department of Commerce

Mississippi

Rhoshunda Kelly, Commissioner
Mississippi Department of Banking and Consumer Finance

Missouri

Mick Campbell, Commissioner
Missouri Division of Finance

Montana

Melanie Hall, Commissioner
Montana Department of Administration
Division of Banking and Financial Institutions

Nebraska

Kelly Lammers, Director
Nebraska Department of Banking and Finance

Nevada

Sandy O'Laughlin, Commissioner
Nevada Department of Business and Industry
Financial Institutions Division

New Mexico

Mark Sadowski, Director
New Mexico Regulation and Licensing Department
Financial Institutions Division

Ohio

Kevin Allard, Superintendent
Ohio Department of Commerce
Division of Financial Institutions

Oklahoma

Mick Thompson, Commissioner
Oklahoma Banking Department

South Dakota

Bret Afdahl, Director of Banking
South Dakota Department of Labor and Regulation
Division of Banking

Tennessee

Greg Gonzales, Commissioner
Tennessee Department of Financial Institutions

Texas

Charles Cooper, Banking Commissioner
Texas Department of Banking

Utah

Shaun Berrett, Commissioner
Utah Department of Financial Institutions

Virginia

Joe Face, Commissioner
Virginia State Corporation Commission
Bureau of Financial Institutions

Washington

Charlie Clark, Director
Washington State Department of Financial Institutions

West Virginia

Dawn Holstein, Commissioner
West Virginia Division of Financial Institutions

Wisconsin

Wendy Baumann, Secretary
Wisconsin Department of Financial Institutions