Community Bank Sentiment Still Negative: Concerns About Future Profitability and Regulatory Burden

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Washington, D.C. – Community bankers continue to be concerned about the health of the economy and how that will impact future profitability, franchise value and regulatory oversight as the economic fallout from the Covid-19 pandemic continues, the most recent Community Bank Sentiment Index (CBSI) reveals. The Conference of State Bank Supervisors publicly released the second quarter results today.

While the second quarter CBSI results stayed roughly the same as the first quarter at 90 versus 91, that was largely due to their improved outlook on business conditions and monetary policy components. Banker sentiment in the other five economic components surveyed – regulatory burden, capital expenditures, operations expansion, profitability and franchise value – dropped in the same period. Notably, community bankers expressed concern about potential heavier regulatory burdens, with 47% of bankers expecting the regulatory burden to be heavier compared to 31% last quarter.

“Community banks acted quickly to help their communities survive the economic fallout of the pandemic but have serious concerns about the challenges ahead,” said CSBS President and CEO John Ryan. “Policymakers should take note of these concerns, as community banks have a close-up view of our economic health.”

Key findings from the second quarter 2020 results include:

• 54% of bankers believe business conditions will be the same (22%) or better (32%), up from 47% in the first quarter 2020 index
• 64% of banks expect future profits to decline, an increase from 53%
• 65% of bankers believe the economic impact of the Federal Reserve’s monetary
policies will be the same or better, up from 38%
• 26% of bankers expect their franchise value to be better, down from 41%

The CBSI captures on a quarterly basis what community bankers nationwide think about the future on the seven key areas listed above. Participant answers are analyzed and compiled into a single number; an index reading of 100 indicates a neutral sentiment. Anything above 100 indicates a positive sentiment, and anything below 100 indicates a negative sentiment.

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The Conference of State Bank Supervisors (CSBS) is the national organization of bank regulators from all 50 states, American Samoa, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. State regulators supervise 79% of all U.S. banks and are the primary supervisor of non-depository financial services. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.