Q3 2021 - CSBS Survey Shows Pandemic Impact on Community Banks

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Washington D.C. – The lingering effect of the Covid-19 pandemic on local economies has created a new concern for community banks: historic levels of deposits and narrow net interest margins, according to the Conference of State Bank Supervisors' (CSBS) eighth annual national community bank survey.

The survey of nearly 500 community bankers nationwide reveals a shift from last year, when local business conditions were foremost on their minds. As the pandemic lingers, they report abundant liquidity; however, 52% of community banks also describe loan demand as a "very important" challenge with a decline in lending, particularly in the business, agricultural and commercial real estate categories.

The pandemic also created some positive long-lasting effects, with more than 40% of community bankers saying it increased efficiency and more than 70% of respondents saying prospects for long term lending were improved by new or closer customer relationships.

Other key findings from the 2021 survey include:

- Cybersecurity concerns are on the rise, with 81% of respondents calling it a very important risk - more than double the rate of any other type of operational risk.
- The cost of technology leapt from one of the least important issues two years ago to among the most important, with nearly 47% of bankers calling it a "very important" challenge.
- Concern about the cost of funds is on the rise, described as a "very important" risk by 22% of respondents compared to a year ago when it barely registered as a challenge.
- Meanwhile, regulation risk continues to be seen as a challenge, with nearly 50% calling it "very important."

CSBS will release the survey results today at the start of the Community Banking in the 21st Century Research and Policy Conference, sponsored by CSBS, the Federal Reserve System and the Federal Deposit Insurance Corporation. The conference brings together community bankers, academics, policymakers and bank regulators to discuss the latest research on community banking.

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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.

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