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SPEECHES

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Thank you, Jim, for your introduction, and thank you to everyone who has stayed to the end. I have an idea some of you are waiting for the announcement of the John W. Ryan award.

But before I announce the winner, I want to take a few minutes to share my thoughts on this event and offer some ideas for further exploration.

I want to start by thanking the research conference planning committee from the Federal Reserve, FDIC and CSBS. This conference plays an important role and is unique – there is none other like it - and I know the planning committee and others have been at work since January to put everything in place.

I especially want to thank Jim Fuchs for heading up the conference, John Kandrac, Smith Williams and Blake Marsh for curating high quality research, and Carl White and the Federal Reserve Bank of St. Louis for hosting. And thank you to the exceptional event management staff here in St. Louis who make this all possible.

I really enjoyed all of the sessions, but I want to call out the panelists in the last one. They shared great insight into how community bankers can evolve their business models. I hope that everyone was listening and will consider ways to help community banks overcome potential challenges to their success.

We have learned over the past two days about credit risk, the impact of extreme weather events and bank runs. Bankers, regulators and policy makers have been dealing with these risks for decades. The research from this conference builds on anecdotal evidence to develop empirical findings that can drive changes in policy.

That is the value of this conference. During the great financial crisis, we realized that policymakers did not have enough empirical data and research on the value of community banks.

Through this conference, we have elevated data and research on community banks so that we can have better informed policy. It isn’t just an academic conference or a community bank summit or a regulator briefing. We bring all three sectors together, and the engagement between the academics and bank discussants brings to light the issues that we need to consider and issues that would have otherwise remained unexplored.

The research that has emerged from this conference has helped to tailor regulations for community banks. But recent events could cause the pendulum to swing back.

The financial system was stressed earlier this year with the sudden closure of several regional banks. Regulators and policymakers are at risk of overreacting to these types of unanticipated events and over-indexing on the likelihood of those events recurring.

The downstream impact of potential regulatory overaction is very much on the minds of community bankers.

They voiced their concern about regulatory burden in our Annual Survey of Community Banks. We've seen that same concern echoed in the CSBS Community Bank Sentiment Index, which we launched at this conference in 2019. In the past year, the sentiment index has seen a marked drop as respondents share their concerns about rising interest rates, regulatory burden and general economic conditions. CSBS will release the third quarter results next week. While community bank sentiment has improved slightly, it is still not positive, and the concerns about regulatory burden remain high.

The fact that community bankers are consistently expressing this concern warrants our attention. Community banks make more than half of all small loans to businesses and two-thirds of commercial bank agricultural loans. They support small business development, job creation and local communities.

We need to continue to find ways to tailor regulation to ensure safety and soundness but still allow for economic growth that makes the U.S. economy the envy of the world.

So where does that leave us? In times like these, research and data are even more important. It's not enough to repeat and reaffirm what we all know to be true. We need to come away with real solutions. As we look to the next year, I see three areas that could benefit from both research and policy engagement.

First, we need to recognize that community banks themselves are small businesses and understand that regulations can accumulate to a weight that is unbearable. When we started this conference, there were 5,000 state-chartered community banks in the nation. Today that number has dropped by 30%. We can't have a two-tiered system with some banks too big to fail and others too small to succeed.

Second, we need a thorough analysis of the barriers to entry in the banking industry. There have only been 53 new community banks in the past 11 years. We need to investigate ways to encourage and not stifle new entrants.

And finally, we must make sure we are not driving new products and services away from depository institutions. Bank regulation has become much more complex and homogenized in recent years, which appears to favor the large and impede the small.

Historically, states have served as a laboratory for innovation. State legislatures, through a democratic process, authorize new powers and products for banks doing business in their state. But today, novel activities authorized by states are often stifled at the national level before they are proven.

We need to recognize and value the diversity enabled by our dual banking system and state regulators. If we don't encourage innovation within the banking system, these new products and services will just go somewhere else.

As a career state regulator before I joined CSBS, I can attest that community banks are the life blood of their local economies – and to the people in their communities. I encourage more research into these three areas to enable a healthy and innovative community banking sector.

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