THE CONFERENCE OF STATE BANK SUPERVISORS

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2020 Five Questions for Five Bankers

Community Bankers Weigh In: Today's Challenges and Opportunities

THE FIVE QUESTIONS FOR COMMISSIONER-TO-BANKER INTERVIEWS

1. Community banks are showing their strength during the pandemic and the economic crisis it has created, providing unique benefits to the communities they serve. What is your bank's own story, and what differentiates your institution from others? Looking forward to the next 10 years, what is your bank and community going to look like, and how do you think this time period will impact your bank's business model?

2. Has your institution experienced any regulatory relief or burden reduction(s) from recent changes in laws, regulations, or supervisory efforts from the agencies (for example, the Community Bank Leverage Ratio (CBLR), call report changes, HMDA reporting, mortgage lending)? If so, to what degree? What are some areas in which Congress and the regulators can do more to benefit the community bank business model?

3. Last year we received mixed responses regarding the outlook of funding and liquidity on institutions over the next five years. Is your institution facing any current challenges with raising core deposits? What do you see as long-term funding challenges and opportunities?

4. Natural disasters, extreme weather events, and other climate-related changes have led policymakers and economists to examine what it may mean for communities, governments, and the economy. Do you foresee such events impacting your institution's ability to assess and mitigate risks over the next five years? If so, how?

5. Many community banks have expressed concerns with the Bank Secrecy Act and Anti-Money Laundering requirements. How is your institution dealing with the challenges and changes (for example, time and compliance costs)? What would be helpful to you as you evaluate your institution's BSA/AML compliance needs (for example, regulatory assistance, legislative changes, better technology, beneficial ownership, or more training)?

GEORGIA

Serving the community during a pandemic and the future of community banking

In the beginning, lobby closings and remote workforce proved effective and productive in both the customer-facing and back office operations. Bankers that have been proactive with obtaining and utilizing technology noted exceptional benefits with connections, help desk structure, customer service, etc. Bankers found that staff could work remotely with the same results as previously being on-site and have the same level of accessibility to in-office tools. Customers have been effectively served through drive thru and remote banking options. Even recently reopened lobbies have not experienced a return to pre-COVID customer traffic levels as these alternative delivery channels continue to be used.

Community bankers stress the importance of taking care of small business clients in their market and consider it a responsibility to assist them, especially during this pandemic. Georgia bankers participated significantly in the Payroll Protection Program (PPP), allowing them to serve thousands of businesses while also providing existing clients with loan deferrals, restructurings, and accommodations as needed. This expansive work was done while bankers themselves were implementing alternative business processes due to closed lobbies and alternatively located staff. At the beginning of PPP implementation, community bankers noted that large banks lacked the flexibility and nimbleness to quickly structure the program. Additionally, large banks did not provide direct, personal, and ongoing communication to the borrowers, causing many to turn to community banks for a heightened level of personal service with loans. Serving customers during this pandemic has built deeper embedded relationships and additional goodwill in the community. The pandemic response has proven why community banks are a vital part of the economy.

Georgia bankers consistently stated that community banks must advance with technology and digital transformation. This pandemic has expedited the need for an elevated digital experience, which will require resources, time, and money. Community banks need to ensure products and services are provided to customers with the same standard of high touch, personal service in order to remain relevant and competitive. Bankers consistently commented that physical locations will require less of a need for capital investment in the future for both physical branches and operational center space. This will result in more staff working remotely and greater technology in branches to improve efficiencies. Challenges with this evolution will be cyber-related risks as well as imparting the bank’s culture, engagement, synergy, collaboration, and social cohesion to remote staff.

Burden reduction from regulatory relief or supervisory efforts

Georgia community bankers complimented the regulatory response during the COVID-19 crisis as timely and collaborative. The current regulatory response compared to the 2008 crisis represents a significant shift to a proactive partnership rather than a reactive and friction-filled experience. This new approach has been extremely beneficial and helped banks work through challenges with customers. The forward-looking regulatory guidance is the most valuable because management can more effectively plan when they understand the regulatory approach. Frequent communication has been key during this pandemic and the written regulatory messaging was needed. The TDR guidance designed to not penalize banks for doing the right things for the client was important. However, temporary changes are concerning because they are often more of a burden than advantage. For example, setting up system changes for Reg D then rolling them back is burdensome for community banks that already are stretched thin on employee resources.

Georgia bankers support the regulatory relief measures regarding HMDA thresholds, Call Report reductions, and CBLR. Additionally, they recommend future improvements consider Reg B impacts on banks no longer required to report under HMDA thresholds, a CBLR increase to 9%, and the BASEL III requirement applied to community banks at a certain level, especially as it impacts Subchapter S banks where the dividends do not take into consideration the differences and tax implications. More broadly, Georgia community bankers have concerns about the level of resources required to adopt CBLR, the burdensome technicalities of flood insurance, and adequate timing to implement the required changes of CRA modernization.

The biggest burden for community bankers is a one-size fits all regulatory approach and expectations. The small community bank business model is very different from a multi-billion-dollar bank. Georgia bankers believe size and complexity should always be considered and regulatory expectations are too high for those with limited resources. Oftentimes, banks without extensive MIS systems must create labor intensive processes to address examination recommendations that fail to materially improve risk management processes. Grouping community banks by total assets up to $10 billion is too broad. While community banks want to maintain regulatory compliance, they are pulled into issues of larger and more complex banks due to this approach.

Funding challenges and opportunities

Georgia community bankers consistently emphasized the fundamental relationship-based focus to attract and build deposits. Ultimately, the ability to grow depends on the ability to fund. While bankers commented that deposits from PPP extensions, flight to safety in consumer deposits, and general lack of spending has resulted in ample current liquidity levels, a mix between deposits and other sources of cheaper funding lines will be needed in more normal operating times. The greatest challenge continues to be the level of competition in local deposit markets.

Bankers also discussed the need to better define the elements of a core deposit. More recent deposit platforms, including internet banking and other options for holding money (e.g. Venmo, Starbucks, etc.), expand the traditional definition of core deposits. Bankers also emphasized the importance of implementing easily accessible digital platforms to attract those deposits going forward.

Impact of natural disasters, extreme weather events, and other climate-related changes

Events such as hurricanes, pandemics, tornados, and ice storms have impacted Georgia community banks. While these events are difficult to foresee, extensive contingency plans have been developed that include shared staffing services, on-demand modular building access, interactive teller machines, and outsourcing vendors reliance to accommodate remote operations if unable to access banking location(s). Georgia bankers continue to develop multiple contingency strategies to remain nimble and focus on building strong technology departments to ensure the infrastructure is appropriate. Some community bankers, especially those in coastal regions, commented that they also considered these types of events within the qualitative calculations of the ALLL to increase reserves for potential impacts. One banker observed that storm water developments, environmental-related costs, and FEMA re-draws of flood maps are adding tremendously significant costs to projects for borrowers. These costs have increased 10%+ in those specific areas. The cost of customer compliance with environmental-related issues is significant.

Evaluating BSA/AML compliance

BSA/AML compliance continues to present challenges. Increased requirements of beneficial ownership in many institutions, especially community banks, proves difficult to implement, multiplies staff time and paperwork, and continues to be costly for both the bank and consumer. This contributes to the decline in community banks as shareholders see additional costs to tighten profit margins and lower overall returns. Community bankers consistently commented that the collection of beneficial ownership information should be the responsibility of the Office of the Secretary of State aligned with corporate registrations.

Georgia bankers increasingly rely on available technology to comply with changes in BSA/AML, but still stress the value of more vendors in the marketplace with additional technology solutions. The overall increasing vendor cost continues to compress margins and creates challenges to continue investing in software solutions with limited negotiating power.

To improve training resources, Georgia bankers believe a reinstatement of training from years past where regulators offered BSA workshops for bank staff would be highly beneficial.

IDAHO

Serving the community during a pandemic and the future of community banking

Idaho banks have shown a great sense of pride in their responses to the COVID-19 pandemic and have worked diligently to serve as a vital resource to support the communities they serve during these difficult times. While the amount of lobby traffic and in-person interactions has decreased significantly, Idaho banks continue to maintain exceptional customer service and retain the personal touch that differentiates them from their larger competitors. Whether it is through increased reliance on technology to communicate with customers and handle transactions, or a resurgence in the use of drive-up windows, Idaho banks have been able to pivot their business models to meet the unique challenges of the pandemic.

While Idaho bankers noted a difficulty in predicting what the banking industry will look like in ten years due to the rapid pace of change, they all agreed that an increased use of technology would be a foundation of the changes to come. Some bankers are utilizing the current situation to assist in developing remote/flex work programs and reducing the branch footprint and staffing. Although they all noted an increased use of technology, they also agreed that there would never be a replacement for personal interaction between customers and knowledgeable bankers.

Burden reduction from regulatory relief or supervisory efforts

Idaho banks have reported minimal regulatory relief or burden reduction from recent changes in laws, regulations, or supervisory efforts. One area of noted improvement has been the changes to reduce the burden associated with the call report. Bankers noted that additional simplification in mortgage lending regulations would be beneficial to community banks. Bankers also expressed frustration with some of the changes, noting that the burden of implementing new regulatory changes can often outweigh the limited benefit they provide.

Funding challenges and opportunities

None of the Idaho bankers surveyed noted any current challenges with raising core deposits. One institution reported having an “abundance” of liquidity. While none of the institutions are facing current liquidity challenges, they acknowledged that it is always an area of concern and monitor it closely.

The primary concern with long-term funding among Idaho banks is competition from credit unions. Multiple respondents cited the high deposit rates offered by tax-exempt institutions as an impediment to raising core deposits in the future. They expressed the desire to see regulatory changes that level the playing field between banks and credit unions, but acknowledged the political difficulties involved with making these changes at the congressional level.

Impact of natural disasters, extreme weather events, and other climate-related changes

Idaho bankers are very sensitive to climate related issues due to the significance the agriculture industry has on Idaho's overall economy. One banker described climate change as an "existential threat to the United States of America and the world." Bankers in Idaho are acutely aware of the disastrous effects that an extreme weather event can have on their borrowers and are constantly monitoring these risks and managing them to the best of their ability, although they acknowledge they have minimal control.

Evaluating BSA/AML compliance

Each of the Idaho banks surveyed felt strongly that the "one size fits all" approach to BSA regulation causes an unnecessary burden on community banks. While they acknowledge the important role that BSA/AML regulations play in protecting the financial system from fraud and abuse, they also note that modernizing reporting requirements to reflect the differing risks that face institutions of different sizes and locales would significantly ease the difficulties facing front-line staff. One institution described the challenges that frequent regulatory changes in the BSA/AML area can cause, and the increased training time and expense incurred due to those changes.

Beneficial Ownership was another area of noted concern. One institution noted that they felt that the implementation of the regulation needed to be adjusted. They felt that the risk of a "rare abuse" did not justify a whole industry having to implement a "significantly burdensome regulatory regime." Another institution expressed frustration that the regulation requirements do not sync with State business registration/reporting requirements, and it would be much more effective if they were in line with one another.

ILLINOIS

Serving the community during a pandemic and the future of community banking

Respondents in Illinois come from both rural and urban areas. One banker pointed to being a Minority Depository Institution (MDI) based in the Chinatown neighborhood of Chicago. This bank has staff that can speak five languages and provides banking services and loan products to small businesses and owners of commercial and residential income producing properties in the community. In 10 years, this bank believes that the Chinatown community will continue to expand and migrate to less dense, downtown areas of Chicago. The bank intends to do the same as their focus will continue to be serving small business and investments in commercial, mixed-use, and multi and single-family properties.

One of the more rural banks that was founded in the 1950's by local businessmen and women believes that their friendly staff make it easy to work with the financial needs of the community. While they said this may not make them unique, they like to think they work well with their customers and that keying in on communication early is very beneficial to them and allows them to identify potential struggles before they occur. This bank would like to continue to grow over the next 10 years, but they believe that may be difficult to do so in their small rural community. They note that brick and mortar is an expensive way to expand for smaller banks, and they are unsure of how many new customers they would be able to acquire by creating new branches. They also think that it is difficult to expand like the "internet banks" do and still adhere to CRA and market expectations.

Burden reduction from regulatory relief or supervisory efforts

The responding banks in Illinois gave mixed reviews on the various regulatory relief and burden reductions seen by recent changes to laws, regulations, and supervisory efforts. The banks agreed that CBLR did not provide substantial relief, and agreed that the complexity of TRID makes mortgage lending and origination difficult for community banks, to the point where one bank has outsourced the origination of 1-4 family residential mortgages to a third party vendor. One bank noted that the expansion of the HMDA report created more work for them to ensure they are reporting correctly, while another noted that HMDA reporting changes provided significant relief.

The same bank noted that call report changes for banks with assets <$1 billion did make preparation more efficient and provided minor relief. One bank also pointed out that the CARES Act provided significant relief by allowing loan modifications on current loans while avoiding TDR status. The same bank also said that the Payment Protection Program (PPP), provided necessary liquidity to the small business community and that their institution benefited with fee income and deposit growth by providing PPP loans to new and existing customers.

Funding challenges and opportunities

Illinois bankers currently feel that funding and liquidity levels are more than adequate in the current environment. One bank said they are currently flush with cash during the pandemic and have low loan demand. They also do not anticipate difficulties raising core deposits in the near future and having been using rewards-based account openings with Kasasa which has been able to keep younger customers happy with higher returns. Another bank did note that they face challenges attracting core-deposits when going up against larger competitors. They try to offer higher rate deposit specials but have had difficulty doing so with FDIC Rate Caps. They hope that current pursuits by the Community Bankers Association of Illinois (CBAI) and other banking groups to make changes to the rate caps will help with this in the future.

Impact of natural disasters, extreme weather events, and other climate-related changes

Chicago community bankers do not foresee climate-related changes having an impact on their ability to assess and mitigate risk. However, one of our rural respondents did note that changes in weather patterns and more extreme weather is making farming and agriculture more difficult to predict puts agricultural lending at a higher risk, which is significant amount of their loan portfolio.

Also given the current global pandemic, one bank noted that another world-wide pandemic would create larger challenges than climate-related changes as this affects everyone and each business. However, they say that being flexible to constant changes is how they will continue to approach these risks.

Evaluating BSA/AML compliance

Responding community banks feel that the time, energy, and resources necessary to maintain a compliant BSA/AML program are very significant and disproportionately large for smaller community banks. One bank said that roughly 10% of their workforce is dedicated to BSA/AML and another bank said that these requirements sometimes make banks the “police” of documentation. Community banks in both urban and rural areas agreed that BSA/AML compliance is a significant regulatory burden.

One bank also noted that another area of high cost and necessity is IT. The costs associated with software and staffing to maintain high levels of security remains high for them and said that any kind of regulatory assistance in this area would be helpful for smaller/rural community banks.

KENTUCKY

Serving the community during a pandemic and the future of community banking

Kentucky banks demonstrated their ability to respond promptly to residents' needs in the communities they serve, while implementing protocols to protect customers and employees. Kentucky community banks participated in the Small Business Administration's Paycheck Protection Program, providing effective and efficient assistance to small businesses, some of which were not being served by larger financial institutions. Kentucky banks worked with customers to provide individualized relief through loan extensions, modifications and fee waivers. These efforts showed commitment to the customer-centric focus that sets community banks apart.

During the time that nonessential businesses were closed to the public, one Kentucky bank reallocated funds intended for its 100th anniversary celebration. The bank gave employees a card explaining the bank's history with a $100 bill attached and asked employees to send the card and money to their favorite local business. This bank supported its restaurant customers by ordering carryout for bank staff from local restaurants. Another Kentucky bank coordinated with local Chambers of Commerce to deploy funds from the bank's marketing budget to assist area residents and businesses in need. The bank also purchased cookies from one of its customers, a youth organization, and distributed the cookies to local essential workers.

Kentucky banks saw a significant increase in their customers' adoption and use of online and mobile banking platforms. Looking forward, Kentucky banks anticipate a greater focus on using these and other digital channels to offer customers products and services, and to support operations. Kentucky banks plan to incorporate technologies as a complement, but not a substitute, to the face-to-face customer service community banks provide.

Burden reduction from regulatory relief or supervisory efforts

Kentucky banks report having experienced modest regulatory relief after implementation of the Community Bank Leverage Ratio, call report changes and changes in HMDA reporting thresholds. Regarding changes made in response to the COVID-19 pandemic, Kentucky banks benefitted from the elimination of the six transaction limit for non-transaction accounts in Regulation D, the call report filing date extension, and the guidance on loan workouts and modifications for customers impacted by the economic effects of COVID-19.

Kentucky banks would like to see Congress and regulators do more to delay or stop CECL implementation, lessen the burden of CRA compliance on community banks, and make lending on properties in a flood zone more affordable for borrowers. Further, Kentucky banks would like additional guidance on regulatory expectations as they continue to work with customers affected by the economic shutdown and ongoing effects of the COVID-19 pandemic.

Funding challenges and opportunities

Kentucky banks ended 2019 with tighter liquidity levels as they faced greater competition for core deposits. This position changed rapidly in the first quarter of 2020, as customers received stimulus money and spent less while the economy was largely shut down. Kentucky banks anticipate the influx of liquidity will be temporary, as consumer spending will pick back up and customers will begin to invest where they can get the best returns. Bankers view increased competition from large banks, online banks and nonbanks as a long-term challenge to raising core deposits. They identified a need to rely more on wholesale funding in the future. Kentucky banks believe that their efforts to serve customers efficiently during the pandemic demonstrated the advantages of banking at a community bank, which will help strengthen customer relationships and retain deposits in the future.

Impact of natural disasters, extreme weather events, and other climate-related changes

Kentucky banks agree that the COVID-19 pandemic and resulting economic shutdown have provided valuable experience planning for and responding to natural disasters and economic events. Bankers have reviewed and reflected on the adequacy of their business continuity, pandemic and disaster recovery plans. They recognize the need to invest in technologies to ensure that operations can resume promptly and continue, regardless of the event to which they are responding.

Evaluating BSA/AML compliance

Kentucky banks have found it necessary to budget substantial funds for compliance staffing, training and software to satisfy BSA/AML requirements. Banks find it challenging to keep pace with BSA/AML requirements, as well as auditor and regulatory expectations that continue to expand without an increase in a bank's risk profile or product offerings. Some banks believe that the burden and fear of regulatory repercussions they face from BSA/AML compliance outweighs the benefit of the information they report.

Kentucky banks would like the BSA/AML requirements to be more risk-focused. They recommend raising currency transaction report reporting thresholds, as well as implementation of a central database to verify beneficial ownership information. They would like assistance from the Federal Reserve to stop or flag suspicious or potentially fraudulent activity, along with additional training and guidance on BSA compliance.

MASSACHUSETTS

Serving the community during a pandemic and the future of community banking

Massachusetts community banks have adapted quickly to serving their customers and communities during the pandemic and ensuing economic crisis. While the crisis was unanticipated, the banks frequently conducted tests of their disaster recovery plans which allowed them to efficiently pivot towards utilizing vetted technology and supporting their customers and staff. As the bankers worked from home for countless hours, many secured Paycheck Protection Program loans for their customers. Those that were not SBA lenders created their own loan products and reached out to their customers accordingly. The personal relationship bankers held with their customers enabled them to anticipate customer needs, reach out, and support when necessary. Bank staff acclimated to "wearing multiple hats" and adapted to new situations while creating a safe environment for themselves and their customers. The bankers leaned on personal relationships to support their communities by securing personal protective equipment, supporting non-profits (especially food banks), and aiding those who needed extra help. Some bankers mentioned that the crisis allowed them to increase their customer base through some of the lending programs. They also saw opportunities to reach out to the unbanked and underbanked populations and grow relationships.

Each banker interviewed mentioned that the crisis created an opportunity to encourage training on digital products for those reluctant with technology, making them more comfortable with it during this time. Some bankers were skeptical that certain customers, especially the older ones, would adapt to new technologies, but were pleasantly surprised when many embraced it quickly. The various bankers see a very different landscape in the coming years. Although banks were already successfully advancing with technology and digital products, they now see this process accelerating. Additionally, they believe branches will look and feel very different in the future but remain essential. That said, customer service and a commitment to the community are key strengths of the community banking model, which differentiate them from large banks and fintech companies. Some bankers mentioned the need to hold fintech companies to the same standards as community banks as it is a crucial part to leveling the playing field.

Burden reduction from regulatory relief or supervisory efforts

Recent changes to the Call Report and HMDA regulations have been welcome news for Massachusetts community bankers. Because of their relatively small size, the bankers interviewed stressed that while compliance with regulations has been built into their daily operations, it comes with a cost both in dollars and human capital. In general, their relationships with both federal and state regulators are very good. These relationships are helpful as regulators raise questions from a different perspective, allowing for a beneficial dialogue and fostering a true partnership. That said, bankers continually mentioned that regulations and reporting requirements should be tailored to size, complexity, and rating of the bank. Additionally, it would be helpful for examiners to look at the big picture of the bank rather than focusing on a singular piece of the examination. Many bankers expressed that instead of forcing them to pay for financial reporting systems too complicated for their business model, they should be able to choose from a menu of products that would better suit their needs and reduce their cost.

Funding challenges and opportunities

Each banker interviewed mentioned that the pandemic created a situation where core deposits and liquidity increased. While they initially prepared for an increase in withdrawals, they noted instead that deposits held steady and/or increased. However, the increased reliance on technology makes it harder for community banks to differentiate their products. Interest rates are lower, every bank has digital products, and small community banks have a limited pool of customers. These banks continue to succeed and build their brand through unique knowledge of their customers and communities. Bankers believe that consolidation has helped in that there are fewer small banks for the customers who prefer the community bank model.

A reliance on technological products has created what one banker termed as “sticky” customers. Once a customer’s accounts are linked to a variety of products such as bill paying, budgeting, and person-to-person payment applications, it is harder for them to leave their established bank. Bankers can increase their customer base by targeting the younger generation through marketing on social media and with fintech products. We also heard that relationship building, and customer service are key to attracting and retaining a customer base.

Impact of natural disasters, extreme weather events, and other climate-related changes

By their own admission, Massachusetts community bankers had a different answer to this question in January. Although they had disaster recovery plans in place and tested them frequently, the real-life challenge of the pandemic proved that they flexible enough to adapt quickly, support their customers, and keep their employees safe. They are anticipating shifts in demographics with movement away from the cities and more emphasis on locally grown foods and manufactured products. This creates opportunities for smaller banks that are not located in large urban areas. Discussions surrounding infrastructure and the move toward cloud-based products have increased. The pandemic has shown that working from home is a viable way to conduct business. Banks with a large percentage of coastal property loans are evaluating whether to keep these loans on the books or even continue making them in the future. While climate change was not a strategic issue, neither was a pandemic so bankers are now looking at it more closely with discussions occurring at the board level and concern becoming more prevalent. Some banks are making changes to become more environmentally conscious in their business operations and find green energy projects which may lead to lending opportunities. Communities can take years to rebound from a natural disaster, tremendously impacting the banking sector. The pandemic proved how well prepared they are to respond to such events.

Evaluating BSA/AML compliance

A common theme expressed by the bankers is that while they take their responsibilities around BSA/AML seriously, they feel as if they are policing the system, which is outside their purview. The multiple reporting activities are burdensome for small banks and hinder profitability. At times, they feel the compliance requirements are a data gathering exercise. Small banks generally do not have large, complex loan portfolios, and they know exactly where large deposits of cash come from. Bankers articulated that they are perceived as community service operators rather than profit making enterprises. Members of the community, not necessarily bank customers, will come into

the bank for help with fintech product difficulties when the bank may not even provide the specific product used. The increase in complexity of products and regulatory requirements necessitates an increase in the skill set of bank personnel. A more highly skilled workforce is more expensive, which, in turn, affects the bank's profitability. Massachusetts bankers take their responsibilities to monitor and report seriously. However, they remind regulators that this is one piece of their responsibility, not the whole. They know their customers so regulations tied to size, complexity, and ratings would be enormously helpful.

MISSISSIPPI

Serving the community during a pandemic and the future of community banking

There are some distinct differences among Mississippi community banks such as geographic location and demographics, but they have all shown strength and resilience in a time of crisis. The pandemic created a unique opportunity for Mississippi community banks to shine. One community banker stated, "Community banks are small and agile enough to make quick maneuvers to service customers." This attribute was highlighted with their ability to provide services to businesses and customers during the unique circumstances of a pandemic.

The impact of the pandemic was felt almost immediately with bank lobby closures, the transition to off-site operations, and heavy reliance on technology to power remote frameworks and mobile platforms. Not only have Mississippi bankers escalated the deployment of technology initiatives outlined in strategic plans, they have embraced them.

In addition to ensuring the continuity of bank operations and financial services, Mississippi community bankers participated in SBA's Paycheck Protection Program (PPP). Responsive was the key word used by community bankers to describe their role in PPP. Operating with skeleton staffing, community banks provided a lifeline to their customers and in some cases established relationships with businesses searching for relief.

The future of banking born from this pandemic reflects a different picture of banking in the past. Bank consolidations and merger activity have been prevalent over the past 24 months; however, Mississippi bankers anticipate a slowing in this activity. Many community bankers want to remain independent, value focused and customer oriented. As such, they are committed to expanding financial services and their bank's footprint as the opportunities arise but acknowledge that branches on every corner are a thing of the past.

In the words of a seasoned Mississippi community banker, "Boring is beautiful in banking." The long-term community bank model must capture change including the bank's appetite for change and their ability to respond to and anticipate consumer needs.

Burden reduction from regulatory relief or supervisory efforts

Although some Mississippi bankers noted relief in call report completion, most bankers interviewed have not seen significant regulatory relief from changes in laws and regulations. Some even described worse burden, expressing frustration that there is not enough distinction between community banks and large regional banks in the eyes of the regulators. They indicated that while banks are better able to spread the regulatory burden as they get larger, the burden persists.

Specifically, Mississippi bankers stated that both the Home Mortgage Disclosure Act (HMDA) and TILA-RESPA Integrated Disclosures (TRID) are a burden and that TRID has ruined small town mortgage lending. Bankers have seen a significant increase in annual costs related to staffing, software and consultants necessary to maintain compliance. One banker stated, "One of my biggest fears is the Compliance Examiner - not a big loan or bad investments. That shouldn't be the case."

Bankers consider the lack of right sized regulations harmful to the customer because it slows down finalizing loans. Additionally, bankers are concerned that these compliance burdens will contribute to industry consolidation. One banker stated, "Current regulatory expectations reflect a lack of appreciation for community bank resources. Not all costs can be absorbed. Who will service these communities once these community banks disappear?" The consistent request from Mississippi community bankers to Congress is to revoke TRID requirements for nonowner-occupied residential loans.

Funding challenges and opportunities

Mississippi bankers report a major shift regarding their outlook on funding. Last year, they were concerned about a shrinking deposit base, but government relief programs created in response to the pandemic have resulted in excess deposits. Additionally, economic uncertainty has stymied consumer spending. One banker stated that his bank has never had this much liquidity. The two current concerns bankers shared are how they can best deploy this liquidity and how many of these deposits they will retain.

Impact of natural disasters, extreme weather events, and other climate-related changes

Mississippi is not immune to extreme weather events. Hurricane season spans six months of the year, while tornados are not restricted to a specific season and can occur anytime of the year. Historic flooding over the past 12 months has prompted some bankers to add another element to their continuity plans. With this much uncertainty, Mississippi community bankers are prepared for climate related changes that may impact operations. While the pandemic posed different threats and scenarios than weather related events, community bankers relied on this framework for continuity in operations.

A few bankers acknowledge a possible correlation between climate change and the increase in severe weather, but most do not believe these events will impact their ability to assess and mitigate risk over the next five years. Strong business continuity plans have proven that banks can mitigate much of the risk of business disruption. As done during the pandemic, businesses and banks will adjust to notable climate change and mitigate risk as necessary. Composition in the portfolio and concentration in market segments will also play a role in effectively mitigating risks.

Evaluating BSA/AML compliance

Similar to HMDA and TRID, Bank Secrecy Act and Anti-Money Laundering (BSA- AML) compliance is a source of frustration for community bankers. Attracting, training, and retaining staff, as well as the implementation of BSA software, increase the total cost of BSA compliance. Bankers stated that while the cost of maintaining a culture of compliance is high, the cost of noncompliance is higher. Public BSA enforcement actions and litigations have caused bankers to fear noncompliance.

Community bankers are dedicated to operating sound institutions and maintaining strong compliance systems, but many expressed frustrations over being the "financial cops for our country." When considering the reporting requirements and investments in human capital and monitoring tools, some bankers do not see a huge benefit for all the effort.

The common request from bankers is to increase the current $10,000 reporting threshold. Many stated that while reporting requirements are well-intentioned, the lack of response or communication validating a bank's contribution to a significant BSA event has instilled doubts on the value of the process and regulatory requirement. Overall, community bankers are frustrated with BSA-AML requirements, but feel resigned to their BSA reality. Mississippi bankers have been steadfast in their commitment to serve communities and have been recognized for their resiliency in recent months. Investments in technology and compliance tools have become basic principles of banking, yet customer service and personal relationships remain at the core of community banking.

NORTH DAKOTA

Serving the community during a pandemic and the future of community banking

North Dakota Bankers reported that during the 2020 pandemic, employees worked together to help one another out, to help customers and to provide for their communities. Although it has been challenging, bankers reported it has shown a new level of commitment from employees in supporting their mission. One banker reported that as soon as schools closed, all employees without small children helped to allow those with children stay at home. This commitment has not wavered during these unprecedented times; rather, it has made a stronger team and organization. The strategic goal of transparency and ongoing communication with their team became even more important as they worked through this uncharted territory.

North Dakota bankers reported that employees continued to receive compensation as schedules were adjusted and flexible, whether they were at home caring for children or at work. One banker stated that as a family-owned community bank, they truly put families first and were clear that they would take care of their employees first, no matter what. This helped put everyone at ease from a financial standpoint, which is priceless during a pandemic and an economic crisis. In turn, bankers experienced that employees took excellent care of customers through technology, drive-up capabilities, and numerous loan assistance programs. All this has been accomplished while maintaining that human element in all transactions. One banker was thankful that every location had a drive-up window so they could continue to serve their customers' banking needs during the time that lobbies were closed. Bankers reported many new internet and mobile banking customers since the pandemic, and online loan applications have become more popular.

When the Paycheck Protection Program (PPP) loans were first being discussed, bank management and employees listened to several calls each week with North Dakota's Congressional delegates and the Bank of North Dakota. One banker stated that not knowing how they would apply for these loans through SBA, all of the Lenders requested every type of access they could to be ready. When the SBA/Treasury released the PPP rules the evening of 4/2/20, after homeschooling her own children, the CEO stayed up until 1:00 a.m. creating a summary of the rules for the lending staff and putting policies and procedures in place. They hit the ground running the next morning and funded loans as they were approved, trusting their customers would sign whatever additional documents were put out by the SBA. They wanted to get the money in the hands of their business customers as fast as they could, so they could give their employees the stability and peace of mind the bank had given theirs.

Trends impacting North Dakota banks in 10 years for one banker includes a continued shift to regional hubs from small town communities. They need to continue to develop technology to serve rural customers while understanding that smaller communities may continue to lose population and viability. Continued advancement of technology is important. One banker expects to be 100% digital. They discovered that digital loan files would have been extremely helpful when employees were working from home. Therefore, banks will continue to invest in current and upcoming banking technology. One banker is expecting that more transactional type activity will take place outside of bank branches. In-person/branch services will primarily focus on more complex or advisory services like business banking, private banking, wealth management, etc. A banker is also predicting that they will be conducting more of their business at their customer's place of business. Another trend mentioned by bankers is continued bank consolidation driven by the need to gain efficiency and scale.

Burden reduction from regulatory relief or supervisory efforts

The Community Bank Leverage Ratio was mentioned by several bankers as beneficial. Banks will also be able to take advantage of the new safe harbor threshold provisions under the Regulation E Remittance Transfer Rule, allowing a discontinuation of sending consumer disclosures for consumer international wire transfers. Some banks are no longer subjected to HMDA reporting or they have been able to apply the HMDA partial exemption allowing collection of approximately half the amount of information for each HMDA reportable loan. However, North Dakota banks reported that the HMDA change came after they had already changed their system and started collecting.

North Dakota bankers also lamented reporting, more and more fields of data and the benefit of this additional data is questioned. Overall, bankers noted that noticeable regulatory relief, including call report changes, has been limited. Regulatory relief has been minor and has been countered tenfold by additional requirements in other compliance areas such as BSA. Bankers also noted that the forthcoming Small Business Loan reporting requirements will add additional burden.

North Dakota bankers feel congress and regulators can do more to benefit the community bank business model. Community banks are not the same as big banks and should not be regulated the same. Regulations are becoming overly complex and employees are spending more time gathering data than interacting with customers. Tiered regulations would make sense. Community banks go above and beyond helping their customers in their communities, as evidenced by how they worked around the clock during the onset of the pandemic to put money in the hands of small businesses. The reputation for going above and beyond is what separates community banks from the large banks and they protect their reputation by hiring good people who are not incentivized to manipulate customers in order to achieve their goals.

Unfortunately, excessive rules have forced rural community banks to stop offering certain products, such as mortgages, which sends more customers to bad actors.

Banks felt that the burden of compliance should be placed on the government whenever it makes sense. For example, the collection of Beneficial Ownership information should take place at the IRS or directly through FinCEN. It would be simple to add a page to a business tax return, which is filed every single year. While banks are not opposed to helping the government catch money launderers and terrorists, the burden should not always be placed on a privately owned business, such as a community bank, when the goal is to protect the United States as a whole.

Banks expressed that additional relief should be enacted for mortgage lending. Smaller banks reported that they have either ended up no longer offering home loans or they do very few, simply because they cannot dedicate the time and resources it takes to keep current with regulations, and to process the large volume of paperwork needed for these loans. The right of rescission should be eliminated. A larger lender reported that they have never experienced a situation where a borrower rescinded on their loan. The only situation has been where a borrower threatened to rescind the transaction due to rate drop after borrower had locked in his rate. The bank lowered the borrower's rate rather than incurring all the fees associated with the loan. For closed-end loans, there is already a three-day waiting period between the time the Closing Disclosure is issued and loan closing. The consumer protection associated with rescission does not outweigh the inconvenience of rescission on the bank and customer.

Additional guidance under HMDA, specifically the temporary financing exemption and agricultural purpose exemption would be helpful. Finally, for mortgage loans there is a lack of guidance regarding the degree in which fees must be itemized on the Loan Estimate and Closing Disclosure. The examples within the regulation are too simplistic and obvious and do not represent real world scenarios. There is inconsistency throughout the industry, and even among investors on this topic.

North Dakota bankers also stated that the Community Reinvestment Act should be revised, or at least guidance issued that clarifies community development activity and sets a threshold that a bank needs to achieve to receive a satisfactory rating. Also, the threshold that determines whether a bank is a large bank under the Community Reinvestment Act should be increased.

Lastly, the bankers felt Regulation O (Part 215) should be updated, increasing the $100,000 threshold for Executive Officers. When factoring inflation from the time the threshold was established, the current threshold is very low.

Funding challenges and opportunities

Most bankers reported that they are liquid at the moment. Core deposits have remained stable in recent years despite concerns that with an aging population in rural markets there would be an out-migration of younger people causing a decrease in core deposits. However, some banks have experienced the opposite, where younger people are returning to take over family businesses or farms.

North Dakota bankers said it has become more difficult to raise core deposits and expects it to become more challenging going forward, especially with the transition to more digital-based services. Several bankers noted the challenge to compete with online competitors. Online account opening makes it difficult for community banks to compete against larger banks or "fintechs". Since some online competitors do not have a brick-and mortal location, it allows them to operate much more efficiently and offering higher rates of return. While higher rates are great for consumers, community banks need the deposits to support the community through loans and donations. Even though some online providers may not be FDIC insured, consumers appear to not believe it is a big risk or are not aware of the benefits of FDIC insurance.

There are opportunities for community banks to combine the best of "local service with people you know" with digital offerings. Another significant opportunity for community banks will be in small business deposits, as they will continue to need local service on a regular basis. Since core deposits are difficult to raise due to low population in rural areas, banks are utilizing FHLB advances and brokered deposits. One banker's strategy included utilizing the FRMR MAC loan participation program to access longer term fixed rates on agriculture real estate loans. Several bankers stated that to overcome these challenges is not impossible; however, it will take hard work and focus. They also stated that adjusting the level of FDIC insurance coverage would have a positive impact since it is an important safe harbor for customers to ensure the safety of their deposits.

Impact of natural disasters, extreme weather events, and other climate-related changes

North Dakota's economy is dependent on agriculture, oil and coal. All of these industries can be affected by natural disasters and extreme weather at any time – this has always been the case and will continue to be. Therefore, prudent lending practices and not over-extending credit will continue to be critical in those areas.

Bankers all reported the high reliance on agriculture and therefore, extreme weather events and climate change are always on their mind. With a reliance on their agricultural loan portfolio performance, weather has a huge impact on banks' profitability. North Dakota experienced poor planting and harvesting weather in 2019, which has carried over into 2020 and affected the spring planting season. These events are difficult to assess and makes mitigating risk difficult because the weather is completely uncontrollable. The concern is whether customers, even those who are financially strong, are able to weather the financial storms created by such events, and whether government programs are available in times of disaster. However, the bankers reported that their banks have always had to address these challenges and will continue to work with borrowers as they always have done.

Bankers reported that the higher risk is now more of a political nature. For example, if a ban on fracking were implemented in response to climate change fears, it would be detrimental to our regional economy and thus the banks. Climate change-related initiatives has started to have an impact since a recent coal-fired power plant will be closing in favor of wind energy. The closure will eliminate over 200 jobs and even more jobs at a neighboring coal mine. This domino effect creates an economic disaster for the surrounding communities and the impact will be felt across the region. Prudent lending practices will be key due to the large number of job losses and the domino effect that can follow.

Evaluating BSA/AML compliance

Bankers reported that the amount of time and energy spent on BSA/AML is overwhelming and continues to grow. It takes up more time than any other regulation and takes a bite out of their budgets. A smaller institution in a small town where they know every single person in town, stated that they are not in need of regulatory assistance, better technology or more training. Rather, less monitoring, reporting and oversight would allow more time and resources to serve customers. A growing bank recently reached the level that manual monitoring of transactions is not feasible, and they will need to purchase costly software, which it appears a full-time employee will be necessary to oversee and maintain. Bankers also reported that they work closely with outside services to ensure they keep up with changes. However, training is always essential to keep current with BSA changes and guidelines. Concern was expressed with the serious consequences resulting from mistakes and missed deadlines.
Several North Dakota bankers suggested that increasing thresholds for reporting requirements would be helpful. For example, increasing the CTR threshold by factoring inflation from the time the threshold was

established would make sense. Also, simplifying the SAR process regarding timelines and required information would be beneficial. It is a time-consuming process to gather and input all the required information for SARs.

Beneficial ownership reform was passed in the House and has been on stand-still for quite some time. Putting the ownership of businesses at the state/government level and FinCEN versus putting the responsibility on community banks would be beneficial for both parties (government and banks).

Many community banks are family owned and operated and end up performing tasks that could and should be done by and at the expense of the Federal Government. Bankers are willing to do their part, but whenever it makes sense, the burden of compliance should be placed on the government. The collection of beneficial ownership information could easily take place at the IRS by simply adding one page to a business tax return, which is filed every single year. This one additional tax return page could then be uploaded to FinCEN. FinCEN could create a portal to collect the information itself straight from the businesses or FinCEN can request the information from the Secretary of State's office in each state, where businesses are first established, since most small businesses may not be familiar with FINCEN.

The expectation to monitor privately owned ATMs that are cleared through the bank is another burden. BSA compliance requires banks to review the privately-owned ATM's contracts with their vendor, ask questions about their filling patterns and monitor said patterns against actual activity. Due to the time and judgement involved with this process, the cost of compliance has made these accounts not worth having. Despite the time and cost burden, a community bank keeps the accounts and do the work, because that is what community bankers do. The community banks provide services that their customers need, whether they are profitable or not.

Additional guidance on marijuana related businesses is needed. The SAFE Banking Act passed the House and has been on stand-still for quite some time. It is a best effort to establish guidance around MRB's (direct and Indirect) but very little guidance/direction.

Cost of compliance is concerning and continues to increase. Even at a small bank, BSA is a full-time job in order to be done correctly. This person would be creating forms and policies, training employees, managing the program and reviewing inputs done by others, however, the actual collection of data and completion of forms would still be performed by front line staff, which means the cost of BSA compliance alone is actually multiple times higher than the salary of one individual.

NEBRASKA

Serving the community during a pandemic and the future of community banking

Nebraska bankers reflect with pride, history, and dedication their tie and commitment to their communities. Shared bank mottos, such as "doing whatever it takes" or "finding good people and go where they go", indicate a community generated enthusiasm significantly bound to the bank's culture. A majority of bankers reflected on government programs designed for stimulus, with two commenting on increased customer traffic as bigger banks did not engage in the PPP program as quickly, and another bank referencing significantly increased mortgage loan activity. Universally, each respondent referenced in their own words the bank being a community hub with the bank offering the connection to the customer's financial answers. One banker summarized their adjustments in response to their community needs as demonstrating "our ability and willingness to provide human services."

Over the next ten years, all banks speak of change and strong optimism. No respondent believes the status quo is sufficient. Optimism varied with visions of changes in funding, changes in technology, increased opportunity in meeting personal funding needs. All represented the future with words of "we expect", "we are optimistic about the next 10 years", "we must maintain a strong technology presence", "and we envision new norm opportunities". Yet the optimism realistically addressed headwinds along the way as to the possibility of a shrinking main street and shrinking rural community mixed with increased opportunities for "locals" to remotely work in the big city with big city salaries. To quote one respondent referencing a 10-year vision, "Rural Nebraska can not only survive but "THRIVE" if the proper internet access can be secured." The majority of the banks reference a possible future with lower net interest margins and increased loan to deposit ratios. Three bankers referenced concerns relative to loan demand outpacing deposit growth and challenges with wholesale funding, yet a few summarize this future as potentially being "more streamlined and less costly".

Burden reduction from regulatory relief or supervisory efforts

Responses to regulatory relief varied considerably, ranging from "no" to limited relief, to one that responded "yes", immediately couching the need to do more. One bank indicated the call report changes are a good start, but additional simplification welcome. One bank indicated CBLR, Call Report changes, HMDA reporting reflect minuscule labor savings. The general spirit of the replies reflected the need to update the dated calculations or levels. Simply defining all community banks under $5 Billion opened the conversation relative to the comparable between a $5B bank and a $95M bank. Other recommendations included BSA dollar thresholds adjusted for inflation and less sanctions for inadvertent errors. Flood Insurance Reform reflective of local loss (this comment follows 2009 where NE flooding was at an all-time high and flood insurance remains costly even compared with historic losses). Reform must include Home Mortgage Compliance laws, generally questioning the communication value of long closing documents. A proposed solution would be a meaningful two pages (something people would read) clearly pointing out the simplicity of fixed-rate and the relative complexity or changes that may result from ARMS (or others); returning to the real reason for disclosure. One respondent recommended CRA reform, as bank resources expended to comply with CRA significant. Updating the categories of small ($5B), intermediate (to $20B), and large (over $20B) as well as an analysis of our low to moderate income census tracts would be meaningful. One bank referenced continued legal advantages granted the Farm Credit and Credit Union as also needing reform. Two banks referenced the economics of big banks able to meet changing compliance issues, resulting in an opportunity cost that will "eventually squeeze out competition".

Generally the spirit of the responses question the approach of regulation. Do regulations give consideration to the willingness of the community bank "to do whatever it takes" to offer services in the smaller (from the national perspective) and or rural area?

Funding challenges and opportunities

The conversation of "core" reflects both opportunity and concerning competition; along with a general request to review the definition or purpose of the concept of core. Reference to funding through Rateline, FHLB and Brokered at a fraction of local core cost is a function of market. Thus, questions were presented about measuring impact of core and non-traditional funding, separating out "hot money". Yet if rates are not competitive, conversation changes to concern of local deposits moving out of the bank and going to stocks or annuities, or even moving into land contracts or personal lending (without some customers understanding the risks of becoming the lender.) Cedars was referenced by one bank as being part of the solution in retaining large deposits. As one bank summarized relative to the process of gaining core deposits and monitoring market rates, "we will be experimenting with process to ensure that work is done effectively, professionally, and safety, understanding our business model will change, but not as much as our processes." One bank took the topic of change to the point of extension of a historical funding source stating "core deposits may become a thing of the past… which becomes a big issue in rural towns where there are not a lot of commercial or governmental deposits." However, in general all banks see a much different, challenging and yet possibly more efficient market moving forward.

Impact of natural disasters, extreme weather events, and other climate-related changes

Nebraska in 2019 experienced record rains, snow and high temperatures all occurring over a few days. This uncommon weather event called a "Bomb Cyclone", created record losses, a dam breaking, more than a dozen levies breached and the community of Fremont, NE (pop 26,731) became an isolated island for 3 days. Immediately following, the 2020 COVID related economic numbers, employee absences, social distancing continue to take a toll with statewide restrictions on gatherings, food service and adjustments to social interaction continuing as of the writing of this comment.

In general, responses to this question were shorter than others with statements regarding reliance on government programs and insurance. Reliance on insurance points to inequities of flood loss in Nebraska compared with other areas; creating a subsidized program for those building in higher flood risk areas. Another respondent offers support of the Ag programs, for without such program to cash flow operations, Ag production would be much different. One respondent felt a need for assistance to the livestock farmer in a similar manner as the crop programs. Also this question provided general spirit of agreement in the fact that operations have adjusted due to "climate" and it is too early to say the true impact. However, as one banker speculates, " we believe the recent pandemic … and other issues like global warming, will push more people from metro areas to more rural areas and spacious "safe" settings will benefit our local economy."

Evaluating BSA/AML compliance

While all bankers reflected on the cost, time and related challenges of BSA/AML, one banker offered a simple summary stating that "BSA, in particular beneficial ownership, is a significant, but manageable pain." Fraud and other issues require technology as well as appropriate oversight for consumer protection. However, two of the banks have general concerns if the results of BSA/AML are considered relative to true impact related to customers that avoid banks due to questions or of the bank costs, passed to the consumer, of collecting the information. Surprisingly the answers also focused on issues if the bank was the right place to acquire such information with two bankers seeing value in a centralized data base to manage beneficial ownership.

In summary Nebraska banks are generally reporting above national numbers in terms of capital, earnings, and reserves and approached this exercise with optimism and enthusiasm. While Nebraska banks have always reflected a nimble approach to addressing the needs of the community and the economy, it is noted that many of the banker suggestions above reflect both an approach to burden relief and yet a continuation of the original oversight intent.

OHIO

Serving the community during a pandemic and the future of community banking

The pandemic afforded an opportunity for Ohio community banks to demonstrate their local community value by offering PPP loans to businesses that were having trouble accessing the program with regional and national banks. Positive press came out of the PPP program for community banks. Bankers are hopeful that relationships formed with businesses in this process will lead to longer term business relationships. The PPP program really demonstrated the value of local presence and accessibility. Bankers also connected with their community leaders to develop outreach programs on several issues throughout the community, such as wearing masks, and promoting shopping at local businesses. They were able to demonstrate their value as community leaders. After closing lobbies, bankers had to become creative at finding ways to meet customer needs. Some bank staff met clients in parking lots to sign documents. Bankers also found that their customers generally embraced using technology to access accounts.

Even though branches have begun opening again, the amount of foot traffic has been extremely low. Bankers are concluding that a change to the branch footprint may be warranted. Banks that were already considering digitizing operations are now moving that timeline up. Tokenization, contactless cards, developing digital workflows, and imaging all documents are at the top of the list. Ohio bankers have realized that customers can and do change habits to meet the circumstances, so in 10 years, banking will be more digital, less in-person. Banks will rely more on third party processors, as small community banks have to outsource to get the best talent. Non-banks will continue to gain market share in deposit-taking, lending, and money transmission activities. These cost-efficient, less regulated business models can readily get funding in the wholesale market and are very competitive with traditional banks who rely on the interest rate environment, which will continue to remain near zero for a long time. Ohio generally struggles with a decreasing population especially in rural areas. With companies in urban areas now reevaluating the need for office space, an urban decline will likely happen as well. There may be small pockets of development, but generally Ohio is not in a growth part of the country. There will be a decline in growth in Ohio over the next 10 years.

Burden reduction from regulatory relief or supervisory efforts

None of the bankers interviewed had opted into the CBLR framework, but one banker noted that its adoption was well-intentioned and a solid option for some banks. That banker commended the EGRPRA regulatory review process, noting that it has begun to manifest itself in some tangible regulatory changes. It has created a shift at the federal level, with a greater acknowledgement of the regulatory burdens that banks face day-to-day. Similarly, bankers did not feel the call report changes had reduced burden significantly. Some banks were not even reporting the affected fields. Others noted that while some data needs only be reported twice a year, it does not change the need for collection of the data. The cost savings was described as being only a few hours of personnel time, twice a year. Bankers felt the temporary waiver of the Reg DD and electronic withdrawal transaction limitations were very beneficial to banks and their customers, and were strongly in favor of these changes becoming permanent. One banker noted that customers don't understand the difference between the checking and savings account and that the customer experience would be greatly improved by removing these limitations.

One banker felt the HMDA relief provided was a very positive outcome, since their institution now falls below the reporting thresholds. Others interviewed were not as affected by it. One banker commented generally that in the past few years, there has been more guidance coming from federal regulators and the states on important topics such as marijuana banking, beneficial ownership, and cryptocurrency. This guidance is welcomed and appreciated. Congress needs to close the gap on CRA. It is a 30-year-old law and its application and impact on banks has been controversial for years. Community banks do good, charitable work in their communities, and now with competition from nonbank competitors, the burden to comply with CRA outweighs the benefits. One banker interviewed is exiting the 1-4 family mortgage market because of this issue. In general, there is still an overall sense that smaller community banks, less than $1B in assets, should not be subject to the same regulatory burdens as larger institutions. The $10B asset threshold for the definition of a community bank does not work in all circumstances and needs to be further refined.

Funding challenges and opportunities

Only one banker interviewed indicated they had been experiencing liquidity issues last year. All the bankers expressed that currently they have very strong liquidity. Core deposits have increased substantially in Q1 and Q2 2020. Additionally, many entities receiving PPP loan funds have not deployed them yet. Many banks have paid down or paid off borrowings that they initially placed at the beginning of the pandemic, when it was unclear if there would be a consumer-driven outflow of cash withdrawal. Many borrowers have paid down lines of credit, which will have an adverse effect on earnings, as lines sit unused. Community banks have an opportunity in this environment to distinguish themselves from larger regional banks on cash management services.

Impact of natural disasters, extreme weather events, and other climate-related changes

In Ohio, the impact of climate-related policy changes has already occurred, as coal production has slowly disappeared over the last 30 years. Ohio is landlocked and does not experience climate related events related to oceans. Flooding in Ohio rivers may occur more frequently, but the bankers interviewed were not terribly concerned with increased flood insurance rates in the state. While agriculture may be affected by climate change and extreme weather events, it is usually well-insured which means there is a limited impact to the bank. One banker discussed the crumbling infrastructure of roads, bridges, and dams as being particularly susceptible to major weather events, which could cause destruction. Public investments should be made now to shore up or replace the infrastructure as large weather events become more common. At the bank level, bankers are preparing for natural disasters by reviewing National Oceanic and Atmospheric Administration information for disaster recovery preparation, weatherproofing their IT structure and placing cables underground, using cloud data storage or developing backup systems, and replacing generators.

Evaluating BSA/AML compliance

All the bankers interviewed expressed they have invested in one or more full-time staff members, and an expensive BSA compliance system, to comply with the BSA/ AML rules. It is one of the most burdensome aspects of their daily business, and the compliance costs they incur cannot, in most cases, be passed along to the customer because there is no direct customer benefit. Bankers feel they have essentially become involuntarily deputized in the fight against money laundering. Because of the significant repercussions for noncompliance, senior risk officers and management, and even front line staff, are often overly-suspicious of customers and transactions, which takes up unnecessary time and resources to resolve internally. Examinations for BSA compliance are also burdensome and far-reaching. The amount of scrutiny on a BSA compliance examination is extremely detailed and unwarranted. There appears to be no risk-scoping or consideration to the institution's lines of business, or geographic location or size, that might mitigate the need for a full-scope approach. Federal BSA reviews should be more targeted to the bank's size, balance sheet, and market area. The SAR filing and reporting system needs to be clarified and less burdensome. In general, there needs to be more feedback given to the bank from law enforcement once an investigation is started. CTR and SAR reporting thresholds need to be reevaluated as well. One banker felt local community banks have a much greater positive impact in the community by identifying instances of elder abuse and fraud, and that more bank resources and effort should be spent in this area. It is difficult to allocate resources, however, when such focus must be placed on the AML/CTR reporting.

OREGON

Serving the community during a pandemic and the future of community banking

Faced with a global pandemic and an unprecedented curtailment of economic activity, Oregon's community banks stepped up to deliver much-needed assistance to local businesses and individuals. In addition to fee waivers, loan modifications, and payment deferrals, the five Oregon banks surveyed processed and funded more than $314 million of Paycheck Protection Program (PPP) loans.

The benefits of relationship-based banking became readily apparent as businesses clamored for PPP funds, with most banks prioritizing their existing customers. As large banks failed to help smaller businesses, local community banks became a safety net to catch prospective borrowers on future rounds of funding. The Portland Business Journal recognized one Oregon bank for ensuring each of its approved applicants received funding in the first round. In the second round of funding, the bank targeted underserved businesses such as nonprofits, women-owned and minority-owned businesses.

Multiple bank CEOs worked long hours alongside their teams, with some finding easier access to the SBA portal late at night. One described it as the most professionally rewarding experience of his career. Another was familiar with all his PPP borrowers and therefore unconcerned about uncovering fraud or abuse. One proudly proclaimed all his bank's PPP loans were funded by local deposit customers: "It was truly neighbors helping neighbors." Although providing relief via PPP dominated bankers' time, bank staff also educated consumers on mobile options and reminded them of the old-fashioned night drop.

Looking forward, one bank CEO expects this pandemic will be a defining moment furthering the adoption of technology and alternate delivery channels as customers look to conduct even more of their banking via online or mobile solutions. His bank is implementing a video conferencing solution specifically designed to provide a positive experience for new customers. Although the bank was not ready to pursue this offering a year ago, the investment decision was easier given the current climate.

With the declining importance of geography and branch location as more banks cope with the increased utilization of telework, one bank's mantra is to let technology handle the transactions while people handle the relationships. Others will continue reviewing their business models and evaluating the viability of their branch networks. One bank CEO expects to see continued consolidation with little to no de novo activity as tax-advantaged credit unions and nimble fintech companies improve their business lending capabilities and continue to present intense bank competition.

Burden reduction from regulatory relief or supervisory efforts

Oregon's community bankers were pleased to see proactive responses from regulators to address the economic impact of COVID-19. Some credited regulatory flexibility, particularly relaxed minimum capital ratios, for their ability to fund PPP loans and provide quick relief to borrowers. However, most remain anxious about what the regulatory posture will be when the National Emergency is lifted. Will distressed bank balance sheets create tension between bankers and examiners?

Recent changes to regulations and supervisory methods offered little meaningful relief for Oregon's community banks. Although CBLR and call report changes were welcomed and have been widely adopted, burden reduction was minimal. Bankers feel HMDA data collection has become more burdensome, Section 1071 data collection will decrease the flow of capital to small businesses, and more relief is needed to reduce the compliance burden of mortgage lending rules

Funding challenges and opportunities

The relationship banking model common to Oregon's community banks is fundamental to generating new business customers and core deposits. Bankers believe this high-touch model will continue to provide the core funding required to fund loans. As many small businesses were let down by larger banks, Oregon's community banks saw an opportunity to add deposit customers by leveraging the goodwill created by PPP lending. One banker mentioned that they never conditioned funding a PPP loan on opening a deposit account, "but we asked for it." With limited operations due to the pandemic, business owners found time to evaluate and change their banking relationships. Bank managers continuously remind lenders and front-line staff that growing deposits is key to growing the bank. The funding challenges experienced by Oregon's community banks depend on the geography and demographics shaping the communities they serve. Banks serving urban customers faced intense competition for deposits throughout 2019, leading to aggressive pricing on CDs and money market accounts. Pricing pressure receded as the federal funds target rate reduced to near zero, but lower asset yields and likelihood of a spike in loan losses do not bode well for a bank's future net interest margins.

Oregon banks serving rural economies have enjoyed a loyal following from customers, built on trust and exceptional customer service. While this deposit-rich but aging population provides a low-cost source of funds, the outmigration of younger generations keeps bank managers awake at night. The long-term challenge will be to continue delivering the expected high level of service through all customer touch points, including keeping pace with advancements in technology.

Impact of natural disasters, extreme weather events, and other climate-related changes

The impact of severe weather events and climate change are not high priority for Oregon's community bankers. Each banker surveyed was quick to point to the scenarios contemplated in their disaster recovery plans and lessons learned from the circumstances surrounding the ongoing pandemic. However, every disaster poses its own unique challenges.

Regardless of the circumstances, most feel fortunate to have the current level of technology, as it has smoothed their ability to provide services remotely. Others pointed to the dependability and agility they displayed in the present environment as proof that community banks are uniquely structured to assist customers during economic disruptions. However, bankers want to see legislators provide safe harbor, so institutions avoid frivolous class action lawsuits, which increase during events like these.

Evaluating BSA/AML compliance

The Oregon bankers surveyed agreed that BSA/AML compliance has become incrementally more burdensome. Satisfactory compliance requires allocation of more resources each year, be it to implement automated systems or add dedicated personnel, and small community banks are not afforded the benefits of scale enjoyed by larger banks. A frequent suggestion for improvement is for government to create a searchable database to house beneficial ownership information. This would aid bank due diligence and remove a pain point for account opening staff. Most believe this data collection would be appropriately performed by state business registry offices or by the IRS.

SOUTH DAKOTA

Serving the community during a pandemic and the future of community banking

Most community banks in South Dakota have a similar connection to their communities and customers. They are nimble and responsive to events such as the great lockdown and resulting PPP loan program. Banks interviewed took great pride in pushing through the uncertainty surrounding this program by originating and funding hundreds of loans to help their customers and communities through a difficult time. Larger community banks in South Dakota are trying to gain scale to better serve their customers without losing their hometown feel.

Over the next 10 years, banks in South Dakota believe they will need to continue to invest in additional products, services, and delivery mechanisms to remain relevant to their customers and competitive with new entrants. Many existing customers will want access to physical bank locations while new customers will demand additional digital offerings as they establish their banking relationships. Some banks are replacing ATM's with ITM's and others are updating digital offerings to provide better consistency across customer devices used to access banking services. While community banks cannot be everything to everyone, with good technology offerings and great people, they can continue to meet the needs of their customers and enable their communities to thrive into the future.

Burden reduction from regulatory relief or supervisory efforts

The benefits of regulatory relief provided by recent efforts are mixed for South Dakota bankers interviewed. Overall, no significant relief impacting staffing decisions has occurred, but several examples of incremental relief were provided. One bank recently adopted the CBLR and is saving eight hours of staff time per quarter. Recent clarity related to TRID forms has been well received. Flexibility provided to appraisal request timing requirements has been helpful and appraisal threshold changes have been meaningful in rural areas. The most recent delay to implementation of CECL for small banks is also a positive. Real regulatory relief for one bank was the lack of new regulations to implement.

There was some consistency on what Congress and regulators can do to further reduce burden on the industry. Adjusting CTR reporting thresholds to a meaningful amount in today's dollars was the most cited example followed by meaningful HMDA reporting relief. While HMDA reporting fields were greatly expanded, the error thresholds triggering further review were not changed. Further, when HMDA reporting fields were expanded, they were not programed to match existing fields and as a result some require a number to be entered while others can be left blank and still others need an NA if there is nothing to report. Brokered deposit reform was also suggested.

Recent changes to funds availability (Regulation CC) from $200 to $225 was a huge undertaking but is not meaningful to consumers. If similar changes are to be undertaken in the future, they should be studied and discussed to ensure the changes are meaningful when compared to the cost of change to the industry.

Congress needs to find long-term solutions to long-term problems. Recent support payments to the agriculture sector are helpful in the short-term but do nothing to solve the long-running problems. Our country needs a combination of strong trading partners and agreements without an over-reliance on unstable or adverse trading partners. A diverse and decentralized meat processing industry in our country would greatly enhance resilience and would also reintroduce fair market competition to a marketplace dominated by a handful of very large companies, some owned by foreign interests.

Funding challenges and opportunities

The current challenge for South Dakota banks is to provide capital for the recent surge in deposits and to profitably deploy these funds in a safe manner. Government guaranteed loans with a 1% return suddenly look attractive compared to returns on Fed Funds and government backed securities. None of the bankers interviewed expressed an interest in changing their lending principles or their trade area to put this new-found liquidity to work.

While the current low rate environment is expected to last for some time, the longer-term demographic trends in rural communities are not positive and recent customer and deposit gains will not last without additional efforts and planning. Depressed commodity prices and net worth losses to producers will make core deposit growth even more difficult over the long-term. The combination of demographic trends, low interest rates, and generational changes could force rural banks to rely more heavily on brokered and listing service deposits in the future. While there are pricing and predictability advantages to these funding sources, they do not help build relationships, and most bankers believe they should be used as a supplement to traditional core deposits. Digital offerings will be critical to reaching and retaining new customers.

Impact of natural disasters, extreme weather events, and other climate-related changes

Weather extremes and increased volatility appear to be the new reality, but multi-peril crop insurance helps producers in South Dakota manage these risks. Dramatic change to these insurance programs would be a game changer for producers and lenders. Discussions about weather risk are underway but there is currently no good data to pinpoint the likely impact of global climate change on producers and other businesses in South Dakota.

South Dakota is resilient. No one planned for the possibility of the entire economy shutting down, but South Dakota banks, businesses, and citizens have managed as best they can and are supporting each other. These bankers believe they are well prepared for the next disaster.

Evaluating BSA/AML compliance

While the impact of BSA/AML varies based upon the size of the bank, there is universal agreement this program is extremely costly and burdensome for all banks in South Dakota. No banker questioned the importance of the program or its goals, but all agree there are ways to make it more efficient, more effective, and less burdensome.

Smaller community banks in South Dakota have little to no BSA/AML risk but are required to dedicate staff time and other resources to this effort. Larger institutions are all but forced to automate their processes but have seen no reduction in staff time. There is always the next thing to implement, validate, tune, and model. As a result, the cost to comply continues to increase for all institutions.
The beneficial ownership rule is a huge and ongoing burden. Having to redocument the same information each time a new account is opened, or loan made is a burden on the bank and its customers. A central database would reduce the burden on bank customers. Increasing the CTR filing threshold would reduce the burden on banks significantly without decreasing the amount of useful information reported.

The divergence in state and federal law regarding marijuana is an issue that must be addressed. Further clarity on useful information banks can provide in SAR and CTR filings would be well received. There is very little feedback from law enforcement.

Finally, and most frustrating, local law enforcement does not always know they have access to SAR and CTR data. Multiple banks discussed how they proactively reach out to law enforcement to make them aware of a recent filing to ensure law enforcement receives the information. It is one thing for banks to be required to report this information, but it is another for them to also have to follow up to ensure the information is being used.

TEXAS

Serving the community during a pandemic and the future of community banking

Participating bankers pointed to their community involvement and strong relationships with customers as key factors that distinguish their institutions from their larger competitors.

One banker noted that the mission at his bank's inception 30 years ago was to serve small businesses in the West Texas region and they have remained dedicated to that mission. The bank has remained in the area as the larger banks have exited small business lending over the last two decades. The need for small business capital has not decreased, and small businesses in the area benefit from the steady presence and local expertise that the bank's management and board can provide. Bankers described offering scholarships and programing for high schoolers, supporting downtown revitalizations and other ways they support and connect with their local communities.

Banks in the state are increasingly utilizing technology to interact with customers and increase efficiencies within the institution. One banker representing a commercially focused bank said their use of a competitive treasury management system enables them to compete with the largest banks for the best commercial credits. Another banker said his institution is working to develop an online mortgage application.

Participating bankers also spoke about their ability to retain high quality staff. Several described performance-based incentive programs for front level staff and lenders.

A participating banker noted that economic growth near the southern border will lead to a good outlook for his bank. The economy in Southern Texas has grown from being primarily agriculture-based to one that is significantly more diverse. While agriculture still plays a big role in the local economy, manufacturing has been a growth area and tourism has led to retail business expansion. Government employment is a source of stability in the area and local universities are growing. The area also includes multiple hospitals with a comprehensive range of specialties and attractive jobs. Overall, community banks in this area are well positioned.

Burden reduction from regulatory relief or supervisory efforts

While several of the interviewed Texas bankers have experienced some reduction in regulatory burden, most feel that additional changes in regulations and exemption thresholds should be evaluated.

Only a couple of the participating banks chose to adopt the community bank leverage ratio (CBLR) while the others either did not qualify (due to off-balance sheet exposure or unfunded commitments) or opted-out for business reasons. One bank that utilized the CBLR dropped below the 9% threshold due to PPP loans but is confident their capital level will increase above the threshold once PPP loans are forgiven.

Bankers in Texas appreciate recent efforts to reduce call report burden. Several banks that would not have been eligible for the 051 in the past have been able to take advantage of the new reporting form due to the increase to the asset threshold from $1B to $5B. However, most felt only a limited impact in terms of burden reduction, and call report preparation continues to be extremely time intensive for participating banks. One banker said the required loan category breakdowns on schedule RCC take about 8 hours to complete, while the remainder of the call report takes an additional 32 hours. Another banker noted their staff spends over 40 hours each quarter for that schedule for Q1 and Q3 reports and an additional 8 hours for the Q2 and Q4 reports. A participating banker explained that while many banks have general ledgers that upload into their call report software, many small banks do not have this capability. Banks suggested reducing the number of breakdowns required per category or consolidating the five categories into three (commercial, residential, and consumer).

Several of the participating Texas banks benefitted significantly from changes made to the Home Mortgage Disclosure Act's reporting requirements. One banker noted the small filer exemption reduced fields required to be reported from 48 to 22. Another bank qualified for no HMDA reporting after the closed-end threshold was increased to 100 loans.

At least two of the participating banks were able to reenter residential mortgage lending following the implementation of S2155. Banks have found the Small Creditor QM to be beneficial. However, banks still struggle with the need to re-disclose certain changes in closing costs, complete appraisals in a timely manner, and price loans to be compliant with the QM rules restrictions on higher priced loans.

Bankers believe regulators could better utilize technology to identify riskier institutions and streamline the exam process.

Funding challenges and opportunities

Participating banks are in strong liquidity positions and are not overly concerned about the next five years given strong deposit bases and a focus on core deposits. However, generating additional core deposits will continue to be a challenge for certain community operating in predominantly rural areas. A banker in a rural market said that growing from $500M to $1B would require his bank to branch into more growth-oriented markets. Other banks in areas with growing populations expect they will be able to generate additional core deposit growth.

Several bankers reported facing strong competition from large credit unions. The CUs generally can offer higher rates on deposits due to their tax-exempt status. Participating bankers argued that Congress should address CU field of membership and tax-status issues to ensure a more level playing field.

Despite liquidity being only a limited concern at the current time, participating banks take liquidity and funding related risks seriously and have multiple ways of managing liquidity risk. Bankers said options include selling loan participating, borrowing from the FHLB, utilizing lines of credit for fed funds with correspondent banks and prudent investment portfolio management.

Impact of natural disasters, extreme weather events, and other climate-related changes

The pandemic and sustained private sector shutdown posed multiple challenges, but overall, participating bankers spoke of their institutions ability to adapt and be flexible in light of ongoing uncertainty. At least one bank made decisions prior to the pandemic that made the transition to remote work easier. In the fall of 2019, the bank instituted a Hosted Network Solution (HNS) from their core service provider that enabled the use of virtual desktops. The decision served the bank well when the stay-at-home orders were in place. More than 70% of the banks staff was able to transition to remote work within a week.

Bankers noted that no amount of disaster planning would have prepared the industry for the prolonged impact the pandemic has had on local businesses and the economy. One banker suggested that regulators provide clear business continuity guidance regarding work from home expectations and collaborate with the industry on lessons-learned and safeguards that should be put into place for the future.

One participating bank serves areas at risk of being impacted by hurricanes. On top of the pandemic, the risk of natural disaster remains high for banks serving the Gulf of Mexico, and contingency planning is key.

Evaluating BSA/AML compliance

Participating bankers report dedicating increasingly more staff and time to BSA/AML compliance and had multiple recommendations for making compliance less costly and burdensome.

Multiple bankers pointed to the CTR threshold—which has held steady at $10,000 for more than 50 years—as burdensome. Banks operating near the southern border have increased BSA responsibilities because they serve a high proportion of businesses that are cash intensive. One banker whose bank filed 825 CTR filings in 2019 said that moving the threshold to $20,000 would reduce their CTR filings by 82%.

A banker said that the requirement to do an annual review on exempt entities for CTR filing is extremely time consuming. After the bank has identified that the customer is eligible for exemption, they suggested that the requirement for annual review should be increased to every three years.

Bankers also asked that the requirements for OFAC monitoring be reduced following verification at account opening. The bank has never had a positive OFAC hit. A banker said that changing thresholds on CTRs and SARs would enable the bank to reduce staff in their BSA department by at least on FTE. Bank staff could better utilize their time to serve customers rather than serve as law enforcement. A banker said his institution had never received follow up on a SAR filing.

Finally, additional guidance is requested regarding working with hemp companies and producers/sellers of CBD.

UTAH

Serving the community during a pandemic and the future of community banking

Community banks in Utah are positioning themselves to not only offer all the benefits of a community bank, such as high touch service with great customer care, but to also benefit from strategic technological advances often associated with larger banks. Additionally, growth within community banking will be driven by offering strategic services, products, technology, and expertise that will attract additional customers. Unique non-interest income areas will grow and complement traditional lending areas. PPP lending not only benefited small businesses and the community, but also shined a light on community banks as partners that genuinely care for small businesses and support their communities.

Burden reduction from regulatory relief or supervisory efforts

Overseeing the new PPP loans, and the process, likely will add an additional layer of regulatory burden on banks. Some Utah bankers felt the community bank leverage ratio did not result in a true reduction of either reporting or regulatory requirements. The banker also believes the call report changes did not provide real relief, as banks likely will continue to prepare most of the same information on the call report at the bank level. Also, the loss of comparable holding company peer information does not outweigh the minimally reduced cost of preparing the full FRY-9 report.

The Utah bankers proposed a few regulatory relief options such as continuing to reduce regulatory exams based on risk levels and eliminating the tax benefit given to credit unions so that banks will have a level playing field to compete.

Funding challenges and opportunities

Utah banks generally have not experienced challenges with raising core deposits in the COVID environment. Long term funding challenges would include finding ways to interest younger generations in placing deposits with community banks.

Impact of natural disasters, extreme weather events, and other climate-related changes

Generally, Utah banks are prepped for earthquake disasters, although no major earthquake has happened in Utah in quite some time, it is a legitimate risk that could happen anytime. Taking the time and effort to continue to test preparation levels is a constant challenge for community banks.

Pollution levels can be considered a climate-related challenge for Utah business. Pollution levels along the population base of the Wasatch Front (Salt Lake City-Ogden-Provo) can have an effect on people's health, which can then negatively affect all aspects of business. Excessive pollution levels will increasingly affect business development along the Wasatch Front, as companies reconsider locating there because of the negative health consequences to their employees.

Evaluating BSA/AML compliance

Utah bankers feel the beneficial ownership requirement can take a lot of time and resources to implement and track. An area that would be helpful is regulatory guidance and training on responding to and following up on law enforcement requests.

WISCONSIN

Serving the community during a pandemic and the future of community banking

Wisconsin's community banks spent much of their time helping customers through these unprecedented times. They listened to the needs of customers, especially those laid-off due to the pandemic, and made fast, local decisions to modify loans and help customers in support of their communities. Wisconsin community banks continued to contact their customers to make them aware of any programs and funding available to aid them during this pandemic and economic crisis. These community banks helped customers weather the early stages of the pandemic by explaining the application process for the PPP loan program and other grant and loan opportunities. Wisconsin's community banks also invested locally to support community businesses and non-profits and worked with community leaders to serve where needed. Overall, Wisconsin's community banks continued to provide bank services in a way that kept their staff and customers safe.

Many banks reported that it is very difficult to predict what the next 6 months may look like, much less the next 10 years. Many believe their bank and communities will evolve with consumer preferences, especially with changes in preferred delivery channels for goods and services. Wisconsin's community banks reported that in-person transactions are likely to continue declining in favor of debit card use and e-commerce. Even so, many community banks believe that all age demographics of customers will continue to expect a physical bank location with in-person customer service available. However, with branch lobbies closed during the stay at home order, community banking customers became more reliant on bank technologies. Several community banks reported their business model will need to adapt and deliver financial products and services in this multi-channel environment. Significant investments will need to continue to be made in both technology and IT security as well as hiring, maintaining, and training staff to evolve from primarily transaction processors to financial solution providers.

Burden reduction from regulatory relief or supervisory efforts

Wisconsin's community banks that elected to use the Community Bank Leverage Ratio (CBLR) reported they have in fact saved time in preparing their call reports. The call report changes are always welcomed as they reduce the length and time to complete. Any positive impact from changes in HMDA reporting and mortgage lending are negligible. These areas continue to be extremely burdensome for Wisconsin's community banks as well as regulation CC and CECL. In addition, there is concern over how regulators will handle COVID pandemic decisions made by banks. Many believe the continued relief provided on payment deferrals for borrowers from TDR designation may be necessary if COVID persists. Overall, Wisconsin's community banks appreciate the collective relief provided so far. However, they want to ensure that regulatory examinations do not penalize them for providing this relief where necessary, especially if extensions are needed for certain highly impacted industries as they slowly reopen their businesses.

Funding challenges and opportunities

A year ago, liquidity and funding concerns were high priority for Wisconsin community banks, but currently are not a problem because stimulus money, PPP funds, and CFAP funds for farm customers have bolstered bank deposits. In addition, the PPP loan program created opportunities for new deposit relationships. Prior to COVID, raising core deposits had at times been challenging because of competition from large, open-charter credit unions leveraging their tax-status advantage to increase advertising spend. Long-term funding challenges to grow core deposits will continue to result from credit union, large bank, and online only bank tax and scale advantages. Many see competition from credit unions as the biggest long-term funding challenge.

Impact of natural disasters, extreme weather events, and other climate-related changes

Most Wisconsin community banks do not see natural disasters and extreme weather events impacting their ability to assess or mitigate risks. Community bankers reported they addressed these situations in disaster recovery plans, which were implemented several years ago. Others stated the COVID pandemic dramatically changed the world and will continue to do so long-term, so it is too early to tell what the future holds.

Evaluating BSA/AML compliance

Although Wisconsin's community banks are in good shape with BSA/AML, compliance is onerous and costly in terms of time, resources, and technology, especially for smaller banks. One community bank suggested removing the onus for banks to document beneficial ownership, along with raising reporting dollar thresholds for transactions. Overall, Wisconsin's community banks would welcome any sort of regulatory relief on this topic.

VIRGINIA

Serving the community during a pandemic and the future of community banking

Virginia bankers were incredibly proud of their response and role during the pandemic and economic crisis. Many said they demonstrated their core values and commitments to keeping the customers, community, and teammates at the heart of their decisions. Their safety and financial well-being were critical.

Bankers stated that in March, as the realities of the pandemic began to emerge, many started closing lobbies and conducting business through their drive-throughs. One banker said "we were uniquely positioned to take care of our customers in this way, with approximately 98% of our branches having drive-through capabilities. In addition, we rotated staff schedules to reduce the number of teammates in a branch at one time to improve social distancing."

Many Virginia bankers also noted that they made PPP their number one priority across the company with an "all hands-on deck" approach to meet the needs of their customers and welcome non-customers to apply. They positioned themselves as "financial first responders" to help directly impact the communities by assisting businesses and their employers. One banker stated that their commitment to PPP is demonstrated in the results of securing funding for over 11,700 business customers and in turn their employers.

Bankers also implemented a convenient appointment setting tool (via online and mobile) to better service clients during this time. Appointment setting tools helped to enable in-lobby (in-person) meetings or face-to-face meetings via Zoom. This competitive advantage allowed customers to choose when, where, and how they wanted to interact with the bankers while also ensuring a safe environment.

With respect to the future of community banking, many Virginia bankers were generally optimistic about the outlook for their bank and community. They anticipate their bank will continue to foster its customer relationships, be flexible, and provide excellent service. Bankers acknowledged that the pace of change in the past ten years will seem excessively slow compared to what is expected in the next ten years. Community banks will have to transform to the digital age, or risk being left behind. As one banker stated "if we do not innovate, we will lose our customers, not to the competition, but to the cemetery. Acquiring younger customers is the key to the future of our bank." One banker noted that what makes their bank unique is that it has no ATMs. They allow customers to use any ATM in the world for no fee (our fee or fees from other bank). The fees are automatically reimbursed.

Virginia bankers explained that they are focused on efficiency and becoming a market leader in their specialty/niche areas, recognizing that they cannot be everything to everyone.

Burden reduction from regulatory relief or supervisory efforts

Regulatory burden is a constant issue for community bankers in Virginia. Bankers feel like they are the "financial police". For example, with BSA and other regulations, they feel they are doing a lot of their work for them and not being compensated for it.

From a relief standpoint, the most notable was the delay in CECL. Bankers would like to see an increase in the asset level threshold before large bank CRA guidelines begin and two-year examination cycles for well capitalized banks with certain characteristics including, no CAMEL ratings below two in the most recent examination.

Overall, Virginia bankers hope regulators continue to consider the unique position community banks are in when it comes to market competition, staffing, and resources. Any help they can get to reduce burden would be appreciated, but quite frankly, not expected.

Funding challenges and opportunities

For the most part, the Virginia bankers interviewed have not experienced any major issues with raising core deposits and have seen a growth of net customers and deposits. Funding seems to be fine and liquidity is strong. Some bankers noted they have seen an inflow of deposits, almost as a flight to quality banking during COVID. One banker stated, "we don't manage earnings quarterly, as we strive to make good long-term decisions, hence the lower risk loan portfolio."

Still some bankers did acknowledge that like other community banks, they do face challenges when competing with large banks for core deposits. Bankers noted it is tough to compete against credit unions or financial service companies that seem to have no regulatory burden. Virginia bankers instead rely on long standing relationships with those in their community to raise deposits and believe there will continue to be a need for the full-service banking relationship they offer to their customers.

Impact of natural disasters, extreme weather events, and other climate-related changes

Virginia bankers interviewed stated that they are well prepared for weather disasters and do not think climate-related changes are going to negatively impact the bank. Bankers believe they have a strong foundation of an agile team and an ability to stay focused on their core business and objectives. They have spent time assessing their performance over the last four months and have developed improved capabilities (communication, technology, decision making, metrics) that will serve them well in the future. Many bankers anticipate being able to assess new risks as they develop and addressing mitigation efforts in their business continuity plans.

Evaluating BSA/AML compliance

Virginia bankers believe BSA / AML puts banks in the middle of law enforcement's work. The bulk of compliance time and expense in the BSA/AML area is spent complying with regulations related to verifying beneficial ownership, completing enhanced due diligence and assigning customer risk ratings, daily monitoring of account activity, and validation of the SBA/AML automated model. One banker explained how they have 10 people dedicated to BSA/AML compliance and a very sophisticated software system. The bank spends close to a million dollars per year to do this work. As the banker stated, "requiring us to do it is one thing, asking my shareholders to pay for it is just wrong." If banks were funded for this work, they may just do a better job.

Time and resource commitment have increased given the impact of the pandemic. Bankers have seen an increase in BSA report filings due to an increase in fraud – from the PPP program, unemployment insurance fraud, BEC fraud, and consumers falling victim to scams. Similarly, inquiries from law enforcement have increased as well. Fraudsters are taking advantage of consumers who are isolated and financially challenged, just as they are taking advantage of businesses who have received PPP funds. To address this, the Director of the FIU has provided fraud-prevention training to the bank's business customers and teammates working on the PPP program. Some bankers noted they have also seen a spike in enhanced due diligence reviews required due to the rapid on-boarding of high-risk PPP customers who are brand new to the bank. Accordingly, the BSA departments have on-boarded temporary help to assist with the rapid influx.

Bankers would like to see continued technology development. Other changes include implementation of risk management processes to address this added layer of risk within BSA/AML. In addition, regulatory assistance is welcomed to allow for reasonable accommodations and prudent risk-based approaches in the collection and analysis of data. Bank have made significant investment in people, training, and software to increase monitoring and compliance capabilities, but feel more can be done to assist banks.