Mansfield University of Pennsylvania in Collaboration with C&N

An Analysis of C&N: A Look Back, a Look Forward, and the Importance of the Relationship Model in Banking

Prepared by:

Ethan Allen

Seth Anderson

Hannah Caccia

Sarah Hart

Quanwen Long

Advisor[1]: Dr. Atika Benaddi

Prepared for: 2022 Community Bank Case Study Competition

[1] Co-Advisors: Dr. Xiaoxuan Ji, Dr. Xia Zhou

Table of Contents

Executive Summary 1
Background 2
Part I: Financial Analysis 3
  Overview and Peer Group Discussion 3
  Earnings Performance 4
  Loan Portfolio Composition 6
  Asset Growth 8
  Capital Levels 10
  Liquidity 11
Part II: Looking Back 12
  Bank Profile 12
  Business Model and Strategies 13
  Operations and Products Offerings 14
  Challenges Faced 15
  Exemplifying Story 16
Part III: Looking Forward 17
  Goals in the Future 17
  Competition in the Banking Industry 19
  Supporting the Community 20
  Challenges Ahead 21
  After COVID-19 23
  Conclusion 24
Works Cited 27

Executive Summary

The past 10 years have been tumultuous, but rewarding, for the community banking industry. During this time, there have been many challenges posed to these banks, such as increased regulation, rising competition, and interest rate volatility. Despite these challenges, community banks have continued to serve crucial roles in their markets and meet the needs of their many customers. A community bank is typically defined as a financial institution with less than $10 billion in total assets that serve less populated geographic areas. The Federal Deposit Insurance Corporation (FDIC) has reported that community banks have consistently had higher net interest margins, stronger asset quality, and higher loan growth rates compared to non-community banks. The next 10 years will hold their fair share of challenges, too, but as they have done in the past, community banks will continue to evolve and adapt new strategies that will prepare themselves for any future obstacles.

Citizens & Northern Bank (known as and hereinafter referred to as C&N), headquartered in Wellsboro, Pennsylvania, is an excellent example of a community bank serving its customers. By analyzing C&N, we can learn more about the community banking industry as a whole. In Part I of this case study, we will analyze the financial performance of C&N over the past five years. Specifically, this part will highlight C&N's earnings performance, loan portfolio composition, asset growth, capital levels/planning, and liquidity. Over this period, C&N showed strong performance, especially in loan growth, which was largely due to the acquisitions of two banks in Southeastern Pennsylvania.

In Part II, we will examine C&N's overall profile over the past 10 years and how it has evolved. Since 2011, C&N has gone through considerable expansion, which can be seen in its number of employees, the services it offers, and the large investments in technology. However, with growth comes challenges, which are also outlined in this part. Further, it describes C&N's business strategies and the products and services that it has expanded to offer. Part II concludes by describing one of the many stories that exemplify how C&N has served its community for the past 10 years.

Part III describes C&N's goals over the next decade and how it plans to achieve them. In a world where larger banks and fintech companies (businesses whose primary offerings are propelled by technology) are becoming more of a competitor to community banks, C&N is evaluating how it can continue to create the long-lasting relationships with its customers that differentiates it from other institutions. It describes specific programs that C&N participates in that help serve its many communities. This section also outlines the challenges ahead and how the bank's quick shift after the initial outbreak of COVID-19 has permanently affected its business model. Overall, the case study found that C&N's strong relationship-based values and its investments and technology have been the biggest contributors to its success over the past 10 years.

Background

C&N was founded as The First National Bank of Wellsborough in 1864 in Wellsboro, Pennsylvania. It continued to acquire smaller banks in the region until it merged with Citizens National Bank of Towanda in 1971, officially becoming Citizens & Northern Bank. C&N has proven to be a vital financial institution for local individuals and businesses ever since it was founded 158 years ago. Today, it has 31 locations stretching from Southern Pennsylvania to Southern New York. Wellsboro, its headquarters located in Northeastern Pennsylvania, has a population of just over 3,200 people. Most of C&N's legacy market is in rural areas, in line with most of the country, where 71.8% of branches in rural areas are owned by community banks

(Hanauer et al.). This further explains the importance of C&N’s physical presence in the areas it serves.

The community banking business model is heavily based on relationships. Because they have smaller markets and customer bases, it is hard to attain the economies of scale that larger banks have. Therefore, they rely on these relationships for repeated business and customer loyalty. Since the very beginning, C&N has focused on building strong relationships with its customers. The bank is a regional leader in both personal and commercial banking, and many customers have done business with C&N for decades. The bank gives back to its community through various programs such as the Giving Back, Giving Together program (GBGT), where employees choose a specific need in the community to support with donations and volunteer hours every year.

C&N expanded its markets by its expansion into the Southeastern Pennsylvanian region in 2019 when it acquired Monument Bancorp, Inc. At the time of acquisition, Monument had $363 million in assets, which brought C&N to $1.7 billion. In 2020, C&N then acquired Covenant Financial, Inc., also based in Southeastern Pennsylvania, bringing C&N’s total assets to $2.2 billion. Both banks held more commercial loans, rather than mortgages, which significantly changed the makeup of the loan portfolio. These acquisitions have been a key driver to C&N’s recent growth by expanding its geographic reach and exposure to larger commercial markets.

Part I: Financial Analysis

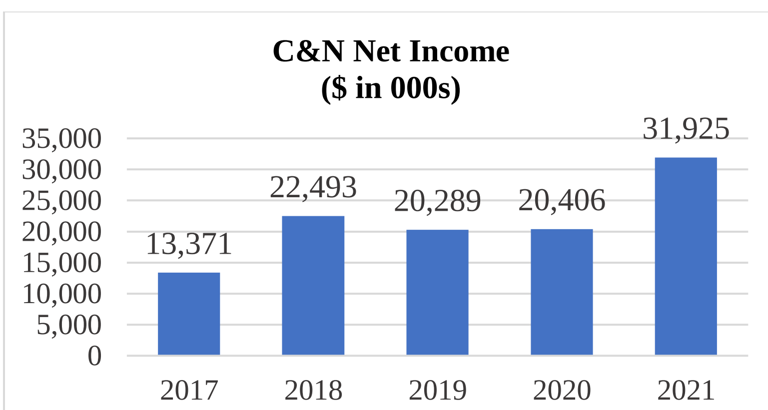
Overview and Peer Group Discussion

To analyze C&N’s financial performance over the past five years, we utilized data retrieved from the bank’s UBPR call reports and SEC 10-K filings. C&N’s holding company, Citizens & Northern Corporation, is a publicly traded company on the NASDAQ under the ticker CZNC. Using the information from the SEC filings was extremely helpful in our analysis. We also use input from the executives that we spoke to in our interviews with the bank, notably from Mark Hughes, Executive Vice President and Chief Financial Officer. To compare C&N's performance with a peer group, we used data from the Peer Group Average Report (PGAR). The peer group used in this report is Peer Group 4 (PG4), which includes commercial banks with assets between $1 billion and $3 billion. After a thorough review of C&N Bank's financial data and performance, we found that it has shown impressive growth, both due to natural growth and its two acquisitions in Southeastern Pennsylvania.

Earnings Performance

C&N's earning performance had an upward trend over the last five years. As shown in Figure 1, net income was $15 million in 2016 and decreased to $13 million in 2017. That year in December, the federal tax rate decreased from 35% to 21% with the Tax Cuts and Job Act. This resulted in an additional tax provision of $2.159 million that was recorded as an expense, which explains the decline. There was another decline of $2.2 million between 2018 and 2019, which resulted from the one-time expenses incurred from the Monument acquisition.

Figure 1.

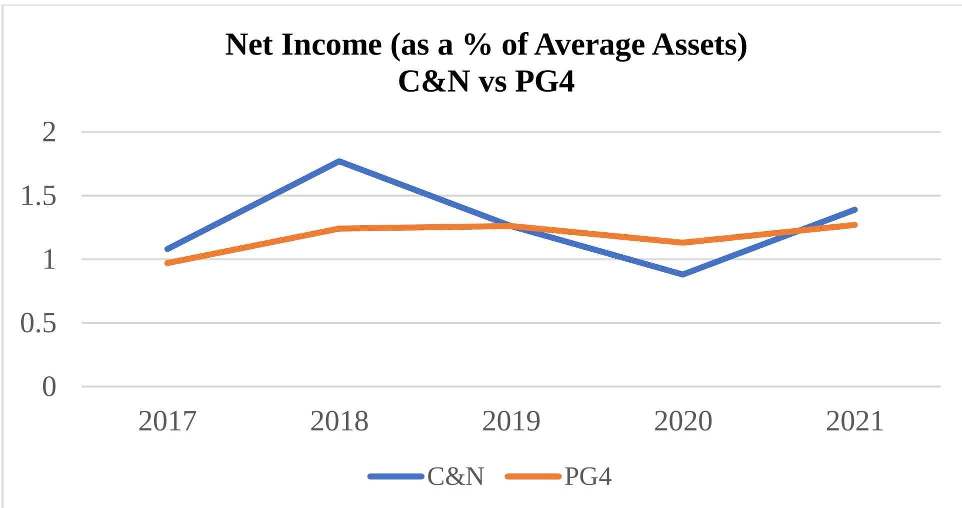


Source: UBPR Call Reports, C&N.

The most notable surge in net income occurred in 2021 when net income rose to $31.9 million from $20.4 million in 2020. This was associated with the acquisition of Covenant. Because C&N

absorbed the loans from this, it recognized $11.4 million in interest income alone. Figure 2 shows additional analysis where the net income is shown as a percentage of the bank's total assets. This allows us to compare the earnings performance regardless of the asset size of the other institutions. C&N's ratio outperformed its peers every year except for 2019 and 2020, when it went through its acquisitions. But due to the bank's strong leadership and financially sound decisions, it was able to outperform its peers again in 2021.

Figure 2.



Source: UBPR Call Reports, C&N. PGAR, PG4.

Interest income is the main income source for community banks; therefore, we also would like to further analyze what percentage comes from interest and noninterest. As shown in Table 1, C&N has seen a drastic increase in its interest income from $48 million in 2017 to $85 million in 2021. As for the noninterest income, C&N also showed an overall increase from $15 million in 2016 to $26 million in 2021, except for the slight drop from 2019 to 2020, which was a result of the bank's reduction in securities gains.

Table 1.

Comparison of Income and Expenses (as a % of Average Assets) C&N vs PG4										
	2017		2018		2019		2020		2021	
	C&N	PG4	C&N	PG4	C&N	PG4	C&N	PG4	C&N	PG4
Interest income	3.91%	3.90%	4.04%	4.14%	4.07%	4.35%	3.36%	3.79%	3.72%	3.41%
Interest expense	0.32%	0.43%	0.36%	0.63%	0.62%	0.87%	0.38%	0.52%	0.22%	0.25%
Net interest income	3.59%	3.46%	3.68%	3.51%	3.45%	3.49%	2.98%	3.27%	3.50%	3.14%
Non-interest income	1.30%	0.86%	1.65%	0.83%	1.18%	0.88%	1.04%	0.91%	1.13%	0.83%
Non-interest expense	2.94%	2.73%	3.03%	2.73%	2.99%	2.76%	2.74%	2.57%	2.69%	2.40%
Net income	1.08%	0.97%	1.77%	1.24%	1.26%	1.26%	0.88%	1.13%	1.39%	1.27%

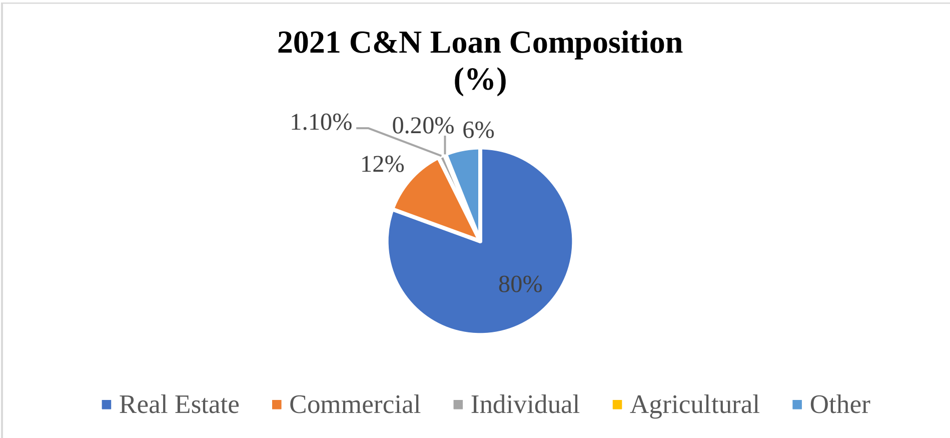
Source: UBPR Call Reports, C&N. PGAR, PG4.

The bank's net income performance in 2020 and 2021 showed a significant growth pace considering the low interest rate environment. Mark Hughes recalled that when the Federal Reserve slashed rates after the COVID-19 pandemic broke out, it heavily affected the security rates that the bank was looking to invest in. He also mentioned that the bank typically sells long-term residential mortgage loans to institutions like Fannie Mae. This way, the bank benefits from the gains on the sales without carrying them on the balance sheet. C&N still retains its servicing on the loans so that customers with those mortgages keep the relationship with the bank.

Loan Portfolio Composition

Over the past five years, C&N's loan composition has been similar in that mortgage loans make up most of its portfolio. In 2021, they made up 80% of the total portfolio, as shown in Figure 3. Commercial loans are the second largest component, comprising 12%. The rest are individual loans and agricultural loans, comprising 1.1% and 0.2%, respectively. Other loans and leases make up the remaining 6% of total loans. C&N has seen a downward trend from $6 million in 2017 to $2 million in 2021 in agricultural loans. Mark Hughes commented that although a majority of its market is located in a generally agriculture-oriented area, they have historically never taken up a considerable amount of C&N's total loan concentration.

Figure 3.



Source: 2021 SEC 10-K Report, C&N.

As shown in Table 2, there was a sharp increase in real estate loans from 2018 until 2020, from $646 million to $1,263 million. There was also an increase in commercial loans, which increased by 130.94% in 2021. The two acquisitions in the past years contributed to such a surge. The bank acquired about $700 million of loans from two acquisitions, and management is continuing to look for ways to broaden the bank's market reach.

Table 2.

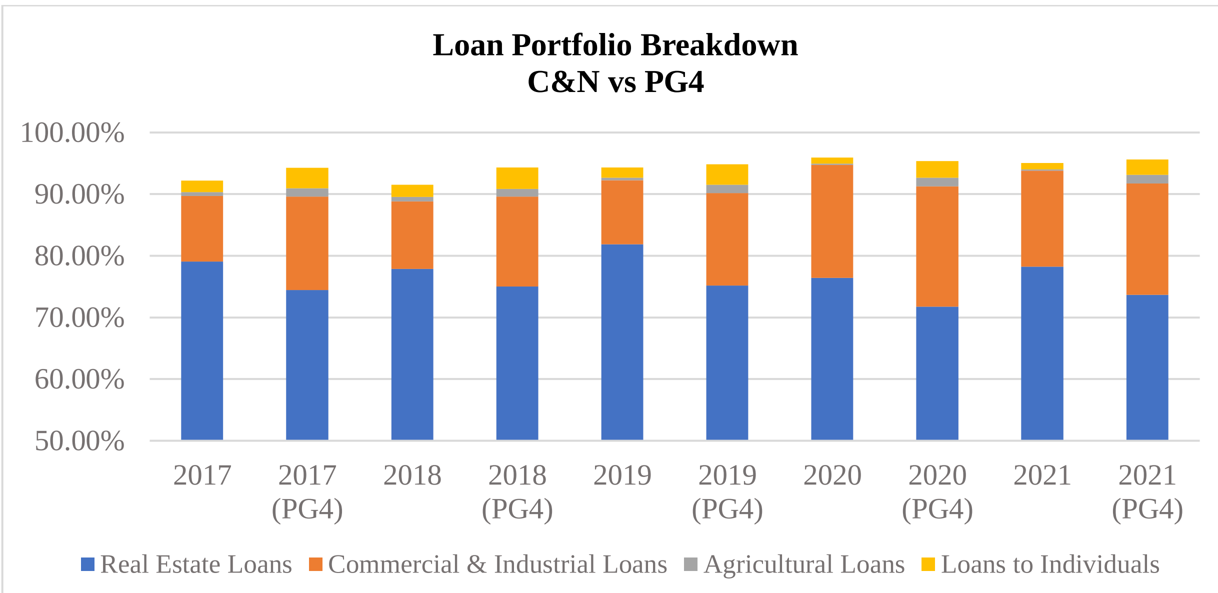
C&N Loan Portfolio Breakdown and Year-over-Year (YOY) Growth									
	2017 ($ in 000s)	2018	2018 ($ in 000s)	2019	2019 ($ in 000s)	2020	2020 ($ in 000s)	2021	2021 ($ in 000s)
Real Estate Loans	636,812	1.43%	645,918	49.47%	965,450	30.86%	1,263,345	-0.08%	1,262,363
Commercial Loans	88,276	4.06%	91,856	37.58%	126,374	130.94%	291,846	-36.50%	185,335
Individual Loans	14,939	14.67%	17,130	-2.27%	16,741	-2.72%	16,286	5.19%	17,132
Agricultural Loans	6,178	-8.40%	5,659	-23.68%	4,319	-26.74%	3,164	-22.69%	2,446
Other Loans & Leases	70,273	-4.35%	67,213	4.30%	70,105	0.58%	70,510	40.35%	98,961

Source: UBPR Call Reports, C&N.

Figure 4 compares C&N's loan portfolio to PG4, which shows that there is a general trend of an increase in commercial and industrial loans. C&N saw an increase in commercial loans from

$91 million in 2018 to $292 million in 2020. However, these loans later dropped to $185 million in 2021. This change is due to the Paycheck Protection Program (PPP), which C&N began processing after the CARES Act was passed in May 2020. PPP loans were given to small businesses to assist with payroll and other fixed costs, and were ultimately forgiven by the Small Business Administration. Across the United States, nearly $800 billion was loaned to small businesses; C&N loaned roughly $243 million (Autor et al.). This was extremely helpful to the loan portfolio, as other commercial loan demand was low.

Figure 4.

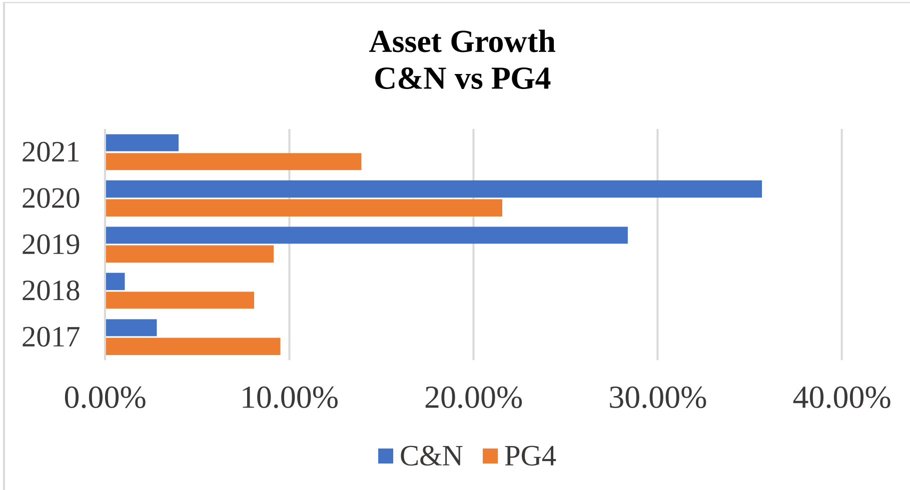


Source: UBPR Call Reports, C&N. PGAR, PG4.

Asset Growth

Prior to 2018, C&N's total assets were maintained at around $1,200 million. However, since 2019, C&N's total assets have surged from $1,276 million to $2,311 million. The year-over-year (YOY) growth of total assets was 28% in 2019 and 36% in 2020 as the result of the acquisition of Monument. After the acquisition, growth in assets returned to previous levels. Compared with PG4 in Figure 5, the trend in asset growth is very similar.

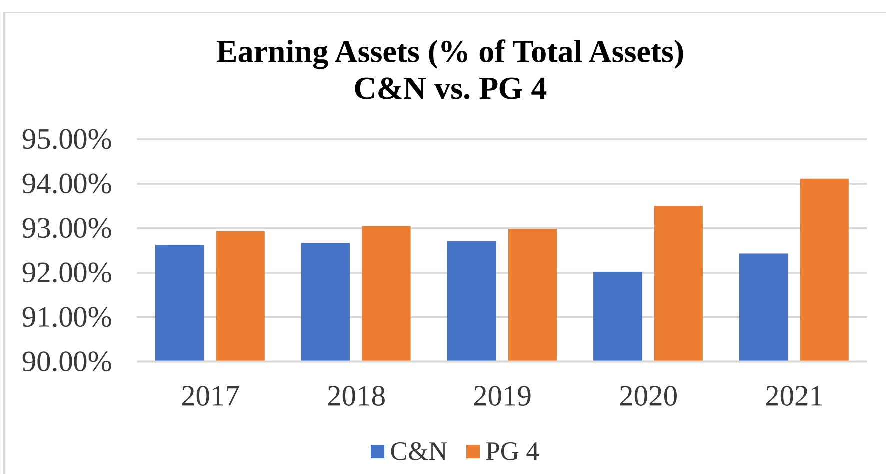
Figure 5.



Source: UBPR Call Reports, C&N. PGAR, PG4.

The growth in earning assets shows a similar trend as the growth in total assets, which is calculated by adding net loans and leases to investment securities. As shown in Figure 6, C&N's total assets increased from $1,165 million in 2017 to $2,143 million in 2021, which was about an 84% increase. The bank's earning assets contributed to above 92% of total assets over the past 5 years, with a 0.69% decrease in 2020. As for PG4, the earning assets also took above 92% of total assets but increased around 2% in 2021.

Figure 6.



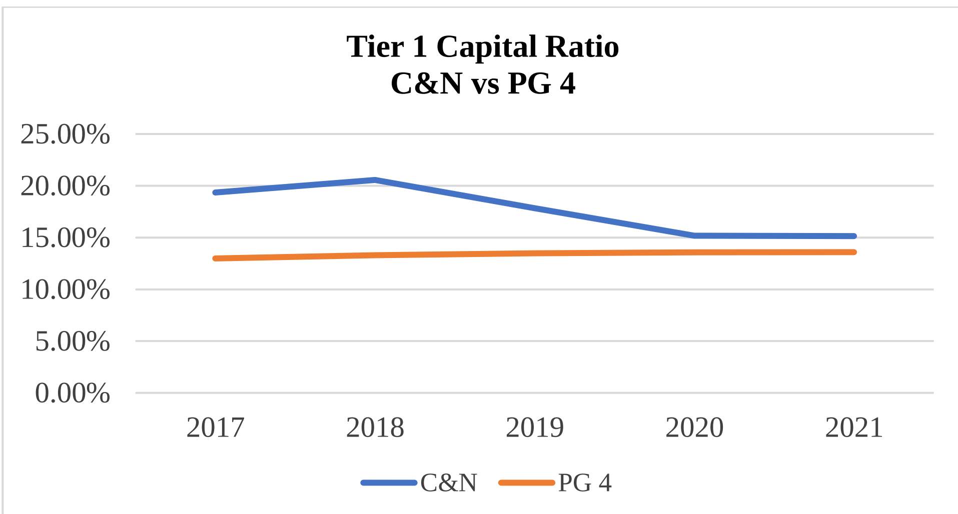
Source: UBPR Call Reports, C&N. PGAR, PG4.

Capital Levels

A bank's total regulatory capital is calculated as a sum of its tier 1 and tier 2 capital. Regulators use the capital ratio to determine and rank a bank's capital adequacy. Tier 1 capital refers to the core capital held in a bank's reserves and is used to fund business activities for the bank's clients, while tier 2 capital is supplementary capital including items like revaluation reserves, undisclosed reserves, hybrid instruments, and subordinated term debt.

For the past five years, C&N Bank's tier 1 capital ratio showed a declining trend from 20.56% in 2018 to 15.18% in 2020. This ratio remained stable in 2021 at 15.14%. Still, its tier 1 capital ratio has been well above the minimum ratio set by Basel III, which is 8%. Compared with its peer group, which kept at a level of around 13% over the past five years, C&N's tier 1 capital ratio is well beyond those banks. C&N's total capital ratio has stayed above 15%, with a peak at the level of 21%, over the past five years, as shown in Figure 7. According to Basel III, the minimum tier 1 capital ratio is 6%. The bank's ratios implied that this institution is well-capitalized.

Figure 7.

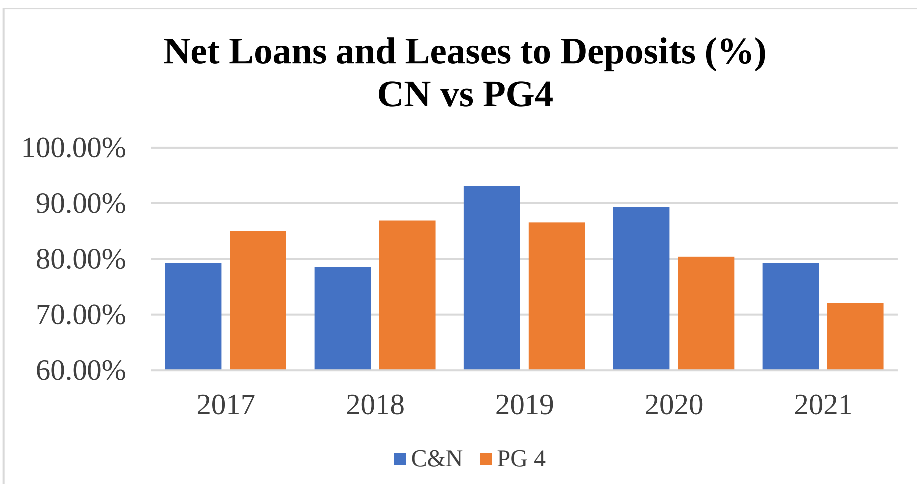


Source: UBPR Call Reports, C&N. PGAR, PG4.

Liquidity

The net loans and leases to deposits ratio (LDR) is a commonly adopted measurement to assess a bank's liquidity. This ratio measures liquidity by comparing a bank's loans, which are its assets, to its total deposits, which are its liabilities. If the LDR is high, the bank has low liquidity; if the LDR is low, then the bank may not be using its cash effectively, or they are risk averse. As illustrated in Figure 8, C&N's LDR maintained a relatively low ratio of 79.49% in 2017 and 78.58% in 2018. In 2019, this ratio surged to 93.15%. However, it started to decline to 89.38% in 2020 and 79.26% in 2021. This indicates that C&N has higher liquidity, and thus is in a safer position for an economic downturn. Yet, this could also imply that C&N could have been more effective in utilizing this source of funding for higher profitability.

Figure 8.



Source: UBPR Call Reports, C&N. PGAR, PG4.

Mark Hughes commented that there were two primary factors that caused the impacts on C&N's LDR in 2020. The first is that many businesses used part of their PPP loan funding to pay off their other outstanding loans. The second factor was the three stimulus payments that the government, which totaled up to $3,200 per person. After COVID-19, people tended to be more prudent with their money, causing their deposit rates to continuously increase. Hughes stated that among the stimulus funding that consumers received at C&N, roughly 70% is still in their bank accounts. This trend was the same among other community banks, where total cash holdings of community banks increased by $61 billion, a 21% YOY increase ("Continued Deposit Growth"). C&N expects that this percentage will continue to decrease in the future.

Part II: Looking Back

Bank Profile

In all aspects, C&N has grown significantly over the past 10 years. This is due to both natural growth in its legacy markets and the acquisitions of Monument and Covenant. Assets have grown from $1.3 billion to $2.3 billion, deposits have grown from $1 billion to $2 billion, and loans have gone from $708 million to $1.5 billion. In the first quarter of 2012, C&N had 26 banking locations spread across Southwest New York and Northern Pennsylvania with a total of 290 employees. Currently, C&N has 31 locations reaching from Southwest New York to Southern Pennsylvania with over 400 employees. In January 2022, C&N opened its first branch in Lancaster, Pennsylvania, showing geographic growth aside from its acquisitions.

One notable shift within the past 10 years has been C&N's large investment in technology. With technology, customers have more access to their banking needs at any time. C&N pioneered this effort 10 years ago when it first introduced mobile banking with its cellular app. Tom Rudy, Executive Vice President Region President for the bank's North and Northcentral areas, noted that in 2011, 1.75 million transactions were done between its then-26 branches. In 2021, 982,000 transactions were done in its offices, but 3.2 million transactions were performed with mobile banking. Having this technology already in place was very pertinent in 2020 when almost all banking had to be done virtually. This is evident by the overall increased usage in mobile banking in 2021, which has increased by over 11% from 2020, according to Cornerstone Advisors

(Shevlin). The biggest jump occurred in the age range 56-75, which showed an 18% increase, most citing that they use mobile banking to check their balance (Shevlin). C&N also saw a heavy increase in its mobile app traffic after it adopted appointment and drive-through only measures at all of its branches in 2020.

Business Model and Strategies

Over the past decade, C&N has more than doubled in asset size and greatly expanded its overall geographic reach. It did this by focusing on customer relationships, expanding its markets, and stressing the importance of the organization's mission, vision, and values to its employees. C&N has always valued the strong relationships that it has with its customers, whether it has been mostly in person or virtual. Most C&N customers live within a close distance of a branch, and many prefer conducting their business in person. According to an FDIC survey on American household bank usage, 83% of households visited a physical bank branch in 2019. While not as many were able to in 2020 because of the pandemic, C&N customers could still schedule appointments inside branches or use the drive-through services. As soon as it was allowed by the CDC, the branches reopened as normal.

C&N successfully expanded its markets in the past 10 years, especially propelled by the acquisitions in 2019 and 2020. Acquisitions in the community banking industry are becoming more and more common. The number of community banks has greatly decreased over the past decade, from 6,802 in 2011 to 4,679 at the end of 2021 (UBGR). This large decrease of 31.2% is due to some banks closing down, but mostly because of acquisitions between community banks (Hanauer et al). As banks struggle to achieve economies of scale and others aim to attain them, mergers ensue. Because C&N expanded its markets, it was introduced to a wide range of customers that it could not have done without the acquisitions.

Overall, C&N’s core values have had a strong impact on its business decisions and outcomes over the past 10 years. These core values are: teamwork, excellence, integrity, being client-focused, having responsibility, accountability, and having fun. All of the core values are what have created C&N’s company culture. CEO and President Brad Scovill stated, “The culture of our company is a big deal. If your culture is not on that mission, then you can't accomplish that mission.” With this mindset, C&N has been able to continually provide its customers with the best customer service.

Operations and Products Offerings

C&N’s everyday operations offer personal and business banking with a variety of services, including deposit accounts, certificates of deposits, mortgages, credit cards, loans, and retirement accounts. However, its comprehensive list of services looks very different from 10 years ago, mostly due to the introduction of various digital services. The changes in the last 10 years have mostly involved mobile banking, as online banking had already been established. In 2011, C&N introduced mobile capture, where customers could take a photo of their check to deposit it into their account. Thomas Rudy remembers that C&N was one of the first banks in the area to offer this function to customers. It also began offering a live chat service on its website, which further enhanced the user experience when banking with C&N.

Other additions that C&N made during the last 10 years are text banking in 2013, the mobile banking app in 2014, and delivering electronic versions of disclosure forms with DocuSign in 2015. With these additions, customers could do more banking from home, rather than having to come into a branch. Besides the introduction of technology, C&N also introduced a First Time Homebuyer program and expanded the features of its primary checking and savings accounts. It also introduced the Debit Card Roundup program, which automatically rounds up every debit card purchase and transfers the money to another C&N account to make saving easier for the customer. In November 2021, C&N partnered with Carefull to provide customers with the company's services, which include analyzing their accounts for issues that may be signs of fraud like missed payments, and unusual activity.

Challenges Faced

During the past 10 years, C&N has faced a wide array of problems and challenges. Some of these challenges include keeping up with increased regulation, interest rate volatility, weak loan demand, and achieving economies of scale in the markets it operates. To combat these challenges, C&N has been very strategic in aligning its planning, core values, business model, and programs to try and face these challenges to allow C&N to grow and better serve its community and customers.

Following the Great Recession in 2008, there was an intense period of regulatory activity that affected community banks, which continued until 2019. Basel III was introduced, which required banks to have certain leverage ratios and keep a set amount of cash on hand at all times. There was also increased reporting required for the Bank Secrecy Act and Anti-Money Laundering policies. The increased amount of required reporting is difficult for smaller banks with less capital than larger regional and national banks. Therefore, it can take away from the resources that the bank uses to benefit its community and strengthen relationships with customers.

Interest income always accounts for well over half of C&N's income every year. Therefore, changes in rates greatly affect its business model. C&N makes money on interest by using customer deposits to invest in loans or securities that yield a higher rate than what the federal funds rate is. If this difference is too slim, it cuts down on the bank's overall income. This was especially a problem after the Federal Reserve slashed rates in March 2020. People did not spend as much money, which led to excess liquidity. This, paired with low loan demand because of PPP loans, meant that C&N had to invest in low-yielding securities. The Kansas City Fed found that community banks' total securities grew to $172 billion in 2021, which was 38% higher than the year before ("Continued Deposit Growth"). This statistic shows that other community banks faced similar challenges to C&N.

Achieving economies of scale has been difficult for many community banks across the country, which has led to the consolidation of many. Instead of opting to close branches to move to a more digital relationship with customers like big banks are doing, C&N is looking to open more branches to achieve economies of scale. According to S&P Global Market Intelligence data, banks closed 2,927 branches in 2021, up from 2,126 in 2021 (Fox and Khan). C&N knows that it could offer its current services to more customers if it acquired banks and opens new branches in other regions. This allows C&N to have a wider customer base and more opportunities for cross-selling and synergies between different lines of business.

Exemplifying Story

After the pandemic broke out in March 2020, C&N's communities began to rely more on food banks, as many people had recently been laid off from their jobs. While the demand for food bank provisions was higher, the overall donations from individuals were lower. In addition, most volunteers at the food pantries in the area were senior citizens, who no longer felt comfortable serving the public in concern for their safety. There was both a lack of funding and a lack of volunteers to distribute the thousands of meals that people needed to get by. This was a clear problem in many of the communities that C&N served, so the bank stepped in to help in all of the ways that it could.

In April 2020, the Central PA Food Bank directly reached out to the C&N Board of Directors, who approved a $40,000 to help with all immediate demands that the organization had ("2021 Annual Highlights"). However, C&N and its employees wanted to contribute more than a one-time donation. Employees began to organize online fundraisers, raffles, and t-shirt sales. Once the initial restrictions on gathering in public were lifted, employees began to collect food donations and volunteer on-site at food pantries across all of the many counties where C&N has a presence. From the time of the first donation to Central PA Food Bank to April 2021, C&N had partnered with 16 other local food banks.

The results of C&N's effort to provide support to the local food banks were immaculate. In one year, C&N raised $129,129 in monetary donations, which totaled 775,000 meals to the residents of its communities ("2021 Annual Highlights"). C&N volunteered for 290 hours, often after work hours and on weekends. The bank saw an opportunity to help its community when it needed the most and seized it. The effort helped to feed its communities when they may not have had another option for their family's next meal. The collaboration with C&N and local food banks is an amazing example that shows how the bank has served its community in the past 10 years.

Part III: Looking Forward

Goals in the Future

In order to expand in the future, as quickly as it has in the last three years, C&N has set ambitious goals for itself. It aims to triple in size by assets within the next 10 years, going from approximately $2.3 billion today to $7 billion. The bank also aims to be the most profitable community bank in the Mid-Atlantic region. To accomplish these goals, C&N plans to focus on customer relationships, emphasize the company's vision, mission, and values, and expand its market reach. C&N hopes that its current customers grow along with the company while adding new customers in the process.

C&N plans to continue strengthening the relationship-based model with its dedicated customers. Brad Scovill stated, "We are on a mission to create value through lifelong relationships with customers, communities, teammates, and our shareholders." A challenge that comes with such large expansion is scaling the relationship model. C&N hopes to tackle this challenge by maintaining efficient ways to keep in touch with its customers so they can grow along with the company. In addition, the bank hopes to expand its market reach in two ways: organic growth in its current markets and expanding into new markets. Currently, C&N has a presence in Northcentral and Southeastern Pennsylvania. Scovill pointed out that there are many growth opportunities in the central and northwestern parts of the state.

C&N is aware of the ever-changing external environment that affects its customers. Therefore, it is open to adding cryptocurrency offerings to its wide breadth of services. However, it will do so in a way that will protect its customers. A study done by Wipfli, an accounting and consulting firm, found that 27% of the community banks it surveyed were not at all likely to offer cryptocurrency-related services to their customers, while 19% answered that it was extremely likely (9). Climate-related risks are also something that C&N keeps in mind. As climate change occurs and the environment reacts, some pieces of land that C&N has mortgages on may be at risk. It monitors the properties that are in flood zones and would be more susceptible to water damage. The bank works with customers to make sure that they are aware of their options in the situation that their property is damaged because of natural causes.

Competition in the Banking Industry

Because C&N operates in many different markets, it feels that it has different sets of competitors for each one. For example, its competitors for obtaining deposits are different from the competitors for booking mortgages. But ultimately, both smaller community banks, larger commercial banks, fintech companies, and other wealth management firms are all competing for the same customers that C&N wants to do business with. This is especially true in the Southeastern and Southcentral parts of Pennsylvania, where there is a larger concentration of other financial institutions. Because the range of competitors is so vast, C&N knows that if it focuses on constantly improving, it will naturally attract more customers. The 2021 Survey of Community Banks by CSBS revealed that community banks are less concerned with competition than they have been in previous years, with 43.7% of surveyed banks reporting that it was “important” (32). While it is not the most pressing challenge that community bankers weigh on a daily basis, competition is something that all banks must take into consideration.

One way that C&N compares itself to its competition is by using quantifiable metrics to measure the value of the relationships that it has with its customers. The most notable is the net promoter score (NPS), which is calculated using the data from a randomized survey that asks customers to rate how likely they are to recommend the company to friends or family on a scale of 1-10. Those who respond from 9-10 are classified as promoters, 7-8 passives, and 0-6 detractors (Rocks). Once the data collection is complete, the percentage of those classified in each category is calculated. The total NPS for a company is found by taking the percentage of promoters less the percentage of detractors. Tom Rudy noted that C&N’s NPS was 65 in 2021, 67 in 2020, and 58 in 2019. It’s apparent from the spike from 58 in 2019 to 67 in 2020, the year that COVID-19 hit, that C&N’s investments in technology-enhanced customer connections and satisfaction. The total for the banking industry in 2021 was 30, falling from 37 in 2020, which shows how high C&N is above its peers (Gocheva). As proven by its high NPS, C&N continues to go above and beyond to best serve its customers.

Supporting the Community

Aiding and investing in its local communities is at the forefront of C&N's priorities. In addition to providing excellent banking solutions, it also has many programs that directly support this mission. The program that most accurately exemplifies this in action is the Giving Back, Giving Together program. The GBGT program was established in 2015 when employees expressed that they wanted an organized way to give back to their communities. The program was then created so that employees vote each year to determine what common cause to support. Some of the efforts that the program has concentrated on have been fighting hunger, honoring local service members, supporting children and youth organizations, and supporting local food banks. This system ensures that the bank focuses on the most prevalent needs in its communities, according to the employees that also live in those communities.

Ever since the start of GBGT in 2015, C&N employees have raised over $524,000 in monetary donations, collected 34,638 item donations, and volunteered 1,160 hours in its communities ("2021 Annual Highlights"). Additionally, employees are allocated a certain amount of paid time off to volunteer each year. This large effect is widely seen in many of the communities that C&N does business in. Tom Rudy noted that the GBGT program may evolve into the establishment of a foundation in the future. No matter what its form, GBGT will continue to provide a positive impact in its communities.

C&N's Wealth Management also offers a wide range of scholarships for students in the areas that it serves. C&N looks forward to helping students achieve their educational goals and receives many applications for its scholarships every year. Serving as the trustee for the trusts of scholarship funds allows C&N to help invest in local students' future success. In 2020, C&N named six students from the county it's headquartered in the recipients of the Copp Agricultural Scholarship, totaling $76,000 ("2021 Copp"). C&N looks forward to enabling students to take advantage of the opportunities that are available to them.

Furthermore, C&N is currently in the process of giving $800,000 to qualified schools in PA. Thomas Rudy noted that education improvement tax credits (EITC) provide a 90% tax credit for each dollar donated to schools, which benefits both C&N and its local schools. C&N also invests in its communities through the Community Reinvestment Act (CRA). This act was established by the Federal Reserve in 1977 to encourage banks to meet the needs of their customers, especially those in low- and moderate-income areas. Every year, C&N invests millions of dollars in local municipalities and school districts by purchasing the bonds they issue, booking their loans, and servicing their mortgages. As shown by the wide range of programs given, C&N places a high priority on giving back to the communities it serves.

Challenges Ahead

The next 10 years will present their own challenges, including intense regulatory activity, inflation, and finding qualified employees. Intense regulatory activity is a common challenge for community banks, especially in the present state of the economy in May 2022. John Reber, Executive Vice President and Director of Risk Management at C&N, noted that the new leadership of the regulators and SEC are unafraid to increase the scale and vastness of the reporting that is required of community banks. The expanded regulations will be centered around a myriad of areas, including fair lending, insider reporting, cybersecurity, and digital assets (Breheny et al.). Regulators have also recently been focusing on consumer protection. As a result, changes are expected to come soon that may regulate the amount of fee revenue banks are allowed to generate from customers. This will cut back on a portion of C&N's revenue and may decrease net income. All of the new regulations will add to the resources that C&N must devote toward compliance.

Inflation is currently at a 40-year high, which presents a multitude of challenges for C&N (Wile). Firstly, the Federal Reserve Bank has increased the federal funds interest rate in response to high inflation, which has led to an increase in treasury rates. The same increase has not rippled across the municipal bond market, which is C&N's primary investment market. This leads to a smaller spread between its investments and an unrealized loss in the positions that C&N invested in when rates were so low in 2020 and 2021. Market analysts anticipate that the Fed will continue to raise rates until the end of 2022, making the funds rate 2.00%-2.25% (Ghosh and Bhat). Higher interest rates make borrowing more expensive for consumers, which simultaneously decreases demand for loans. High inflation combined with rising interest rates also negatively impacts individuals' ability to repay their debt. As of May 2022, C&N is seeing that customers are starting to spend more of the money they received during the first two years of the pandemic. This is due to the higher costs of living, which are due to inflation and the complications of the supply chain. Not having as many core deposits may pose as a challenge, as C&N will not have as much excess liquidity that it can put toward available for sale securities or loan funding. It will result in the bank having to choose between either borrowing money to invest or decreasing the amount it buys.

Another challenge community banks are currently facing is difficulty finding qualified employees due to the pandemic. With relationship-building at the center of its business model, a lack of qualified employees poses a serious challenge for C&N. This is partly attributed to "The Great Resignation" beginning in 2020, where many employees have resigned from their positions due to job dissatisfaction or wage stagnation. This creates a more competitive job market and drives up the prices of wages and salaries, which may become apparent in the bank's income statement in the next decade. According to the 2021 Survey of Community Banks, 37.1% of respondents felt that employee retention was "very important" (CSBS 36). This shows that the industry is concerned with the labor market and aims to retain its existing employees when possible. In a fast-paced, ever-changing financial environment, it's essential that community banks effectively manage present challenges, while also anticipating future risks.

After COVID-19

Because the COVID-19 pandemic caused C&N to close its lobbies, technology became even more crucial to the bank. Customers who may have never used online or mobile banking before were left with no choice but to learn how to. Therefore, C&N had to shift toward a mostly virtual relationship experience. Different branches began calling customers more often since they could not visit in person. Customers appreciated this extra effort, and it showed how much C&N cares about the relationships with its customers. People became used to mobile banking and have realized that they can perform most of the functions that they need to without having to visit a physical branch.

Many of the experiences that the bank went through during the midst of the pandemic were helpful in creating lasting technology solutions. In August 2021, C&N upgraded its digital banking website, with the help of six different teams: digital banking, deposit operations, marketing, the call center, and treasury management. Internally, C&N also changed its workforce operations. In March 2020, C&N sent about 20% of its workforce home to work remotely in order to adhere to social distancing guidelines. Since this time, most of the employees have returned to the office, but many have continued to work remotely. Others, now capable of working from home, do so on an as-needed basis. This flexibility has allowed C&N to expand its horizons in regard to hiring, now hiring for positions that are completely remote. This has been crucial, given the current challenge of finding qualified employees.

After the pandemic, C&N is also delegating more of the annual budget to protect against cybersecurity attacks. The bank regularly assigns training to its employees on cybersecurity so that they are prepared if an actual attack happens. Wipfli's study showed that 78% of the community banks it surveyed rated cybersecurity as a top concern (14). Additionally, the Wipfli study showed that banks were focused on digital transformations, such as making more payment transactions online, as well as online loan and new account approvals. This is aligned with C&N's goals, as well, as it aims to make banking processes as convenient as possible for its customers. While they are welcomed at a physical branch at any time, C&N feels that it should not be a requirement for most everyday banking functions. Even with the obstacle of isolation presented by COVID-19, C&N has managed to endure without losing sight of its mission, vision, and values.

Conclusion

In this case study, we examined how C&N has changed in the last 10 years and how it hopes to grow in the next 10. By doing this, we were able to get a glimpse into how C&N has expanded as a company and analyzed what contributed to this growth. We began by analyzing the financial performance of the bank over the last five years, which showed impressive growth in assets and loans because of its two acquisitions. Then, we analyzed C&N's business model and explained what it did that led to its overall growth, including the increased technological advancements that it offered to its customers. Further, we described the challenges that the bank faced over the past 10 years and shared a story that showed how C&N exemplifies a community bank serving its community. We concluded our analysis by explaining C&N's goals, explaining its approach to competition, future challenges, and how it gives back to its community through programs like the GBGT, scholarships, and CRA. Throughout this analysis, we were able to see how C&N has adapted through the years, but held on to its core values to face issues and grow along with its customers.

It is essential for community banks to hold relationships at the forefront of their business model while simultaneously keeping up with technological advances for the sake of remaining competitive. Since COVID-19 sent the world into a state of isolation, businesses have been forced to rely more heavily on technology than ever before. Inadvertently, the pandemic has acted as a catalyst for technological advancements in the business world. As a result, most banking is now done online or over the phone. This certainly posed a challenge to community banks, which draw most of their strategy from the strong relationships they build with their customers. Rather than altering the focus of its business model, C&N has instead effectively managed to use technology to enhance those relationships. The use of technology and the relationships of the bank with its customers have shown to be the biggest reasons why C&N has seen the success it has in the past.

Community banks are often defined by the value of assets they possess. However, there is much more that contributes to the term than its asset size. C&N is the perfect example of a community bank because it cares deeply for its customers and its community. By coming up with tailored solutions for its customers, the bank focuses on the actual and present needs of local businesses and families. C&N sees its customers as people, rather than a number. Each of the branches is distinct and serves a unique role in its community. All employees, whether a branch manager, teller, loan officer, or a vice president, work toward C&N's greater vision that one person alone cannot achieve. This vision works toward the hope that every customer believes that "C&N is the ONLY bank I need."

Acknowledgments

We, the Mansfield University team, would like to sincerely thank all the many individuals that have come together to help us with this case study. We could not have done it without the incredible effort from the employees at C&N, as well as our Mansfield faculty advisors. We would like to especially thank Dr. Atika Benaddi, our primary advisor, for all her hard work and dedication. She was always available to answer all questions we had and encouraged us to do the best we could. We would also like to thank our other advisors Dr. Shelly Ji and Dr. for reviewing the case study after it was finished and participating in meetings with C&N.

On the C&N side, we would like to thank Brad Scovill, the CEO and President of C&N, for taking time out of his busy schedule to meet with our team and share his insights on the bank. We would also like to thank John Reber, EVP and Director of Risk Management, for providing knowledgeable insight into the processes and methods from a compliance standpoint. Thank you to Amy Calimeri, the Talent Acquisition Manager, for setting up and facilitating meetings, and acting as our liaison to the representatives at the bank. We also would like to express our gratitude to Tracy Watkins, EVP and Director of Human Resources, and Tom Rudy, EVP and Region President, for giving us great information on how the bank profile has changed over the past 10 years.

Finally, we would like to thank the Conference of State Bank Supervisors for holding the annual Community Bank Case Study Competition. This is the fifth year in a row that Mansfield has participated in the competition, and it seems to be more and more rewarding each time. This competition allows students to not only connect with their community, but also receive an unforgettable experience that exceeds what can be learned in a classroom.

Works Cited

"2021 Copp Scholarship Recipients | PA & NY Bank | C&N." *Www.cnbankpa.com*, 23 June 2021, www.cnbankpa.com/About/Explore-C-N/Press-Releases/April-2021/2021-Copp-Scholarship-Recipients.

Autor, David, et al. "The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There?" *Journal of Economic Perspectives*, vol. 36, no. 2, 1 May 2022, pp. 55–80, www.nber.org/system/files/working_papers/w29669/w29669.pdf, 10.1257/jep.36.2.55.

C&N Corporate Profile. C&N Bank. (n.d.). Retrieved April 22, 2022, from https://www.cnbankpa.com/About/Investor-Relations/C-N-Corporate-Profile

C&N: Bank in PA and NY: Banking & Loans. C&N Bank. (n.d.). Retrieved April 28, 2022, from https://www.cnbankpa.com/?msclkid=dc27cec2c6fb11ec85f55ba3cbc3e78d

C&N. (2021). 2021 10-K Form. Retrieved from https://www.sec.gov/ix?doc=/Archives/edgar/data/810958/000155837022001548/cznc-20211231x10k.htm

Citizens of Northern Community Bank. (n.d.). 2021 C&N Annual Report. Retrieved April 22, 2022, from https://www.cnbankpa.com/getmedia/6df8b599-5555-426d-bf41-36a556c12825/2021-Annual-Highlights.pdf

Citizens of Northern Community Bank. (n.d.). C&N Giving back, giving together. C&N Bank. Retrieved April 22, 2022, from https://www.cnbankpa.com/About/Community-Matters/Giving-Back-Giving-Together

"Continued Deposit Growth Fueling Growth in Liquid Assets." *Www.kansascityfed.org*, 15 Apr. 2022, www.kansascityfed.org/banking/community-banking-bulletin/continued-deposit-growth-fueling-growth-in-liquid-assets/.

CSBS. "Community Banking in the 21st Century." 28 Sept. 2021, https://www.communitybanking.org/~/media/files/publication/cb21publication_2021.pdf.

FDIC. "FDIC Community Banking Study." FDIC, 2020.

---. "How America Banks: Household Use of Banking and Financial Services." FDIC, 2019.

Fox, Zach, and Umer Khan. "US Bank Branch Closures Increase 38% to New Record High in 2021." *Www.spglobal.com*, 22 Jan. 2022, www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/us-bank-branch-closures-increase-38-to-new-record-high-in-2021-68483121#:~:text=In%202021%2C%20banks%20shattered%20that. Accessed 19 May 2022.

Ghosh, Indradip, and Prerana Bhat. "Fed to Raise Rates Aggressively in Coming Months, Say Economists." *Reuters*, 11 Apr. 2022, www.reuters.com/business/fed-raise-rates-aggressively-coming-months-say-economists-2022-04-11/. Accessed 20 May 2022.

Hanauer, Matt, et al. "Community Banks' Ongoing Role in the U.S. Economy." *Economic Review*, vol. 106, no. 2, 24 June 2021, pp. 37–81, www.kansascityfed.org/research/economic-review/community-banks-ongoing-role-in-the-us-economy/. Accessed 20 May 2022.

Hughes, Mark. *CSBS Case Study Competition Interview with the Mansfield University Team*. 15 Apr. 2022.

Peer Group Average Report: Peer Group 4. (2017--2021) Federal Financial Institution Examination Council. Available from https://cdr.ffiec.gov/public/ManageFacsimiles.aspx#

Reber, John. *CSBS Case Study Competition Interview with the Mansfield University Team*. 8 Apr. 2022.

Reuther, M. (2018, October 7). Citizens & Northern Bank Announces merger plan. sungazette.com. Retrieved April 22, 2022, from https://www.sungazette.com/news/business/2018/10/citizens-northern-bank-announces-merger-plan/?msclkid=7418455ac26511ec9f439cdc5442659e

Rocks, B. (2016). Interval estimation for the "net promoter score". *American Statistician, 70(4),* 365-372. Retrieved from https://web.p.ebscohost.com/ehost/detail/detail?vid=2&sid=8a214e63-e7d8-4376-9493-2db96c6d789b%40redis&bdata=JnNjb3BlPXNpdGU%3d#AN=119597759&db=asn

Rudy, Jr., Thomas. *CSBS Case Study Competition Interview with the Mansfield University Team*. 8 Apr. 2022.

Scovill, Brad. *CSBS Case Study Competition Interview with the Mansfield University Team*. 15 Apr. 2022.

Shevlin, Ron. "Mobile Banking Adoption in the United States Has Skyrocketed (but so Have Fraud Concerns)." *Forbes*, 29 July 2021, www.forbes.com/sites/ronshevlin/2021/07/29/mobile-banking-adoption-has-skyrocketed-but-so-have-fraud-concerns-what-can-banks-do/?sh=4c7589415dc6. Accessed 19 May 2022.

Uniform Bank Performance Report for Citizens & Northern Bank. (2017--2021) Federal Financial Institution Examination Council. Available from https://cdr.ffiec.gov/public/ManageFacsimiles.aspx#

Wile, Rob. “Inflation Hits 40-Year High of 8.5 Percent due to War in Ukraine, Rent Hikes.” *NBC News*, 12 Apr. 2022, www.nbcnews.com/business/consumer/inflation-march-2022-hits-record-high-data-stats-details-rcna23654.