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Community Banking in the 21st Century

Seventh Annual Community Banking Research and Policy Conference

Sponsored by the Federal Reserve System, the Conference of State Bank Supervisors and the Federal Deposit Insurance Corp.

Oct. 1-2, 2019, at the Federal Reserve Bank of St. Louis







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About the Conference

The *Community Banking in the 21st Century* research and policy conference is sponsored by the Federal Reserve System, the Conference of State Bank Supervisors (CSBS) and the Federal Deposit Insurance Corp. (FDIC).

Since 2013, the annual conference has brought together researchers, regulators, policymakers and community bankers to discuss and debate the latest research on community banks. The research has explored the many facets of small bank financial intermediation in the U.S. and has enhanced the understanding of the importance of relationship lending in the allocation of credit—especially for small businesses.

Research presented at the conference is evaluated and critiqued by an academic moderator and by an assigned community banker. Blending an academic perspective with a practitioner's perspective gives researchers feedback on the academic merits of their papers and provides important insights into the relevance of their work to the day-to-day challenges faced by the more than 5,000 community banks operating in the U.S.

The insights generated by the research each year are further contextualized with the results of the annual CSBS National Survey of Community Banks, which has been conducted by the state banking commissioners and the CSBS since 2014. The findings are presented as part of the conference proceedings and provide a snapshot of the opportunities and challenges facing community banks. The survey gathers data that are not available elsewhere and that have been used to support academic research.

The conference also features keynote addresses by senior Federal Reserve, CSBS and FDIC officials and an annual address by a community banker. Since its inception, the conference has evolved in ways that have added additional voices and perspectives to the annual proceedings. For example, in 2015, the CSBS launched an annual Community Bank Case Study Competition for undergraduate students. The competition requires student teams of no more than five to partner with a community bank in order to conduct an original case study on an important topic to community banks. The winning case study team is invited to the conference to present their findings.

The conference is held each fall at the Federal Reserve Bank of St. Louis.

Videos of all of the conference proceedings since 2013 can be found on the conference's website at **www.communitybanking.org**.

Letter from Michelle W. Bowman

Welcome to the 2019 Community Banking in the 21st Century conference.

Last year, I attended this conference as the Kansas State Bank Commissioner and as a former community banker. This year, I am attending as a member of the Board of Governors of the Federal Reserve System. In all of these positions, I have seen firsthand the benefits when bankers, consumers and other key stakeholders gather to share their experiences and consider the latest research on the challenges and opportunities they face.

This conference, now in its seventh year, is an opportunity to bring together bankers, regulators and researchers to engage with each other, add to our understanding of the forces affecting community banks and promote the sharing of those insights.

The research presented here documents the invaluable role that community banks play in the communities they serve, against a backdrop of increasing concentration in retail banking. One paper to be presented this year documents how regulatory relief in 2015 boosted small-business lending by community banks and had measurable positive effects on local economies. Other papers show how community banks are affected by natural disasters and how those in oil- and gas-dependent regions respond to a big drop in energy prices. Work like this can help inform decisions by regulators and industry participants alike.

Another highlight of this conference is the survey of community banks conducted by state bank commissioners. Survey findings provide a window into what community bankers are experiencing today, how issues have changed over time and how bankers see their challenges and opportunities changing in the future. For example, this year's survey documents the rise of cybersecurity concerns as the leading fear for community bankers and the relative importance of regulatory costs—compared to the cost of funds—as factors that are expected to drive profitability.

The banking industry and the role of community banks will naturally evolve over time. The survey and the research presented at this conference will provide valuable additions to our base of knowledge as we seek to preserve the vital role community banks play in our communities and our economy.

Michelle W. Bowman

Governor
Board of Governors of the Federal Reserve System

Letter from Jelena McWilliams

The Federal Deposit Insurance Corp. is proud to join with the Federal Reserve System and the Conference of State Bank Supervisors to sponsor the seventh *Community Banking in the 21st Century* conference and to continue to support the vital research that is being done with respect to community banks.

Our long history of community bank research includes the 2012 FDIC *Community Banking Study*; a series of papers that address topics such as *de novo* banks, industry consolidation and minority depository institutions; and a section of the *Quarterly Banking Profile* that specifically focuses on community banks.

This analysis has shown that community banks are a remarkably dynamic, flexible and innovative segment of the industry, and they play an essential role in our economy and financial system.

Technology is driving far reaching changes in banking practices for institutions of all sizes, including the community banks that are characterized as relationship lenders. One of the central policy questions for community banks going forward is how they will meet the challenges of an evolving financial sector while continuing to serve as relationship lenders.

Technological developments present an opportunity to modernize the community bank business model, and the FDIC stands ready to support innovation while maintaining safety and soundness.

The new FDIC Tech Lab, or FDiTech, will capitalize on this opportunity by bringing together technology firms, regulators and financial institutions to find new approaches in delivery channels, back-office operations and customer service. Many of the institutions we supervise are already innovating, and we want to encourage an even broader adoption of new technology that will help community banks compete in the marketplace.

I am counting on this conference, like its predecessors, to be a source of new ideas to fuel innovation. I look forward to hearing your ideas and working with you to support the nation's community banks. Thank you.

Jelena McWilliams

Chairman Federal Deposit Insurance Corp.

Letter from John W. Ryan

I am delighted to join Federal Reserve Board Governor Michelle Bowman and Federal Deposit Insurance Corp. Chairman Jelena McWilliams in presenting this year's annual *Community Banking in the 21st Century* research and policy conference.

The conference was created in response to increasing regulatory burden and the desire for better public policy to ensure community banks could serve the economic needs of their communities. We realized we could do more to understand the community banking sector. We needed regulators, bankers, policymakers and academics to share research and data. We needed to talk to each other on a regular basis.

We have come a long way in seven years. The research has generated data that are used by federal policymakers. It has helped shape supervision and new laws and regulations that are more tailored to the risks of institutions. It has broadened the scope of the importance of community banks and our dual banking system. It has given insight into how community bankers are feeling about the economy.

This year, regulators, policymakers and academics will gather to learn about the effects of regulatory requirements on small-business lending. We will hear about the local funding impact of natural disasters and market shocks. And we will learn about how regulations influence a community bank's risk.

It all means better data and research. It means understanding the impact of community banks. And it all means better policy decisions.

John W. Ryan

President and CEO Conference of State Bank Supervisors

Order of Proceedings

DAY 1

Welcome

Julie Stackhouse, executive vice president, Supervision Federal Reserve Bank of St. Louis

Bret Afdahl, chairman, CSBS; director of banking, South Dakota Division of Banking

James Bullard, president and CEO Federal Reserve Bank of St. Louis

Morning Keynote

Michelle Bowman, governor, Board of Governors of the Federal Reserve System

Discussion of the 2019 CSBS National Survey

Michael Stevens, senior executive vice president, CSBS

Alisha Sears, senior analyst, CSBS

Andrew Meyer, senior economist, Federal Reserve Bank of St. Louis

Research Paper Session 1: Small Business Lending

Moderator: Diane Ellis, director, Division of Insurance and Research. FDIC

Community Bank Discussant: Lori Maley, president and CEO, Bank of Bird-in-Hand, Bird-in-Hand, Pa.

Papers and Presenters:

Who's Holding the Bag? Regulatory Compliance Pressure and Bank Risk-Shifting Lamont Black, DePaul University To Ask or Not to Ask? Bank Capital Requirements and Loan Collateralization

Artashes Karapetyan, ESSEC Business School, Paris, France

Is There a Benefit from Reduced Regulation on Small Banks?

Francesco Vallascas, University of Leeds, Leeds, England

Afternoon Keynote

Jelena McWilliams, chairman, FDIC

Research Paper Session 2: Local Shocks and Spillover Effects

Moderator: Thomas Siems, senior economist and director of research, CSBS

Community Bank Discussant: Gary Petersen, chairman, Cornerstone Bank, New Town, N.D.

Papers and Presenters:

Capital Mobility and Regulation Frictions: Evidence from U.S. Lottery Winners

Carlos Parra, Pontifical Catholic University of Chile, Santiago, Chile

Natural Disasters, Loan Loss Accounting and Subsequent Lending Rajesh Vijayaraghavan, University of British Columbia,

Vancouver, B.C., Canada

Bank Branching Networks and Geographic Contagion of Oil Price Shocks

Teng Wang, Board of Governors of the Federal Reserve System

Order of Proceedings

DAY 1, cont.

Research Paper Session 3: Responses to Changes in Regulation or Supervision

Moderator: Michael Gibson, director, Division of Supervision and Regulation, Board of Governors of the Federal Reserve System

Community Bank Discussant: Craig Goodlock, chairman and CEO, Farmers State Bank of Munith, Munith, Mich.

Papers and Presenters:

Risk-shifting, Regulation and Government Assistance Padma Sharma, Federal Reserve Bank of Kansas City

Deregulation, Market Structure and the Demise of Old School Banking Stefan Lewellen, The Pennsylvania State University

Reliance on Third Party Verification in Bank Supervision Yadav Gopalan, Indiana University

CSBS Case Study Winner Presentation: Juniata College, Huntingdon, Pa.

Introduction: Robin Wiessmann, secretary, Pennsylvania Department of Banking and Securities

Student Team: David Hibner, Katherine Migatulski, Wyatt Page and Matthew Schaeffer, Juniata College

Faculty Advisor: Sinéad Gallagher, assistant professor of accounting, Juniata College

Community Bank Partner: Gregory Hayes, president and chief operating officer, Kish Bank, Belleville, Pa.

Evening Keynote

Julieann Thurlow, president and CEO, Reading Cooperative Bank, Reading, Mass.

DAY 2

Morning Keynote

Patrick Harker, president and CEO, Federal Reserve Bank of Philadelphia

Research Paper Session 4: Technology and Banking

Moderator: Traci Mach, principal economist, Board of Governors of the Federal Reserve System

Community Bank Discussant: Michael Busch, president and CEO, Burling Bank, Chicago, III.

Papers and Presenters:

Small Bank Lending in the Era of Fintech and Shadow Banking: A Sideshow? Kandarp Srinivasan, Northeastern University

What is Fueling the Fintech Lending Revolution? Local Banking Market Structure and Fintech Market Penetration John Hackney, University of South Carolina

Bank Technology: Productivity and Employment Zhonghua Wu, Florida International University

Panel Discussion: The Future of Funding

Moderator: Christine Gaffney, senior vice president, Federal Reserve Bank of Minneapolis

Panelists:

Leslie Andersen, president and CEO, Bank of Bennington, Bennington, Neb.

Melissa Eggleston, chief deposit officer and executive vice president, nbkc bank, Kansas City, Mo.

Huntley Garriott, president, Live Oak Bank, Wilmington, N.C.

Jonathan Griffin, senior vice president and chief business development officer, Federal Home Loan Bank of Indianapolis

Conference Wrap-up

John Ryan, president and CEO, CSBS

All conference proceedings will be recorded and available for viewing on the conference website at **www.communitybanking.org**.



Research Paper Session 1

Small Business Lending

These papers look at how regulation influences small business lending. They use samples of banks that, despite differences in location and size, represent the community bank business model. Regulatory pressure increases lending under the Community Reinvestment Act (Black and Hackney), inhibits lending under holding company reporting and capital requirements (Srivastav and Vallascas) and increases the share of loans that are collateralized under increased bank capital requirements (Degryse et al.).

Who's Holding the Bag? Regulatory Compliance Pressure and Bank Risk-Shifting

Authors: Lamont Black, DePaul University; and John Hackney, University of South Carolina

This paper finds evidence that compliance pressures from the Community Reinvestment Act (CRA) lead to an increase in small business lending by small banks but not by large banks. Specifically, small banks increase origination volumes of their smallest business loans by 19% during CRA exam years. The paper also finds that these loans are more likely to be funded with Small Business Administration government guarantees. These loans, however, demonstrate higher default rates. They are also less likely to be revolving loans. These two factors suggest some risk-shifting onto the government during CRA exam years. The paper concludes that more CRA-induced lending leads to a short-term increase in employment for local small businesses but it also results in a long-term decrease in employment as the increased risk of the loans made in CRA exam years is realized.

To Ask or Not to Ask? Bank Capital Requirements and Loan Collateralization

Authors: Hans Degryse, KU Leuven, Flanders, Belgium; Artashes Karapetyan, ESSEC Business School, Paris, France; and Sudipto Karmakar, Bank of Portugal, Lisbon, Portugal

This paper examines the impact of higher capital requirements on a bank's decision to offer collateralized, rather than uncollateralized, loans. The authors analyze the 2011 European Banking Authority capital exercise, which required some banks to increase regulatory capital but not others. This exercise made secured lending more attractive (versus unsecured lending) for the affected banks since secured loans require less regulatory capital. The authors show that banks more frequently require loans to be collateralized, but less so for relationship borrowers.

Is There a Benefit from Reduced Regulation on Small Banks?

Authors: Abhishek Srivastav, University of Edinburgh, Edinburgh, Scotland; and Francesco Vallascas, University of Leeds, Leeds, England

The authors in this paper show that reduced regulations on small bank holding companies (BHCs) in the U.S., implemented in 2015, boosted small business lending at the BHCs' affiliated commercial banks without affecting risk-taking or transparency. Increases in small business lending were stronger when the parent BHC was significantly below the 2015 regulatory asset threshold (\$1 billion). Further, the regulatory relief that was granted in 2015 shows positive implications for the funding opportunities of the affiliated commercial banks and has a real impact on local economies.

Research Paper Session 2 Local Shocks and Spillover Effects

These papers consider how local shocks to deposits, loan demand and loan performance affect banks' loan originations and holdings of liquid assets. They find that funding windfalls in local markets are redistributed to support lending in distant markets (Parra) and that contractions of loans in distant markets are used to offset funding shortfalls in local markets (Wang). Small banks that "under-reserve" for loan losses are less responsive to increases in loan demand following natural disasters (Chamberlain et al.).

Capital Mobility and Regulation Frictions: Evidence from U.S. Lottery Winners

Author: Carlos Parra, Pontifical Catholic University of Chile, Santiago, Chile

This paper analyzes how banks reallocate capital across lending markets following funding shocks. Funds are transmitted across markets, but allocations are five times greater in the state in which the positive funding shock occurred. The paper also shows how banking regulation can negatively affect fund mobility and loan performance. The paper concludes that state boundaries matter for capital mobility in part because of regulatory distortions.

Natural Disasters, Loan Loss Accounting and Subsequent Lending

Authors: Sandra Chamberlain, Rajesh Vijayaraghavan and Yuxiang Zheng, University of British Columbia, Vancouver, British Columbia, Canada

This paper examines the relationship between loan loss accounting policies and a bank's ability to respond to an increase in local demand for loans. The authors first examine how natural disasters impact loan losses and find that a natural disaster shock on loan loss provisioning is negligible. However, at large banks, there is an increased weight on loan loss indicators during the four quarters that encompass a natural disaster. The paper suggests that smaller banks, which have policies of over-reserving for loan losses, exhibit greater responses to increased loan demand in the year of a disaster, which is consistent with the theory that loan loss provisioning can influence a bank's ability to lend in the face of demand shocks for loans.

Bank Branching Networks and Geographic Contagion of Oil Price Shocks

Author: Teng Wang, Board of Governors of the Federal Reserve System

This paper studies the role of bank branch networks of U.S. regional banks in transmitting commodity price shocks across the economy. Oil price collapses have adversely affected regions with high concentrations of their workforce in the oil and gas industry, which contributes to a higher rate of loan defaults and lower deposit inflows into local bank branches. The author also shows that smaller regional banks operating in counties most affected by an oil price collapse were forced to sell their liquid asset holdings and contracted their credit to small businesses and mortgage borrowers in counties that were not affected by falling oil prices. The paper also shows that banks with exposure to a negative oil price shock contract lending more in counties with more opaque borrowers, suggesting that these borrowers could be disproportionally affected in times of liquidity scarcity.

Research Paper Session 3 Responses to Changes in Regulation or Supervision

A key overlap of these papers concerns relationships between regulation and risk in the financial services industry. Heightened regulatory scrutiny causes thrift institutions to decrease asset risk (Sharma) and causes banks to become "more forthcoming" in reporting nonperforming loans (Gopalan et al.). The removal of regulatory restrictions on interstate banking in the 1980s and 1990s led to an increase in competition and an increase in bank risk-taking (Bisetti et al.).

Risk-shifting, Regulation and Government Assistance

Author: Padma Sharma, Federal Reserve Bank of Kansas City

This paper examines the moral hazard effects of less stringent regulatory and resolution standards on thrift institutions in the midst of the savings and loan crisis. In the aftermath of the failure of the industry deposit insurer (the Federal Savings and Loan Insurance Corp.) in 1989, thrift institutions became subject to more enhanced regulation and oversight. The paper finds that, following the implementation of the enhanced regulatory regime, thrifts with a high probability of failure increased their composition of safe assets and reduced the share of high-risk loans on their balance sheets relative to thrifts with a low probability of failure, thereby providing evidence of moral hazard incentives within the thrift industry in the previous regime. The paper provides specific evidence of risk-shifting from equity-holders of stock thrifts toward debt-holders prior to the 1989 reforms by comparing the changes in the composition of the balance sheets of stock thrifts with those of mutual thrifts. The paper further demonstrates that in future crises, shareholder expectations around government assistance will be crucial for the policies aimed at reducing moral hazard (such as the Orderly Liquidation Authority under Title II of the Dodd-Frank Act) to succeed.

Deregulation, Market Structure and the Demise of Old School Banking

Authors: Emilio Bisetti, Hong Kong University of Science and Technology, Clear Water Bay, Kowloon, Hong Kong; Stephen Karolyi, Carnegie Mellon University; and Stefan Lewellen, The Pennsylvania State University

The authors construct a new measure of regulatory "intensity" that allows them to separately identify the effects of deregulation on competition and investment. The authors find that increased competition leads to higher deposit funding costs and reduces bank net interest margins and overall profitability. In response to

increased competitive pressures, banks increase their risk-taking, shift their business models toward new sources of noninterest income, and increase the likelihood that they'll be acquired by another bank. The paper's findings support the idea that reductions in bank charter values lead to increases in bank risk-taking.

Reliance on Third Party Verification in Bank Supervision

Authors: Yadav Gopalan, Indiana University; Andrew Imdieke, University of Notre Dame; Joseph Schroeder, Indiana University; and Sarah Stuber, Texas A&M University

This paper examines how internal controls regulation affects bank supervision by exploiting a change in size thresholds for internal control audits required under the Federal Deposit Insurance Corporation Improvement Act. The authors demonstrate that banks that became exempt from the internal control audit requirements increased their reported level of nonperforming loans compared to banks that were not exempt. However, the increase in reported nonperforming loans is not accompanied by increases in past-due loans. This suggests that the newly exempted banks were being more forthcoming in their reporting rather than experiencing operational deterioration. Furthermore, the authors find evidence that bank examiners increased regulatory scrutiny on the newly exempted banks. The authors conclude that third-party verification is an imperfect substitute for bank supervision and efforts to rely upon externally generated attestations may heighten bank risk.

Research Paper Session 4

Technology and Banking

These papers analyze how technology influences net interest income and loan growth at banks of varying size. They provide evidence of substitutability in lending by small banks. Specifically, small banks fill voids in mortgage lending created by the exit of big banks (Begley and Srinivasan), while fintech lenders fill voids in small business lending created by the exit of small banks (Balyuk et al.). Technological innovation helps all banks by increasing their productivity (Feng and Wu).

Small Bank Lending in the Era of Fintech and Shadow Banking: A Sideshow?

Authors: Taylor Begley, Washington University in St. Louis and Kandarp Srinivasan, Northeastern University

This paper finds that the share of mortgage lending by the four largest U.S. banks dropped (from 30% to 23%) between 2009 and 2013 in the aftermath of the financial crisis. Aggregate patterns suggest the gap was filled by nonbank lenders (increasing from 26% to 37%). Despite the rise in nonbank lending, the authors show that small banks were twice as responsive as nonbanks in filling the mortgage credit gap. The authors find consumer preferences for dealing with small banks (over nonbanks) and institutional features such as securitization explain their finding. The authors conclude that small banks remain vital sources of mortgage credit despite the rise of shadow banks and fintech firms.

What is Fueling the Fintech Lending Revolution? Local Banking Market Structure and Fintech Market Penetration

Authors: Tetyana Balyuk, Emory University; Allen Berger and John Hackney, University of South Carolina

Fintech marketplace lenders are providing credit where commercial banks have left voids in credit supply, but it is unclear which voids they are primarily filling. This paper looks at the allocation of small business credit and finds that small business lending by fintech firms has primarily penetrated areas in which small bank market shares are low, suggesting that fintech firms are filling the void created by the loss of small banks. The paper also demonstrates that fintech lending matters primarily for the very smallest firms, while small banks matter for small businesses more generally.

Bank Technology: Productivity and Employment

Authors: Zifeng Feng, Frostburg State University and Zhonghua Wu, Florida International University

This paper examines the impact of technology investment on bank production and employment. The authors show that technology input, on average, contributes more than 12% to the net output of U.S. commercial banks over the period of 2000-2017. They also find that the contribution of technology input became stronger after the financial crisis, suggesting technology plays a more important role in improving bank productivity in recent years. Moreover, bank employment and total tasks are found to be positively correlated with their lagged technology spending, supporting the task-based framework in Acemoglu and Restrepo (2018). The paper concludes that technology investment is highly productive for U.S. banks and that the use of technology generally increased employment for the commercial banks during the sample period, which is likely due to the creation of new tasks through the adoption of advanced technologies.



Foreword from Bret Afdahl

For the first time in years, compliance costs are not the top financial concern for community banks. Instead, it is funding.

And the risk they fear most? Cybersecurity.

While last year's survey showed community banks were embracing technology, the actual number of those offering digital and online services remains largely unchanged. Why? Cost.

These are key findings in this year's Conference of State Bank Supervisors' national survey of community banks. And they underscore the value of this annual survey.

By comparing responses over recent years, we can see a marked increase in concern over the cost of funding. This year, 36% of banks said funding was the most likely factor to influence future profitability, up from 11% in 2016.

In contrast, only 4% of surveyed banks said that regulation was most likely to influence profitability, compared to the 60% of respondents who named it as a top concern in the 2016 survey. While last year's survey showed a remarkable 13% drop in compliance-related costs, this year's results show a 4% increase, and bankers said they expect that trend to continue.

Comparisons like these reveal the shifting focus of community banks. The information is important to understand more about community banking and helps inform both regulators and policymakers.

Community banks are the lifeblood of rural America and the heart and soul of our small businesses and communities. We all need to pay attention to their changing needs and concerns. This survey can help to shape their future.

To learn more about these and other developments, I invite you to read the full report.

Bret Afdahl

Chairman, Conference of State Bank Supervisors Director of Banking, South Dakota Division of Banking

2019 CSBS National Survey

Introduction

For years, regulatory burden has been a key issue weighing on the minds of community bankers. This year's survey of community banks, conducted by the Conference of State Bank Supervisors (CSBS) and state regulatory authorities, revealed a somewhat different perspective: Bankers considered core deposit growth, not regulatory costs, to be the most important determinant of future profitability.

The increased focus on funding was identified, in part, by new questions this year on how bankers use, and compete for, core deposits and wholesale funds. Other questions were similar to those asked in earlier surveys, thereby offering an opportunity to compare responses over time. The questions encompassed regulation—a concern that remains prominent, despite being overshadowed by funding—loans, competition, services, acquisitions, risk assessments and technology.

Background

To develop the 2019 National Survey, CSBS staff met with key academic, industry and regulatory stakeholders to identify current issues of relevance to community banks. The survey was distributed by the state banking regulatory authorities from April to July 2019. The Survey Research Institute at Cornell University constructed the web interface used by the respondents, handled technical aspects of data collection and transmitted the data for analysis.

The final sample consists of 571 institutions that responded to the survey. Most of the participating institutions had less than \$10 billion in assets, a benchmark for community banks established under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). The vast majority were state-chartered banks; the remainder were thrift institutions. For ease of exposition, we will refer to all surveyed entities in the analysis that follows as "community banks."

For all questions, responses are expressed as percentages of respondents to those specific questions. We acknowledge certain limitations of the survey:

- It was not distributed in every state.
- Respondents participated on a self-selected basis.
- Banks did not necessarily respond to every question.

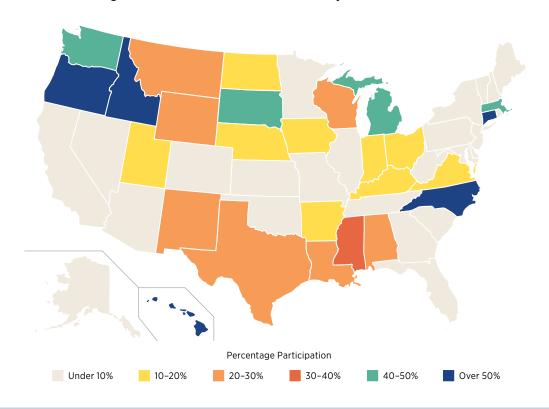
We do not conduct the detailed statistical testing that would be required to definitively quantify the extent to which surveyed banks were representative of the overall industry. Our conclusions must be qualified accordingly.

Key Findings

- About 35% of survey respondents said the cost of funds was the factor most likely to influence future profitability.
 Only 4% of them cited regulation.
- Although funding was cited as the most influential factor
 affecting future profitability, it was not the risk bankers
 feared most. That distinction belongs to cybersecurity,
 with more than 70% of respondents ranking it as a very
 important risk.
- Nearly 30% of bankers considered depopulation an important limitation to retaining core deposits.
- The percentages of banks offering remote deposit capture, automated loan underwriting, online lending and electronic bill presentment were largely unchanged from last year's survey results. The percentages of banks planning to introduce these services also were largely unchanged.
- Inferred compliance costs for the overall community banking industry increased by 4% to \$4.9 billion in 2018.
 About 40% of bankers said they believed costs would rise further, while 5% of them expected costs to decline.
- Only 6% of bankers said it was very important to be a leader in technological change.

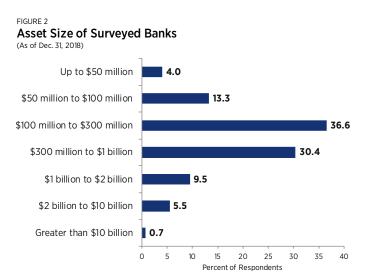
FIGURE 1

Survey Respondents as a Percentage of State-Chartered Banks and Thrifts by State

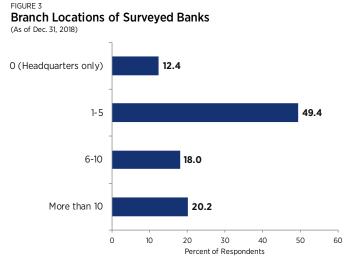


BANK SIZE AND BRANCH NUMBERS

Background information on respondent banks is provided in Figures 2 and 3. For comparative purposes, industrywide breakdowns on all state-chartered banks are included in the sections that follow, as appropriate.



Banks varied by size, with most concentrated in the smaller size categories. This pattern has changed somewhat over time: Only 4% of respondents had assets of less than \$50 million this year, compared with nearly 8% of respondents in 2014.



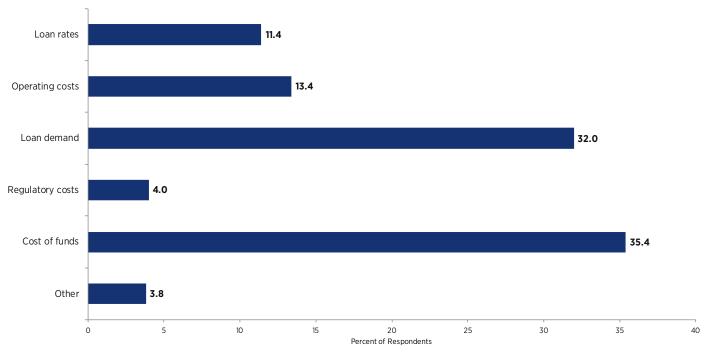
Nearly half of this year's respondent banks operated between one and five branches, while 20% operated networks of more than 10 branches. Even the biggest networks were largely confined geographically: 87% of banks reported having all branch locations in a single state.

Funding: A Priority for Community Banks

Concerns with funding began to surface at least two years ago when rising liquidity risk was observed in a subset of community banks that had grown their assets "using higher levels of potentially nonstable funding sources." These concerns expanded to include the costs, as well as the risks, of deposits following increases in interest rates that reached a peak for some banks in May 2019 (when this year's survey was underway).

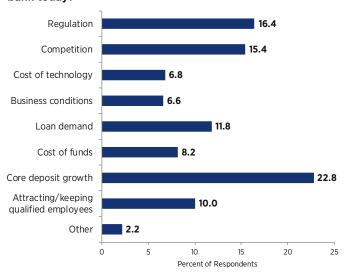
THE IMPORTANCE OF FUNDING

Which of the following is likely to have the biggest influence on profitability over the next 12 months?



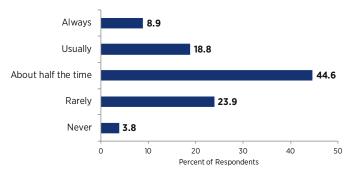
About 35% of survey respondents said the cost of funds was the factor most likely to influence future profitability. This was higher than loan demand (32%), operating costs (13%), loan rates (11%) and regulatory costs (4%).

FIGURE 5 What is the single greatest challenge facing your bank today?



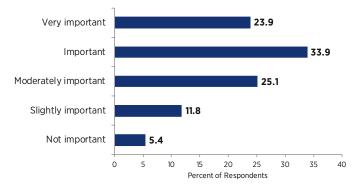
Nearly one-third of bankers ranked either core deposit growth or the cost of funds as their greatest challenge. Other top concerns included regulation (16%), competition (15%) and loan demand (12%).

FIGURE 6
How often is core deposit growth prioritized over loan growth?



Nearly 28% of respondents said they usually or always prioritize deposit growth over loan growth. Community bankers described "liquidity crunches" brought on by banks "running really 'hot' on the loan side" and "chasing deposits."

FIGURE 7
How important is liquidity risk to your bank?



The previous charts underscored the importance of funding in terms of challenges, profitability and priorities. Interestingly, however, these opinions were not as pronounced in risk perception, captured in part in Figure 7. Although 24% of bankers described liquidity risk as very important, it represented a lesser threat than either cybersecurity or credit risk (see page 56).

TRENDS IN CORE DEPOSITS

Core deposits are generally obtained from traditional consumer sources. They are considered to be a stable and low-cost source of funding that is used to "balance liquidity and onboard loans." They are categorized by account type—either transaction or nontransaction core deposits.

TABLE 1

Core Deposits as a Percentage of Total Bank Assets

Panel A: Small Community Banks (less than \$500 million in assets)

	2014	2015	2016	2017	2018
Transaction Deposits	26.5%	27.8%	28.5%	29.4%	29.5%
Nontransaction Deposits	57.1%	55.7%	55.2%	54.2%	53.8%

Panel B: Large Community Banks (between \$500 million and \$10 billion in assets)

	2014	2015	2016	2017	2018
Transaction Deposits	13.0%	13.2%	13.5%	14.0%	13.4%
Nontransaction Deposits	65.3%	66.1%	66.2%	65.6%	66.7%

Smaller community banks rely on transactional accounts to a greater extent than do larger community banks. In 2018, smaller banks' transaction deposits were 30% of total assets, compared with 13% for their larger competitors. Conversely, the ratio of nontransaction deposits to total assets at smaller community banks was 54% in 2018, compared with 67% for larger banks.

Measuring Competition

The competitive environment facing community banks has been the subject of many survey questions in previous years. In 2018, for instance, questions focused on competition from the perspective of institutional type—that is, the extent to which current or future competitive threats for various products or services came from small community banks, national banks, credit unions, nondepository institutions, etc. This year, questions shifted to a geographic perspective: Do competitive threats, regardless of institutional type, vary by proximity? Does it matter whether competition comes from another bank's headquarters or branch locations?

Bankers were asked whether their primary source of competition for various activities came from:

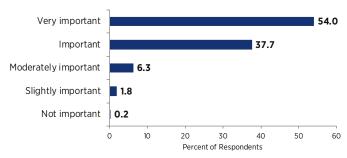
- 1. institutions headquartered in their market;
- 2. institutions with a branch office, but not a headquarters, in their market; or
- 3. institutions with neither a headquarters nor a branch office in their market.

Their responses are interspersed throughout the analysis that follows, based on specific activities.

COMPETITION FOR CORE DEPOSITS

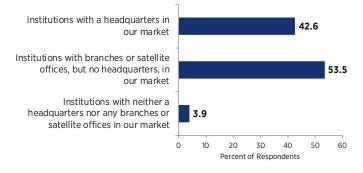
Core deposits, particularly those that are noninterest bearing, are valuable to banks but even more so in the environment of increasing interest rates that existed when bankers responded to the survey. One community banker noted that given "the recent rise in funding costs and the flattening yield curve, it is difficult to attract local deposits." Subsequent declines in rates, on the other hand, may present an opportunity for banks to lower deposit costs.

FIGURE 8
How important is market competition as an impediment to attracting and retaining core deposits?



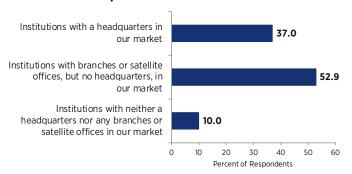
Competition for core deposits has grown fierce. Nearly 92% of respondents said it was a very important or important factor in their ability to attract and retain core deposits.

What is your greatest source of competition for transaction deposits?



Dominating competition for transaction deposits were institutions with local headquarters or branches. Less than 4% of respondents named nonlocal institutions as their greatest competitive threat. This suggests that convenience is an important factor in attracting and retaining transaction deposits.

FIGURE 10 What is your greatest source of competition for nontransaction deposits?



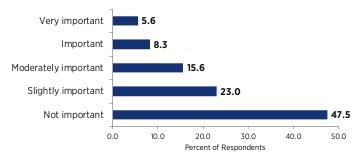
Institutions without a local headquarters or branch were named by 10% of respondents as their most significant competitive threat for nontransaction deposits. These institutions presumably include larger banks that "have top-shelf technology on their side when it comes to landing deposits." As one community banker noted, "Apps remove the need for bank products other than as holding tanks for short-term cash deposits."

CONSTRAINTS ON CORE DEPOSITS

Community bankers face an array of challenges in retaining core deposits. One banker responding to this year's survey described the situation, very broadly, as generational in nature: "The younger generations do not save like their parents and grandparents. The savings of older customers go to their descendants upon their death, who either pay off personal debt or invest in their current retirement accounts. When we discuss decay rates for our depositors, we call them death rates."

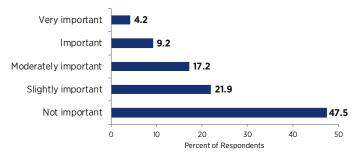
Bankers responded to a range of questions on specific challenges tied to growing core deposits, outlined in this section.

FIGURE 11
How important is a **national rate cap** as an impediment to attracting and retaining core deposits?



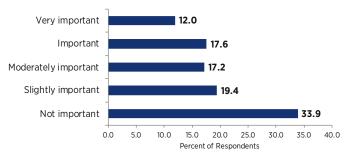
Banks designated as less than well capitalized face restrictions on the interest rates they can offer. Although nearly half of all banks considered these restrictions, or rate caps, to be unimportant, nearly 14% found them to be very important or important.

How important are capital constraints as an impediment to attracting and retaining core deposits?



Capital restrictions were not viewed as a widespread impediment to attracting and retaining core deposits. Nearly 48% considered them to be unimportant, while 13% considered them to be very important or important.

How important is depopulation as an impediment to attracting and retaining core deposits?



Some bankers described being trapped in "shrinking" rural markets that "are saturated and economically stagnant." Support for this contention was evident in that 18% of bankers ranked depopulation as important and 12% noted it was very important.

TRENDS IN WHOLESALE FUNDS

Wholesale funds are generally defined as funds or deposits obtained outside of traditional consumer sources. They are typically short term (often overnight), are difficult to replace and have interest rates that are higher and more volatile than those on core deposits. Regulators also view them as riskier than core deposits. In this year's survey, bankers were asked about six categories of wholesale deposits, described in the box below.

TABLE 2
Wholesale Funds as a Percentage of Total Bank Assets

Panel A: Small Community Banks (less than \$500 million in assets)

	2014	2015	2016	2017	2018
Brokered Deposits	2.1%	2.3%	2.4%	2.6%	2.2%
Fed Funds Purchased Plus Repos	0.9%	0.8%	0.8%	0.7%	0.7%
FHLB Advances	3.2%	3.3%	3.2%	3.2%	3.1%
Listing Service Deposits	1.4%	1.4%	1.4%	1.3%	1.3%
Public Funds	7.1%	7.4%	7.8%	8.0%	8.3%

Panel B: Large Community Banks (between \$500 million and \$10 billion in assets)

	2014	2015	2016	2017	2018
Brokered Deposits	4.8%	5.5%	5.5%	5.8%	5.1%
Fed Funds Purchased Plus Repos	2.3%	1.9%	1.6%	1.3%	1.2%
FHLB Advances	5.1%	5.2%	5.2%	5.6%	5.1%
Listing Service Deposits	0.9%	0.9%	0.9%	0.9%	0.7%
Public Funds	6.2%	6.3%	6.3%	6.5%	6.6%

Larger community banks use brokered deposits, fed funds purchased, repos and FHLB advances as funding sources to a greater extent than do smaller banks. Smaller community banks rely more on public funds and listing service deposits.

Categories and Definitions of Wholesale Funds

Brokered deposits—deposits obtained from or through a third party engaged in placing, or facilitating the placement of, deposits held by others at insured depository institutions.

Fed funds purchased—funds that banks acquire from other banks through adjustments of reserves held at Federal Reserve banks.

Repos—short for "repurchase agreements," funds obtained when banks sell securities, typically to dealers, under a simultaneous agreement to buy them back.

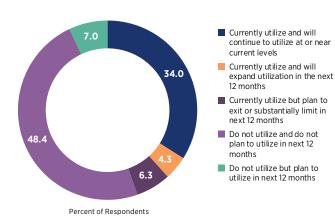
FHLB advances—funds provided by Federal Home Loan Banks, which are cooperative entities established to promote housing.

Listing service deposits—deposits obtained through a company that compiles and publishes information about deposit accounts at different banks for consideration by interested depositors. Listing services differ from brokers in their extent of involvement in facilitating the placement of deposits.

Public funds—deposits of political entities, including school districts and municipalities.

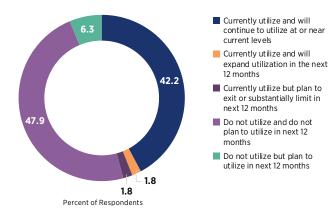
THE USE OF WHOLESALE FUNDS

What are your intentions regarding brokered deposits as a wholesale funding source?



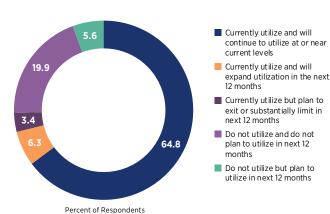
More than one-third of bankers said they used brokered deposits and would continue to do so, while nearly half of those surveyed didn't use them and had no plans to start. More banks planned to introduce brokered deposits than to expand their use; this may suggest that some banks, having tapped these funding sources, had "little capacity to rely on them further."

What are your intentions regarding fed funds purchased and repurchase agreements as a wholesale funding source?



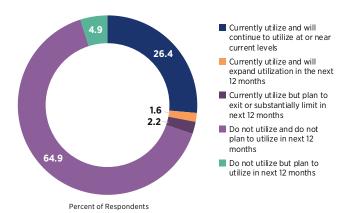
Community bankers were split in their use of fed funds purchased and repurchase agreements, or "repos." Nearly half of the banks reported using them; a slightly larger percentage said they had not. This may change in the future, insofar as more than 6% of bankers said they planned to initiate or expand usage, while only 2% planned to contract usage.

FIGURE 16
What are your intentions regarding FHLB advances as a wholesale funding source?



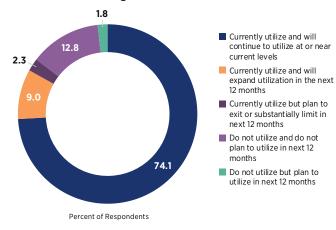
More than 74% of community banks reported acquiring funds through advances from a Federal Home Loan Bank (FHLB), and nearly 6% intended to expand their use of this funding source. Further expansion is suggested by the 6% of banks that did not use advances but said they planned to do so in the future. "We are not dependent on the advances," one banker said, "but knowing they are available is very important."

What are your intentions regarding other borrowed money as a wholesale funding source?



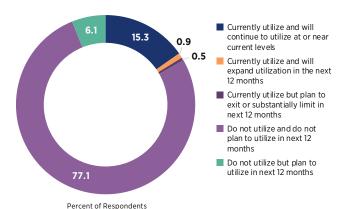
Other borrowed money was used as a source of funds by about 30% of banks.

What are your intentions regarding public funds as a wholesale funding source?



Public funds are commonly accessed by community banks. More than 74% of banks reported using them and expected to maintain similar usage in the future, while 9% said they used them and expected to increase usage in the future. One banker, however, noted that "public funds are becoming difficult and expensive to retain."

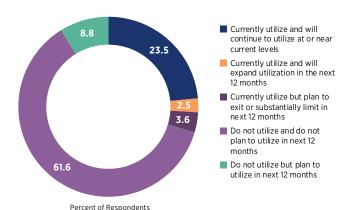
FIGURE 19
What are your intentions regarding discount window loans as a wholesale funding source?



Loans from the Federal Reserve's discount window were used by 17% of community banks, which is the lowest usage of any wholesale funding source. This may reflect a reluctance by banks to use the discount window "out of concern that the act of borrowing might send a negative signal about their financial conditions." Under the Dodd-Frank Act, discount window loans are publicly reported after a two-year lag.

THE USE OF WHOLESALE FUNDS, CONT.

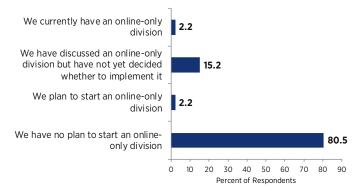
FIGURE 20
What are your intentions regarding listing service deposits as a wholesale funding source?



About 30% of banks said they used listing services to acquire deposits. Utilization could increase, as 9% of bankers said they planned to use them for the first time in the next 12 months. This was the highest percentage given for any wholesale funding source. One community banker said that, "Easily accessible and relatively inexpensive online deposit listing services offer the most promising opportunities for funding."

FIGURE 21

Which of the following best describes your views on the creation of a separately branded online-only division (i.e., a microbank) to attract loans and/or deposits?



Microbanks operate as separate deposit-gathering entities within a parent bank. Although only 2% of respondents had such an entity, more than 17% were considering launching one.

Section Summary

Deposits, which "long went overlooked after the financial crisis," have moved to the forefront of community bankers' concerns. Bankers participating in this year's survey described a market for retail deposits that has become fragmented geographically, with local institutions proving to be formidable competitors for transaction accounts and nonlocal institutions posing a greater, albeit relatively subdued, threat for nontransaction accounts.

But community banks have advantages of their own in grappling with these changes. Some banks have benefitted from entrenchment in their communities. As one banker noted, "People want to know where their money is." Others have relied on a less personal approach: "Gathering deposits the old-fashioned way with people sitting in our lobbies is too expensive and obsolete,

when we can pick up the phone and buy brokered deposits (probably our own client's money anyway) with a phone call in multi-million dollar blocks."

The foregoing underscores a new perspective on liquidity risk. As one banker said:

"We have been reluctant to expand our utilization of wholesale deposits or internet operation deposits due to the stigma of being overly dependent on such funding, but it appears that gradually this stigma is fading. The reality of the future is that all deposits are demand deposits. Liquidity risk is being re-conceptualized and will ultimately be radically redefined, which will make wholesale deposits less of a pariah than is currently the case."

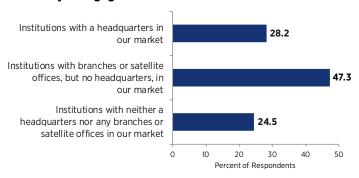
Bank Lending: Competition, LIBOR and CECL

Some new questions posed in the 2019 survey concern how community bankers compete for loans. Others address ongoing transitions to a new standard for pricing variable-rate loans and a new accounting standard for credit losses.

COMPETITION

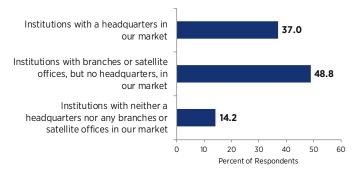
The following survey questions ask about competition for specific types of loans: mortgage, agricultural, commercial real estate, small-dollar unsecured and small business.

What is your greatest source of competition for 1-4 family mortgages?



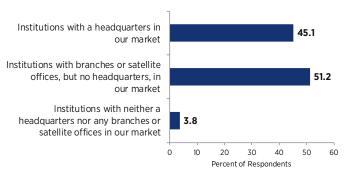
For residential mortgages, the role of competitors without a local presence was pronounced, with 25% of respondents naming out-of-market competitors as their greatest threat. Included in this category, presumably, were mortgage originators.¹² Community banks, however, have not succumbed to competitive pressure; in 2018, they increased residential mortgage lending by 5%.¹³

FIGURE 23
What is your greatest source of competition for agricultural loans?



Proximity appears to be a more important factor for agricultural lending, as only 14% of bankers cited lenders with no branches or headquarters in their markets as their biggest competitive threat. Agricultural loans at community banks increased by 2% in 2018.

FIGURE 24
What is your greatest source of competition for commercial real estate loans?

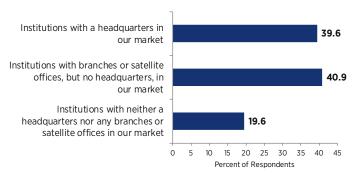


Proximity was also important in commercial real estate lending. Institutions without a headquarters or branch location in the bankers' markets were named as the greatest competitive threat by only 4% of respondents. Nonfarm, nonresidential real estate loans at community banks increased by 8% in 2018, more than double the rate experienced by larger banks.

COMPETITION, CONT.

FIGURE 25

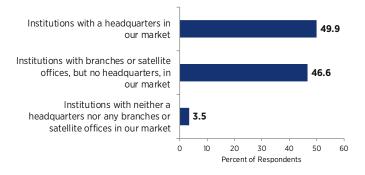
What is your greatest source of competition for small-dollar unsecured loans?



The market for small-dollar unsecured loans is more fragmented. About 80% of respondents named institutions with a headquarters or branch in their markets as their greatest competitive threat, while nonlocal institutions were considered a threat by 20% of bankers.¹⁴

FIGURE 26

What is your greatest source of competition for small business loans?



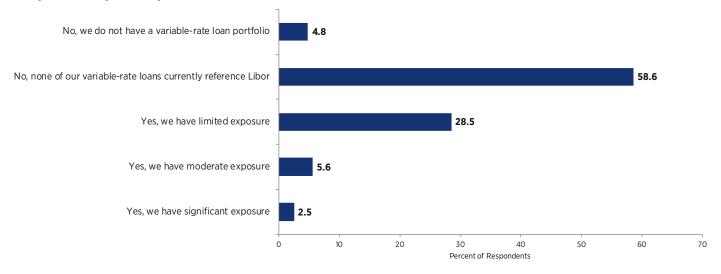
Competition for small business loans was dominated by institutions with a local presence, either a headquarters (50%) or branch only (47%) location.

The London Interbank Offered Rate (Libor) traditionally served as the key benchmark for pricing short-term loans and other securities worldwide. After the financial crisis, it became apparent that Libor—which was based on an estimate of the rate at which banks could borrow rather than the rate at which they did borrow—was being manipulated. An alternative, the Secured

Overnight Financing Rate (SOFR), was recommended by the Alternative Reference Rates Committee in consultation with the Federal Reserve Bank of New York and the Office of Financial Research. SOFR is a cost of borrowing cash overnight that is collateralized by U.S. Treasury securities. Libor is scheduled to be phased out by the end of 2021.¹⁵

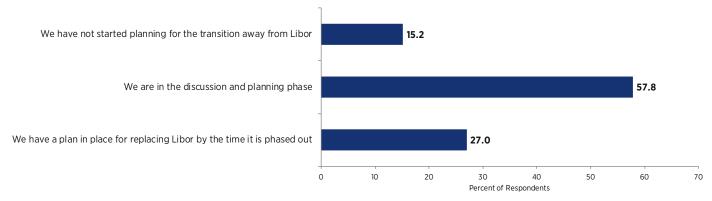
FIGURE 27

Do you currently have any loans that reference Libor?



Community banks in our sample did not appear to be particularly vulnerable to the elimination of Libor. More than 63% of banks said they had no exposure to loans that are tied to the index.

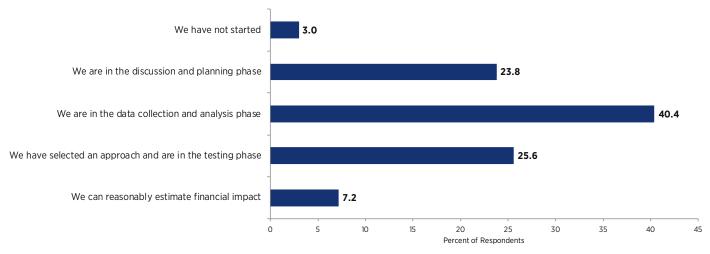
FIGURE 28 Which of the following most closely describes your readiness to transition away from Libor by the time it is phased out in 2021?



Some industry observers have warned that financial institutions may not be focusing enough on adopting the new rate, recommending that "banks begin to assess their vulnerabilities and figure out how they intend to navigate the changes—and the sooner the better." While only a minority of banks reported exposure to the index, those impacted have started making plans: 27% already have a plan in place, and 58% are in the planning and discussion stage.

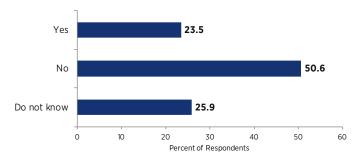
The current expected credit loss (CECL) model, which will change how financial institutions account for losses on loans and other assets, is scheduled for full implementation in the next few years. CECL requires "life of loan" estimates of losses for unimpaired loans to be recorded at origination. Banking associations say that CECL presents complexities that can decrease capital, introduce volatility to allowances for loan losses and increase costs. One banker described it as a "solution to a problem that doesn't exist."

Which of the following most closely describes the current status of your efforts for transitioning to the CECL methodology?



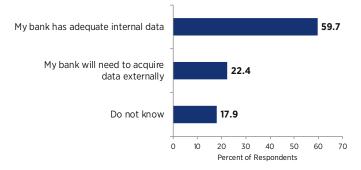
Community banks appear to be making progress on CECL. More than 7% of bankers said they could reasonably estimate the financial impact of CECL, while only 3% said they have not yet started planning. One banker noted that, "Preparing for the adoption of the CECL standard is requiring a major expenditure of resources."

Will the implementation of CECL require you to employ a larger staff than you would have needed absent CECL?



Uncertainty regarding CECL was reflected in the nearly 26% of bankers who were unable to identify whether its implementation would require hiring additional staff. About half of the bankers surveyed did not anticipate new hiring expressly for this purpose.

Which statement best describes your data needs regarding the implementation of CECL?



Data collection has been a prominent concern related to CECL because it requires "the right data in an accessible format." Although nearly 60% of surveyed banks said they have adequate internal data for implementation, more than 22% said they would need to acquire external data.

Section Summary

Community bankers typically describe the competition for loans as intense. Many of them question whether they will be able to meet the challenge of less regulated or more technologically capable competitors. Some are concerned about the transition to CECL; others, albeit fewer, are preoccupied with the transition from Libor.

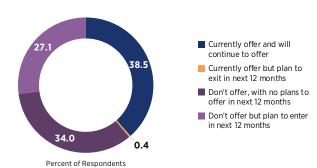
For now at least, community banks appear to be holding their own. In 2018, their overall loan portfolios grew by 6.5%, which was higher than the 4.5% growth rate experienced by larger banks. This may reflect advantages cited by some community bankers in accessing markets that larger banks ignore, those with less intense competition, or those populated with customers who value relationships more than the latest technologies.

Online Banking and Technology

Community banks have long been on the cusp of a technological revolution that would require either a radical change in their business models or, possibly, a merger partner to help them achieve the scale necessary to offer the technology that customers expect. In the 2016 survey, bankers noted that they faced, but "had yet to feel the full effects" of, growing competition from data-driven loan underwriting technologies. The threat, in other words, appeared to be postponed. The question then, as well as today, is "for how long?" ¹⁸

ONLINE SERVICES

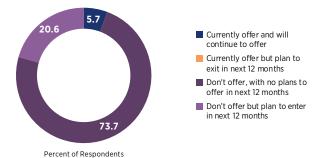
FIGURE 32
What are your intentions regarding online loan applications?



Online loan applications were offered by nearly 40% of community banks. This is similar to the percentage reported in the 2018 survey. The result is somewhat surprising, since 23% of banks that didn't offer these applications last year said they planned to do so in the future. Responses to supplemental survey questions indicated that those planning to offer the service in the coming year were motivated more by matching the competition (60%) than by profitability (8%).

FIGURE 33 What are your intentions regarding

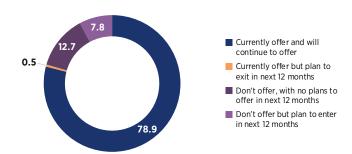
online loan closings?



In contrast to the popularity of online loan applications, online loan closings were offered by only 6% of surveyed banks. However, this is twice the percentage reported last year. Looking ahead, nearly 21% of banks surveyed said they planned to offer online loan closings in the future. In supplemental questions related to banker motivation, matching the competition was named as a rationale by 60% of respondents.

FIGURE 34
What are your intentions regarding remote deposit capture?

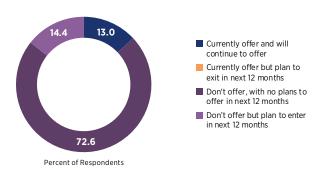
Percent of Respondents



Remote deposit capture was offered by 79% of banks, the same percentage reported in the 2018 survey. As was the case then, about 8% of banks this year said they planned to introduce this service in the future. Responses to supplemental questions indicated that matching the competition trumped profitability in motivation. One banker noted that remote deposit capture was instrumental in attracting new commercial customers.

FIGURE 35

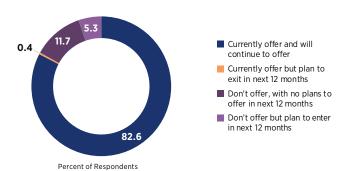
What are your intentions regarding automated loan underwriting?



Automated loan underwriting was offered by 13% of banks, roughly the same percentage reported in the 2018 survey. This result is somewhat surprising, in that 10% of banks last year said they didn't offer the service but planned to do so in the future. This year, a slightly higher percentage of banks signaled the same intention. In supplemental survey responses, cost efficiencies were cited as the primary reason.

FIGURE 36

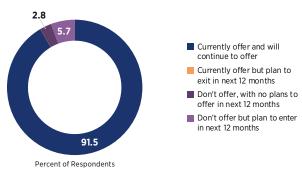
What are your intentions regarding electronic bill presentment or payment?



Electronic bill presentment was offered by 83% of banks, which is within the range observed in prior surveys. This may suggest that community bankers are not conceding leadership in this area to peer-to-peer competitors; in fact, several bankers said they are introducing new digital payment networks.

FIGURE 37

What are your intentions regarding mobile banking?

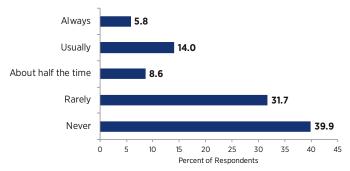


Mobile banking is expanding to the point of saturation, as more than 97% of banks either offered these services or planned to do so in the future. In the 2014 survey, less than 60% of banks said they offered mobile banking. The rate of expansion has slowed in more recent years.

TECHNOLOGY

FIGURE 38

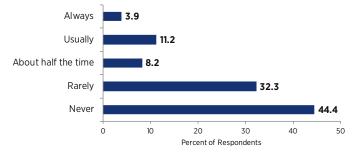
To what extent does your bank rely on in-house technology for **online loans?**



The percentage of banks that said they "never" rely on in-house technology for online loans decreased to 40% from 49% last year. In this regard, one community banker noted that, "Continued enhancement of outsourced technology allows us to offer services outside our local customer base." About 20% of banks said they always or usually rely on in-house technology to support online lending, which is the same percentage reported in last year's survey.

FIGURE 39

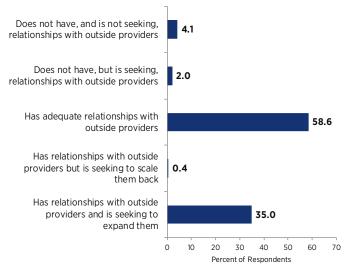
To what extent does your bank rely on in-house technology for **nonlending digital banking products and services?**



For nonlending digital banking products and services, banks were less likely to use in-house technology. Only 15% of banks said they always or usually rely on in-house technology, and 44% said they never do. Similar percentages were reported in the 2018 survey.

FIGURE 40

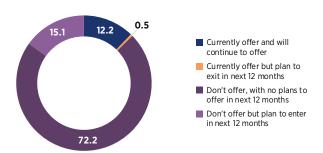
With respect to outside providers of digital banking products and services, our bank:



Nearly 59% of banks said they have adequate relationships with outside providers of digital banking products and services. Less than 1% said they intended to scale back these relationships. However, some bankers expressed significant frustration with core providers and technology vendors that hold banks "captive" and "effectively stall" their technological progress.

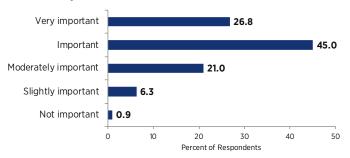
FIGURE 41

What are your intentions regarding interactive teller machines (ITMs)?



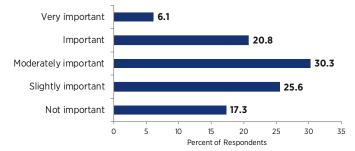
ITMs represent a relatively new way to deliver services to bank customers. They were offered by 13% of surveyed banks, nearly double the rate reported in the 2018 survey. Further expansion appears likely given the 15% of banks noting plans to introduce them. One banker described the capacity for ITMs "to extend hours without increasing overhead by controlling branch hours and employee cost," adding that, "Once the customer is trained, it will be a great addition."

How important is the adoption of new or emerging technologies to meet customer demand in your market?



Nearly 72% of respondents viewed the adoption of new or emerging technologies as very important or important. About 7% of bankers considered it only slightly important or not important, down from more than 11% last year. This appears to reflect the opinion of one banker who regretted being "behind the curve in technology."

How important is it to be a leader in new or emerging technology adoption to meet customer demand in your market?

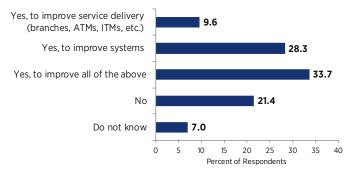


Being at the forefront of technological change was not considered a high priority for most bankers. About 43% of them said that being a leader in new or emerging technology was either not important or only slightly important. Only 6% said it was very important. As one banker noted, "New technologies are currently only incrementally better, allowing us to be a fast follower."

TECHNOLOGY, CONT.

FIGURE 44

Overall, is now a good time to expand your operations?



Bankers often must decide between investing in new facilities or the infrastructure needed to improve existing ones. Survey responses indicated that bankers employ both strategies. About 10% of respondents said they plan to expand branch activities, including ITMs, while 28% said they plan to invest in system improvements. About one-third said they plan to do both.

Section Summary

Community bankers at times have struggled to find new, cost-effective approaches to providing digital services. Their responses to this year's survey questions, however, suggest stability rather than marked change. The percentages of banks offering remote deposit capture, automated loan underwriting, online lending and electronic bill presentment nearly matched those from last year. Responses differed only minimally this year in how banks used in-house technology and outside vendors to offer such services. And plans for introducing new services were largely the same as those noted last year.

The foregoing suggests that changes in the delivery of digital and online services in the community banking industry are not necessarily, nor immediately, transformative. This underscores "a wide distance between the world that fintech gurus portray at conferences and what many community bankers experience back home."

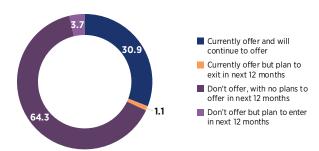
Transactional and Advisory Activities

Bankers were also asked to describe their activities in areas that are transactional and advisory in nature.

SERVICES OFFERED

FIGURE 45

What are your intentions regarding stored value/prepaid cards?

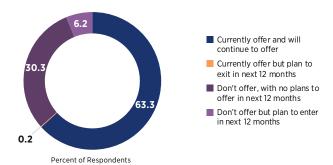


Although the majority of community banks do not offer stored value/prepaid cards, interest in them is increasing slightly. The percentage of banks offering these cards rose to 32% from 28% last year. An additional 4% planned to offer them in the future.

FIGURE 46

What are your intentions regarding cash management services?

Percent of Respondents

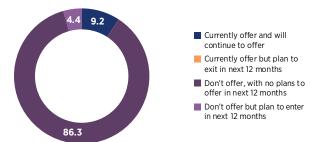


Cash management services were offered by 63% of community banks, the same percentage reported in the 2018 survey. About 6% planned to offer such services in the future.

FIGURE 47

What are your intentions regarding payroll cards?

Percent of Respondents

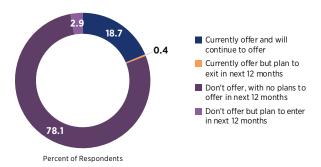


Payroll cards were offered by 9% of banks, matching the result in last year's survey.

SERVICES OFFERED, CONT.

FIGURE 48

What are your intentions regarding money remittance services?



Money remittance services were offered by 19% of banks. This level of participation is similar to that reported in previous surveys.

FIGURE 49

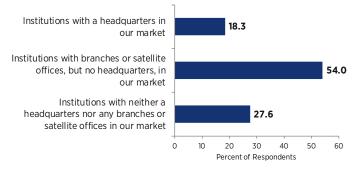
What are your intentions regarding wealth management services?



Wealth management services are growing as an offering, albeit slowly. Nearly 38% of banks provided these services, compared with 34% reported in the 2018 survey. One banker was exploring an opportunity to partner with a fintech company in order "to offer another financial solution to our customers."

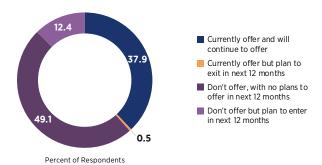
FIGURE 50

What is your greatest source of competition for wealth management/retirement services?



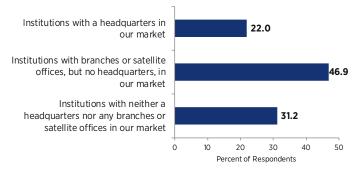
Among community banks that offer wealth management services, 28% named institutions without a local presence as their biggest competitive threat. Wealth management was one of only two categories (the other being payment services) for which competition from nonlocal institutions exceeded competition from institutions with a local headquarters.

FIGURE 51
What are your intentions regarding personal financial management tools?



About 38% of surveyed banks offered services in personal financial management. Among those bankers planning to exit this business, one cited a "lack of use by customers." Another disliked the "aggregator concept."

What is your greatest source of competition for payment services?



The role of competitors without a local headquarters or branch is even more pronounced in payment services. More than 31% of respondents named them as their biggest competitive threat. Competitors include mobile payment service providers.

Section Summary

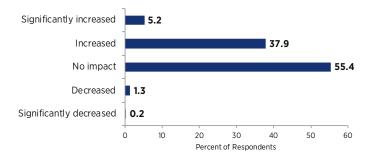
Community banks' delivery of transactional and advisory services has not expanded dramatically over time (prepaid cards excepted). For instance, the percentage of banks offering electronic bill presentment and/or payment was unchanged at 83%. Offering rates for cash management services, payroll cards and money remittance services increased only marginally.

Wealth management and personal financial management were offered by less than 40% of banks, continuing the low participation observed over the past few years. Bankers' responses suggest they are unlikely to expand dramatically in these areas in the future.

The Tax Cuts and Jobs Act of 2017

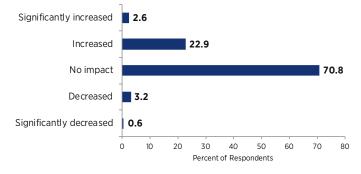
The Tax Cuts and Jobs Act (TCJA), signed into law in December 2017, lowered tax rates for businesses and individuals, limited some tax deductions and made other changes to tax policies. The following questions posed in this year's survey explored how TCJA has affected community bankers' lending activities in various categories.

FIGURE 53
How did the Tax Cuts and Jobs Act affect your willingness to supply small business and commercial loans in 2018?



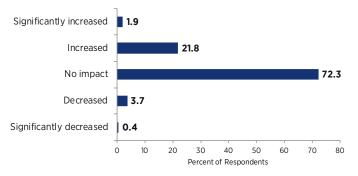
About 43% of bankers said that the TCJA increased demand for small business loans in 2018. This percentage is slightly higher than the advance result reported in last year's survey, which was limited to the early months of 2018. However, it contrasts to some extent with the 68% of bankers who last spring and summer said they expected demand to increase "going forward." As such, the act's effects on small business lending may have been smaller than expected.

FIGURE 54
How did the Tax Cuts and Jobs Act affect your willingness to supply mortgage loans in 2018?



Nearly 71% of bankers stated that the TCJA did not impact their willingness to supply mortgage loans in 2018. However, about 26% reported that the TCJA helped to increase mortgage lending.

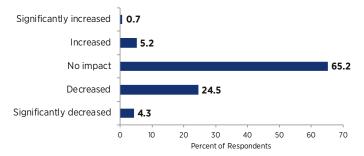
How did the Tax Cuts and Jobs Act affect your consumer loan demand in 2018?



More than 72% of community bankers stated that the TCJA did not impact demand for consumer loans. However, nearly 24% of them said that TCJA helped boost demand.

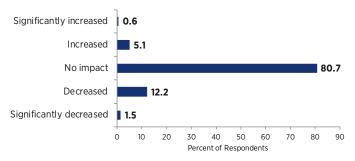
FIGURE 56

How did the Tax Cuts and Jobs Act affect your willingness to purchase tax-exempt securities from local governments in 2018?



Nearly 29% of bankers said the TCJA reduced their willingness to purchase tax-exempt securities. This is consistent with last year's preliminary findings and may reflect limits imposed on deductions for interest income on municipal obligations.

FIGURE 57
How did the Tax Cuts and Jobs Act affect your willingness to make tax-exempt loans to local governments in 2018?



About 14% of bankers said the TCJA reduced their willingness to make tax-exempt loans to local governments. This is slightly higher than what was reported in the 2018 survey. The majority of respondents, however, stated that the TCJA would have no impact on their willingness to make these loans.

Incentives to Acquire or Be Acquired

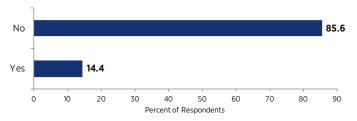
The number of bank mergers nationwide increased in 2018 after declining in previous years. (The number of "regular" mergers, from 2014 to 2018, were 144, 139, 125, 110 and 141, respectively.²⁰) The uptick may be related to incentives for mergers that were created by new regulations under the Economic

Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA).²¹ The act allowed small bank holding companies to use debt to facilitate acquisitions of other smaller banks and raised thresholds at which larger banks become subject to tighter regulatory scrutiny, thereby decreasing disincentives to merge.

ACQUISITION ACTIVITY

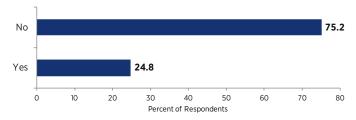
As in previous years, the survey asked bankers to describe merger activity on both sides of potential transactions: Banks that other institutions offered to acquire (potential sellers), and banks that offered to acquire other institutions (potential buyers).

Have you received and seriously considered an acquisition offer in the last 12 months?



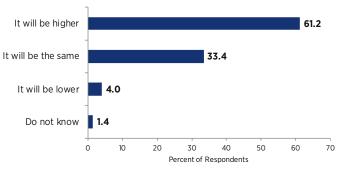
More than 14% of banks said they had received an acquisition offer within the past year. This is a slight uptick from the 2018 and 2017 survey results of 13% and 11%, respectively.

FIGURE 59
Have you made an offer to a target institution in the last 12 months?



Almost a quarter of banks said they had made an acquisition offer to another institution within the past year. This exceeds the less than 20% reported in the 2018 and 2017 surveys.

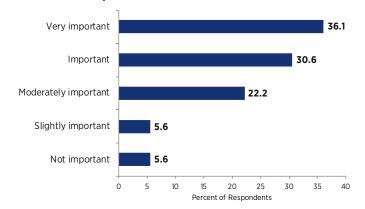
How do you expect the franchise value of your bank to change over the next 12 months?



The merger plans of community bankers may be influenced by expectations of the prices that must be paid in an acquisition or that can be obtained in a divestiture. From this perspective, more than 61% of bankers said they expected the franchise values of their banks to increase. Liquidity concerns, as previously discussed, may play a role; deposit premiums in acquisitions have more than tripled since 2013.²²

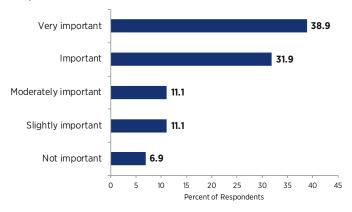
RATIONALES FOR SELLING

How important was an inability to achieve economies of scale in your decision to seriously consider an acquisition offer?



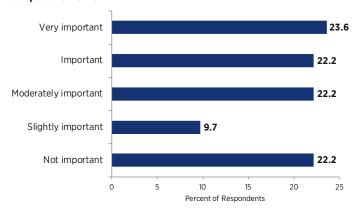
More than 36% of surveyed bankers considered economies of scale to be very important in the consideration of acquisition offers. Their comments indicated that scale was a particular problem in matching the technological investments and advertising expenditures of larger competitors.

How important were the costs of regulations in your decision to seriously consider an acquisition offer?



Nearly 39% of respondents said regulatory issues were a very important consideration for selling a bank. About 7% of them, on the other hand, said such issues were unimportant; this is more than three times the percentage reported in 2017.

How important were succession issues in your decision to seriously consider an acquisition offer?

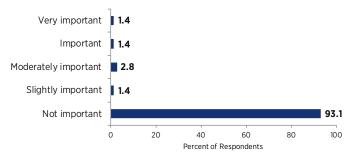


About 24% of bankers said succession issues were a very important factor when weighing an acquisition offer. A similar percentage said such issues were unimportant.

RATIONALES FOR SELLING, CONT.

FIGURE 64

How important was the **opportunity to start a** *de* **novo bank** in your decision to seriously consider an acquisition offer?

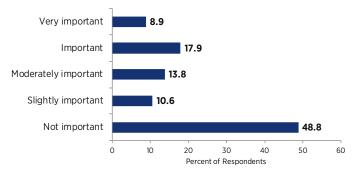


The opportunity to start a new, or *de novo*, bank is not among the reasons bankers cited for seriously considering an acquisition offer. Indeed, 93% of bankers said it was not an important factor in their decision. This is despite the fact that new bank formations are on the rise after a pause in the aftermath of the Great Recession. In 2018, for example, a total of 22 new bank charter applications were filed, exceeding the total spanning the seven previous years; eight applications were filed in the first half of 2019.²³

RATIONALES FOR BUYING

FIGURE 65

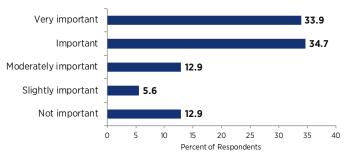
How important were succession issues in your motivation to make an acquisition offer?



About 27% of bankers making acquisition offers said succession issues were important or very important motivating factors. Nearly half of them, however, said they were not important.

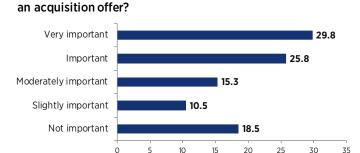
FIGURE 66

How important was a **desired entry into a new market** in your motivation to make an acquisition offer?



Entry into a new market was a commonly cited motivation among bankers making acquisition offers. Nearly 69% of bankers said access to new markets was very important or important.

FIGURE 67
How important was expansion within an existing market in your motivation to make

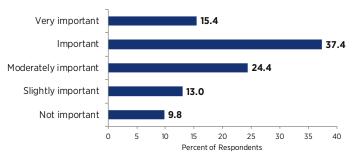


Percent of Respondents

Expanding within existing markets was less important to bankers than expanding into new markets. Nonetheless, nearly 56% of banks making acquisition offers considered in-market expansion an important or very important factor.

FIGURE 68

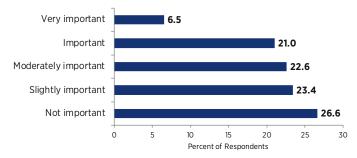
How important was the ability to exploit underutilized potential in your motivation to make an acquisition offer?



More than 90% of bankers said their acquisition offers were motivated to some extent by underutilized managerial potential. This may reflect a belief that the management teams of the target institutions were failing to maximize profits.

FIGURE 69

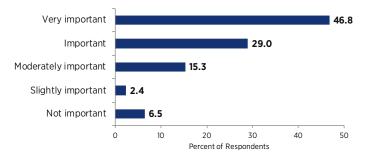
How important was the opportunity to capture the abilities of bank managers in your motivation to make an acquisition offer?



Capturing managerial ability was named by less than 7% of bankers as a very important motivation for making an offer.

RATIONALES FOR BUYING, CONT.

How important was the ability to achieve economies of scale in your motivation to make an acquisition offer?



Nearly 76% of bankers extending acquisition offers reported that economies of scale were either a very important or important motivating factor.

Section Summary

Community bankers experienced an increase in merger and acquisition interest, with 15% of them receiving acquisition offers (versus 13% last year) and 25% making acquisition bids (versus 20% last year).²⁴ Future activity could be influenced by bankers' expectations for franchise values to increase.

Regulatory Compliance

After years of annual increases, compliance costs as a percentage of noninterest expenses decreased in 2017. Surveyed bankers last year hoped for further reductions under EGRRCPA. This year's survey, however, suggests a different story: Compliance costs increased modestly in most noninterest expenses categories in 2018.

COMPLIANCE COSTS BY EXPENSE CATEGORY

Bankers were asked to identify the compliance costs they incurred in 2018 in personnel, data processing, legal services, consulting, advising, accounting and auditing.

TABLE 3

Compliance Costs as a Percentage of Expenses by Category

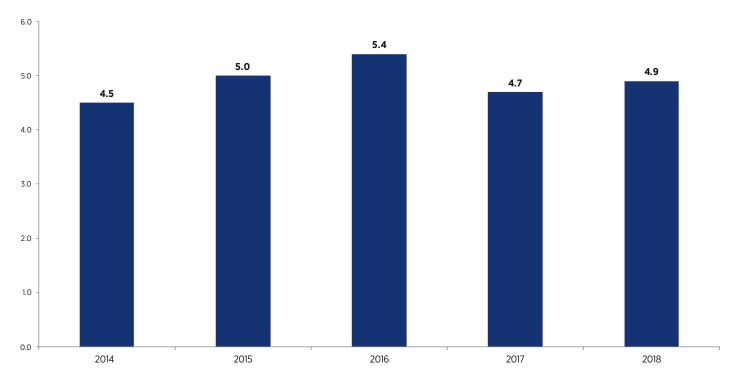
	2014	2015	2016	2017	2018
Personnel (Salary and Benefits)	10.6% (5.8%)	11.4% (7.5%)	12.3% (7.7%)	10.4% (7.1%)	11.9% (6.5%)
Data Processing	16.2% (10.0%)	17.6% (12.9%)	17.8% (11.4%)	17.0% (12.3%)	18.3% (12.5%)
Legal	20.5% (10.6%)	20.7% (12.8%)	23.0% (14.7%)	21.0% (12.7%)	23.5% (14.7%)
Accounting and Auditing	38.5% (30.6%)	41.5% (35.3%)	41.7% (35.1%)	39.1% (31.3%)	42.6% (25.5%)
Consulting and Advisory	47.5% (40.0%)	42.6% (34.3%)	44.6% (39.4%)	46.1% (41.7%)	41.2% (36.0%)

NOTE: The percentages are **means** (first row) and *medians* (second row) of ratios of compliance costs to expenses within a given expense category.

In Table 3, compliance costs as a percentage of each component of noninterest expense edged back up in 2018 after falling in 2017. This decline may have been attributable, in part, to one-time expenses associated with implementation of new mortgage forms under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). For example, in 2016, the mean amount of total personnel expense devoted to compliance was 12.3%. In 2017, it dropped to 10.4%, but it edged up again in 2018 to 11.9%. The same pattern follows for most, but not all, of the other components.

COMPLIANCE COSTS BY EXPENSE CATEGORY, CONT.

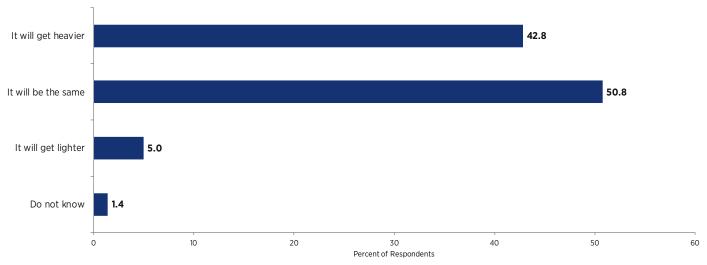
FIGURE 71 Implied Amounts of Regulatory Costs for All State-Chartered Community Banks and Thrifts (\$ Billions)



In Figure 71, compliance cost percentages observed in Table 3 are applied to publicly available Call Report data on the entire state-chartered community banking industry to create a dollar estimate of overall compliance costs. We acknowledge limitations in matching data on the relatively small number of banks that responded to the survey with industry aggregates. Furthermore, although there is overlap in the respondent sample from year to year, there is a different set of banks each year. Interpretations must be qualified accordingly.

The estimated total dollar amount for compliance costs for 2018 using this methodology is \$4.9 billion. This amount, while higher than the \$4.7 billion implied for 2017, is still below the recent peak in 2016.

FIGURE 72 How do you expect the regulatory burden on your bank to change over the next 12 months?



Nearly 43% of bankers expected regulatory burden to increase. This was reflected in the comment by one banker that consumer lending regulations are "getting out of control." Another banker decried "the never-ending add-on of additional if/then type regulations [that] are hard to understand, hard to teach and hard to implement." Yet another banker noted the increasing costs of implementing existing, rather than new, regulations.

Section Summary

Several comments from community bankers indicated that the increase in community bank compliance costs identified in this year's survey were disappointing but unsurprising. Some bankers may find solace in the relatively small magnitude of the increase (4%), constrained perhaps by what some described as a "trickle" of new regulations and a "less adversarial" relationship with bank examiners.

Yet, the survey results seem to underscore a more general frustration with the pace of regulatory reforms, including those under EGRRCPA. One banker noted:

"Regulatory relief takes way too long to implement. It is encouraging that regulators and legislators are looking at potential regulatory relief, but I really don't see it as doing enough to help small banks remain relevant. It is very discouraging to see everything associated with the reduction of bank regulation overwhelmed by political posturing—that so far they reduced 15 minutes of time putting together the Call Report and feel it is a big gain. The effort to provide small bank relief has not yet actually provided us any relief from cost or time savings."

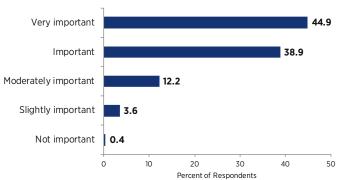
What Worries Community Bankers

Many questions in this year's survey, as in previous surveys, focused on operational aspects of community banking—how banks structure their products and activities, how they raise money, how they invest, how they are affected by changes in laws and regulations. This year, a new series of questions were added that encompass more general perceptions of community bankers with respect to the important issues they face.

RISK PERCEPTIONS

Bankers were asked to rank the importance of risk along several dimensions: legal, credit, market, cybersecurity, management succession, board succession, operations, compliance with the Bank Secrecy Act and consumer compliance.

How important is credit risk to your bank?



How important is management succession risk to your bank?

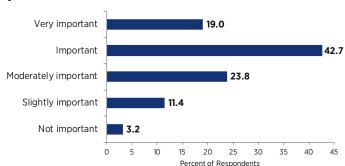
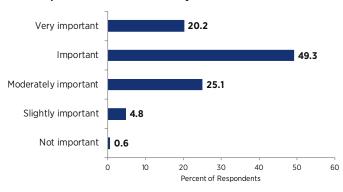


FIGURE 74
How important is market risk to your bank?



How important is **board succession risk** to your bank?

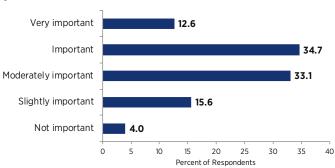
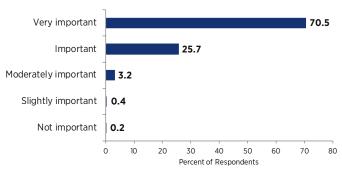
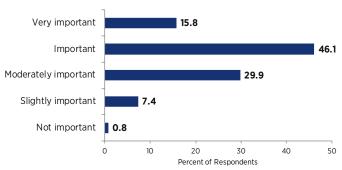


FIGURE 75
How important is cybersecurity risk to your bank?

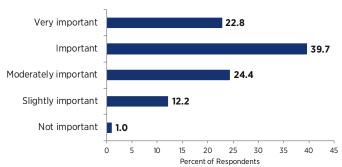


How important is operational risk (excluding cybersecurity and succession risk) to your bank?



RISK PERCEPTIONS, CONT.

FIGURE 79
How important is Bank Secrecy Act risk to your bank?



How important is legal risk (excluding compliance risk) to your bank?

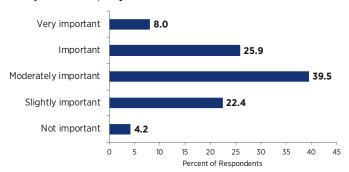
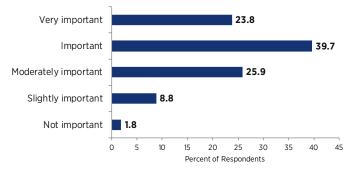


FIGURE 80
How important is consumer compliance/fair-lending risk to your bank?



Section Summary

Bankers agreed that the protection of information posed the most significant challenge, by far, to community banks: Nearly 71% of bankers described cybersecurity threats as a very important risk—a level significantly higher than the second-ranked factor, credit, at 45%. Among factors deemed to represent lower levels of risk were succession (both management and board) and legal risk (excluding compliance risk).

Conclusions

A key finding of this year's survey is a shift in the concerns of community bankers from regulation to funding. About 35% of survey respondents said the cost of funds was the most likely factor to influence future profitability, while only 4% cited regulation. This stands in sharp contrast to an earlier survey, in 2016, in which 60% of bankers named regulatory compliance as their greatest business challenge. Only 11% then named "insufficient funding" their top concern.

The foregoing, however, does not imply that regulation is unimportant to community bankers. Their opinions to the contrary are underscored by this year's findings that regulatory costs increased modestly in 2018 after decreasing in 2017. The results of future surveys will help determine whether the decrease in 2017 was an aberration, perhaps related to one-time regulatory expenses that may have inflated costs in 2016 (the year from which comparisons with 2017 were drawn). The expectations of bankers

would appear to support this conjecture: The bulk of them think regulatory costs will increase.

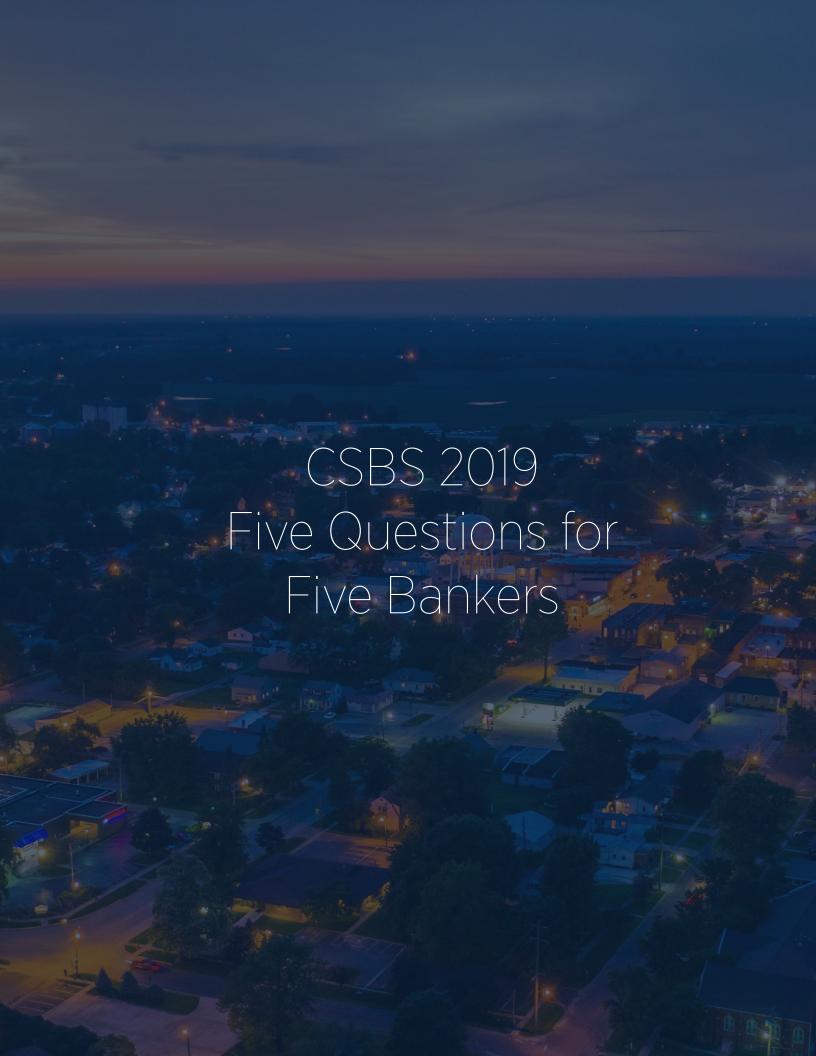
Although community banks sometimes are seen as operating on the frontier of a radical transformation in the delivery of digital services, the percentages of banks offering some technological services were largely unchanged and may hold steady, insofar as bankers anticipated little change in the future. Why the hesitancy? In the words of one banker: "cost, cost, cost."

The results of the survey overall show that the external forces changing the nature of the financial services industry have not turned community banks upside down. These forces do appear to be changing how banks gather deposits. But they also underscore a wait-and-see attitude of community bankers when it comes to the introduction of technological services or new policies intended to reduce regulatory costs.

Endnotes:

- Due to rounding, not all percentages shown in the charts and tables will add up to exactly 100.
- Federal Deposit Insurance Corp. "Community Bank Liquidity Risk: Trends and Observations from Recent Examinations," Supervisory Insights, Summer 2017, pp. 1-20.
- 3. Tariq, Zain and Terris, Harry. "When Fed cuts rates, deposit prices likely to follow quickly," July 24, 2019; www.spglobal.com.
- Lowe, Joseph. "How Community Banks Can Win the Battle for Deposits," Nov. 6, 2018; www.abrigo.com.
- Burns, Hilary. "M&A in 2019: Banks will keep paying up for depositrich sellers," *American Banker*, Jan. 9, 2019.
- 6. Tariq and Terris.
- 7. Burns.
- 8. Federal Deposit Insurance Corp.
- Mustafa, Adam. "Deposit Dilemma—10 Interesting and Surprising Trends from 2018." White paper, the Invictus Group, 2019.
- Carlson, Mark and Rose, Jonathan D. "Stigma and the Discount Window." FEDS Notes. Dec. 19. 2017.
- 11. Burns
- 12. A supplemental survey response showed that less than 5% of banks offered reverse mortgages.
- 13. This was nearly double the rate experienced by larger banks. The source of loan data in this section is the Federal Deposit Insurance Corp.'s Quarterly Banking Profile, Fourth Quarter 2018.
- 14. A supplemental survey response showed that 80% of community banks offered small-dollar unsecured loans. This percentage is likely to persist, as very small percentages of banks planned to exit or enter this activity.

- 15. Held, Michael. "SOFR and the Transition from LIBOR." Speech, Federal Reserve Bank of New York, Feb. 26, 2019.
- Heltman, John. "Libor is going dark in 2021, and some banks aren't ready," American Banker, Dec. 30, 2018.
- Weightman, Patrick. "Preparing for CECL data requirements," May 17, 2016; www.bai.org.
- Milligan, Jack. "Does the Future of Community Banking Rest on Technology?" Sept. 2, 2016; www.bankdirector.com.
- Cocheo, Steve and Streeter, William. "Rethinking community banks" future." March 30, 2018; www.bankingexchange.com.
- 20. In annual reports to Congress (various years), the Federal Deposit Insurance Corp. separates "regular" mergers from interim mergers and those that are part of corporate reorganizations. A regular merger is a combination of the assets and liabilities of two or more nonaffiliated institutions under one institution's charter and the extinguishment or cancellation of the charter(s) of the other institution(s).
- Hudson, Gregory J. and Silvia, Joseph E. "Recent Legislation Encourages Bank M&A Activity," Dec. 18, 2018; www.businesslawtoday.org.
- 22. Burns
- 23. Duren, Carolyn and Tariq, Zain. "As de novo bank applications pick up, so do withdrawals," May 21, 2019; www.spglobal.com.
- 24. These offers and bids, of course, are not always consummated; information compiled by the Federal Deposit Insurance Corp. in its "Statistics at a Glance" indicates that less than 5% of banks merge in a typical year.



Five Questions for Five Bankers

A Summary of the Responses Given by State

To augment the 2019 National Survey of community banks that was administered in advance of this year's *Community Banking in the 21st Century* research and policy conference, interviews were conducted with community bankers in select states. The objective of the "Five Questions for Five Bankers" interviews was to create dialogue and put the national survey results into context at the state level. The questions were generally posed to five community bankers selected by 31 state bank commissioners in 30 states. Responses are listed alphabetically.

The questions addressed the impact of recent regulatory reform legislation on community banks, efforts to modernize and improve the examination process, the challenges banks face in attracting core deposits, technology adoption and integration into banks' strategic plans, and the ongoing need to evaluate cybersecurity risk.

Following are the five questions that the state commissioners asked all participating bankers:

- 1. The passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) included several provisions intended to provide regulatory relief to community banks. At the same time, industry consolidation continues, and community banks face other challenges to their business model. Based on your perception, was S. 2155 beneficial to the community bank business model? Are there areas in which Congress should have or could have done more to benefit the community bank business model?
- 2. The Federal Financial Institutions Examination Council (FFIEC) has undertaken steps to modernize and improve the examination process by tailoring examination plans and procedures based on risk. Are there other areas of the examination process that could be changed to further reduce burden? Are there ways that regulators could leverage technology to improve the examination process?
- 3. What is your outlook with respect to funding and liquidity for your institution over the next five years? How do you foresee your ability to raise core deposits changing?
- 4. Technological innovations have raised the expectations of consumers and businesses with respect to the types of services that banks must offer to stay competitive in the marketplace. How are the rapid changes in technology impacting your bank's strategic plan?
- 5. Cybersecurity and data protection issues continue to impact the financial services industry. What would be helpful to you as you evaluate your institution's cybersecurity risk (for example, regulatory assistance, legislative changes or more training)?

Responses are summarized and presented in five major areas: the impact of EGRRCPA on the community bank business model; reducing burden in examinations with technology; the future of funding, liquidity and raising core deposits; technology and strategic plans; and evaluating cybersecurity risk. These responses provide considerable context for the data gathered through the CSBS National Survey and highlight some of the differences community banks face in different states.



Bankers in Alabama have found the changes enacted to streamline and simplify Call Report filings helpful. However, they have not noticed many rescissions of existing regulations. They have observed a slower pace of adoption for new regulations and more serious consideration to objections expressed by the industry.

Reducing burden in examinations with technology

Bankers said they found the 18-month examination cycle to be very helpful. They continue to believe that regulatory personnel could perform more exam procedures off-site. This would help everyone involved in the process save time and money.

The future of funding, liquidity and raising core deposits

One Alabama banker noted a heightened focus on building assets as a key driver of increasing earnings performance for the bank. This bank maintains a good mix of deposit-gathering sites at reasonable costs, which allows it to limit usage of noncore funding sources. Liquidity was very strong and was expected to remain so.

Technology and strategic plans

Alabama bankers envision adopting a "slow follower" strategy, where they will offer new technology and products based on customer demand and if the acquisition cost is reasonable. They expect demand to ramp up over a long period of time, rather than to shift suddenly. Overall, the bankers expressed a readiness to offer new products and technology. They will be continually monitoring demand and stand ready to implement quickly.

Evaluating cybersecurity risk

Bankers noted that cybersecurity tools provided by the Alabama State Banking Department and the Federal Deposit Insurance Corp. are helpful in creating checklists of issues to be managed. Although they believe they have acquired adequate cyber insurance coverage at a reasonable cost, many smaller banks said it would be helpful to have a robust advisory panel of experts to help them review options, as many cannot afford to engage consultants. They consider bank personnel training to be the most critical layer of mitigation for cybersecurity risk. Communicating with other banks about the latest hacking developments and techniques would be beneficial.



Arkansas bankers hold a neutral perspective on the benefits of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA), with some believing that the legislation did not provide as much relief as intended. Bankers noted that the act did more to help larger banks than smaller banks and that many things remain unchanged for community banks.

The bankers recommended areas to be addressed in future relief bills. The two most cited areas were the community bank leverage ratio—prompt corrective action (CBLR-PCA) framework and the Community Reinvestment Act. One banker anticipated that the student debt crisis will become a big problem in years to come and that legislative efforts should be considered to address this issue. Overall, bankers appreciate the impetus behind EGRRCPA, as it points to federal recognition of the hardships imposed by previous legislation, but it remains evident that more needs to be done.

Reducing burden in examinations with technology

Ideally, a more mainstream software tool to exchange examination data and information requests would improve the burden in the examination process. Bankers suggested that any changes in technology should utilize familiar software for ease of use. This would enable them to more effectively prepare for, and navigate through, the examination cycle. Also, increased risk tailoring for compliance examinations would be a great benefit. Improving the process for compliance examinations should be a regulatory focus.

Arkansas bankers understand the efficiency of off-site work in examinations and are supportive of technology for off-site reviews, but warn that increased utilization of technology can reduce the effectiveness of the entire process. Regarding the use of technology to remedy these shortcomings, bankers maintain that face-to-face interaction is critical to effective compliance. In fact, some of them said that use of email or phone communication hampers the examination process and results in ineffective information transmission.

The future of funding, liquidity and raising core deposits

Arkansas bankers noted that traditional funding sources continue to evolve. Funding and liquidity channels have been rapidly changing, and bankers recognize that they must change with them. To meet customers where they are, Arkansas bankers believe that the definition of core deposits, a main source of funding, must be changed to reflect the online banking landscape. The digitization of the banking industry has given rise to a global marketplace for liquidity, which is a great opportunity for smaller banks. One bank anticipates that it will use its securities

portfolio to pivot more quickly in managing increased demands for liquidity.

Balancing the needs of both older and younger generations also presents a challenge. Both generations want better rates, but the younger generation desires conveniences that only larger banks with economies of scale are able to provide. It is important that bankers continue meeting and anticipating these needs to ensure a steady source of core deposits.

Technology and strategic plans

It has been difficult for Arkansas bankers to develop strategic plans and harness technological innovations. The strategy of quickly investing in the latest trend has been thwarted at one bank by a limited budget and the emergence of new technologies just as the bank was becoming familiar with the former technology. While economies of scale place larger banks at an advantage, the delayed implementation methods of other banks have proven quite useful. In some of these instances, the technology, residing between the "cutting edge and the bleeding edge," proved "tried-and-true," one banker noted.

Bankers expect to have more employees on staff who are able to distinguish between the latest trends in technology and the right fits for their banks over the long term. This would help to establish more accurate estimates for technology budgets. The identity of a bank can be tied to its level of technological advancement.

Evaluating cybersecurity risk

Arkansas bankers agreed that cybersecurity risk is one of the most significant challenges that institutions, especially community banks, face today. One banker said that the Federal Financial Institutions Examination Council's cybersecurity risk assessment tool does not do enough and is more of a regulatory tool. To better address this issue, banks would like to see tougher legislation on data breaches and cybercrimes. This could require vendors to quickly inform banks when there is a data breach and clearly pinpoint why it occurred. A few bankers believe that customers play an increased role in compromised banking systems because of their tendencies to indiscriminately share confidential information. Once such legislation has been implemented, effective enforcement must follow to ensure vendor accountability.

Arkansas bankers recognize that their own training must improve to deter and detect threats before they occur. Customer knowledge around cybersecurity also must be enhanced. One banker thought it might be helpful to initiate more discussions on proactive and innovative approaches to mitigate cybersecurity threats.



Given the short time since the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA), Connecticut bankers felt it would be premature to fully assess the benefits of this legislation on the community bank business model. The bankers were pleased with several components: the extension of the examination schedule, the qualified mortgage safe harbor, the increase in the appraisal threshold and the option for a short-form Call Report.

The appraisal threshold increase has resulted in improved efficiency and some customer cost savings, while the new Call Report has generated few significant savings or resource reductions. More regulatory relief is needed for EGRRCPA to have a significant impact, the bankers agreed. For example, Congress could do more to benefit the community bank business model by further raising Home Mortgage Disclosure Act thresholds, addressing Bank Secrecy Act issues, and increasing the filing threshold and reporting requirements for currency transaction reports. Additionally, bankers called for the establishment of a permanent threshold for open-ended lines of credit and the elimination of the TILA-RESPA Integrated Disclosure rule's waiting period. Bankers want clearer guidelines for banks choosing to provide accounts to marijuana businesses in states where it is legalized.

Connecticut bankers would like for Congress to keep in mind that there is no 80/20 rule—which suggests that 80% of results stem from 20% of activities—in banking. Industry consolidation continues, with the largest of banks gaining larger pieces of the asset pie. As one banker noted, in 2017 just 2% of the nation's banks earned 82% of the industry profits, with the other 98% scrambling to keep up. Nonetheless, Connecticut's community banks are working hard to keep pace. They help provide consumers and businesses with choice of services and, in some areas, remain the only significant banking option. They play a critical role in commercial and residential lending, volunteering, providing charitable donations, supplying municipal taxes and leading the charge in small business lending.

Reducing burden in examinations with technology

Connecticut bankers applauded the risk-based examination approach for its brilliance in concept and implementation. However, given that regulators are tasked with examining banks' compliance with regulations, data queries and information requests will remain high unless there is a further reduction or flexibility in administering the regulations. The bankers requested that regulators reduce exam information requests wherever possible and concentrate on specific risk elements from exam to exam.

Bankers expressed appreciation for the collaboration and open communication utilized in the examination process. They had mixed feelings regarding the possibility of more off-site examinations, particularly due to data security concerns, remote access to loan systems, and increased system access and training needs. Efforts should continue to reduce on-site examination time wherever possible. Bankers recognized the benefit of using the FDIC connect system; however, they were concerned with some system issues. In one example, some examiners had not fully leveraged the technology and requested information that had already been uploaded by the bank.

The future of funding, liquidity and raising core deposits

In Connecticut, banks remain in a zero-growth environment. Loan growth is coming at the expense of fellow community banks. It is also being impacted by nonbank lenders. One banker from southeastern Connecticut felt encouraged by regional growth that has been fueled by the influx of large employers and new residents to the area. In contrast, other bankers expressed concern with the migration of deposits as Connecticut residents exit the state due to increased taxes, high housing costs and poor job prospects. In response, banks are developing ways to grow assets and increase deposits at a more reasonable cost.

While Connecticut bankers reported ample liquidity levels, they expressed concern with increased funding costs due to customers moving funds into higher-paying certificates of deposits, as well as the need for alternative funding lines with the Federal Home Loan Bank, the Federal Reserve and corresponding banks. Bankers were also concerned with the lost opportunities stemming from the increased use of reward programs that take deposits away from banks. Concern was also raised with the systemic movement of money outside of Federal Deposit Insurance Corp.-insured depository institutions into noninsured entities.

Connecticut bankers said they are continually reviewing services and products associated with core deposits to attract customers. Over the next five years, improved technology features may encourage increased core deposits as well as help fight fraud.

Technology and strategic plans

In Connecticut, a strong focus on customer service alone is not enough for banks to remain competitive. Banks need to realign and strategically integrate data and technology enhancements. Additionally, boards of directors must be educated to increase buy-in for changing banks' focus and increasing technology investments.

One Connecticut banker shared a positive view of technological innovations and higher expectations of consumers and businesses, noting they have had an "Amazon-like effect" in prompting banks

Connecticut continued

to reassess their approach and delivery of products and services. Such a view has increased this bank's focus on new tools and processes. Technology is a major focus of this bank's strategic plan. Another bank offers customers an artificial intelligence alternative at its call center that allows customers to use biometrics to confirm identification, which has eliminated the need to answer eight questions. Overall, Connecticut bankers believe investments in technology give customers more options and improve efficiencies.

The bankers agreed that strong corporate governance is needed in relation to data and technology. New products and services need to be vetted before any investment or resources are applied. The challenge has been in determining where to invest and picking the right winner. The decision whether to invest now or later can often be costly. For example, banks that invested heavily in check-deposit imaging for their automated teller machines questioned the wisdom of making that level of investment when mobile check imaging emerged shortly thereafter.

Evaluating cybersecurity risk

With a business model built on trust, Connecticut community banks view cybersecurity risk as a constant battle. Concern was raised about the expense and resource allocation required to ensure systems and data are secure, especially for smaller banks. Their survival is significantly impacted by the financial and human resources needed to address cybersecurity and fraud concerns, including funding for penetration testing, engaging outside information technology firms, dedicating staff and providing training. They greatly appreciate efforts to streamline vendor management processes.

Connecticut bankers also desire a national standard for data protection and security breaches that spans major industries and includes merchants. Banks already comply with Gramm-Leach-Bliley Act requirements and view state-by-state requirements as overly burdensome. One banker proposed a national standard examination program, including a rating system for the largest technology systems and vendor application providers that banks could rely on as part of the assessment process.



Although Georgia bankers reported only limited positive effects from the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA), they considered it a start in long overdue discussions on regulatory relief. All bankers expressed appreciation for its intentions. The most impactful changes have been the discontinuance of some waiting periods under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA), changes in qualified mortgage portfolios and reporting exceptions under the Home Mortgage Disclosure Act (HMDA).

Very little relief has been experienced from reductions in Call Report requirements for two reasons: Items on the list of exempt reporting fields are not commonly completed by community banks, and the reporting process is already highly automated. Minimal, but welcomed, benefits have also stemmed from regulatory changes in some commercial real estate areas and reciprocal deposits.

The capital simplification rule for qualifying community banks received mixed responses. Georgia bankers are currently unsure if they will move to the new community bank leverage ratio—prompt corrective action (CBLR-PCA) framework due to beliefs that the 9% minimum requirement is too high and should be lowered to 8%; they regard risks for falling below the 9% threshold as too great. Also, efforts to calculate capital levels under the current capital regime are not onerous insofar as the process is highly automated, further solidifying many banks' decision to stick to the status quo.

Georgia's community bankers would like to see reduced requirements for TILA-RESPA disclosure and consumer lending compliance. Likewise, limiting further expansion of HMDA data collection for impacted institutions would be helpful, as the data-gathering process is labor-intensive and elevates bank costs. Lastly, the bankers would like to see a modernized Community Reinvestment Act that better reflects the broadened banking market.

Reducing burden in examinations with technology

The on-site presence of examination teams was identified as intrusive even under the best of circumstances. While Georgia bankers noted that examination work has become simpler with electronically submitted documents, they agreed that more work could be done off-site. For banks with imaged loan portfolios, the bankers felt that the entire loan review could be completed off-site.

Bankers acknowledged that some level of on-site contact is necessary to achieve the most effective communication among all parties. This is especially important in wrap-up meetings for specific examination areas, management exit meetings and problem loan discussions. Georgia's bankers also supported the continued development

of a tailored, risk-focused exam scope based on the condition, complexity and risk profile of an institution.

The future of funding, liquidity and raising core deposits

Difficulties attracting and retaining core deposits were expected to continue, with community bankers viewing credit unions as their biggest core deposit competitor. The tax-exempt status of credit unions allows them to pay higher rates, thereby putting Georgia banks at a competitive disadvantage. Likewise, fintech firms have a competitive advantage in their ability to operate outside of traditional regulatory requirements, such as the Bank Secrecy Act. It is important that bankers stay knowledgeable about the competitive landscape and customer preferences in order to offer competitive products and services, and thereby gain market share. Similarly, building relationships with commercial loan customers is critical to obtaining deposits.

Technology and strategic plans

Banks in Georgia have committed extensive financial and personnel resources to technology in order to remain competitive in the marketplace. Bankers emphasized the importance of staying on the leading edge of technology in order to remain relevant. However, they noted that banks do not necessarily have to be market leaders in technology to offer beneficial products and services to their customers.

Adoption of new technologies was said to be limited by core processors and investment requirements. In addition, Georgia bankers remained concerned that increased implementation of new technologies could make them vulnerable to increased cyber and regulatory risk. On the other hand, they recognized that ongoing technology implementation could help level the playing field with competitors.

Evaluating cybersecurity risk

Cybersecurity risk was the top concern for Georgia bankers. Unanimously, they stated that the greatest opportunity for regulators to assist banks is by increasing their ability to leverage and communicate information to the industry. Timely information regarding sources of breaches, lessons learned, vulnerabilities and best practices would allow management to proactively implement safeguards and strengthen technological systems on an ongoing, dynamic basis.

Bankers viewed the regulatory technology examination positively. The examination process was described as a thorough exercise conducted in a highly collaborative and beneficial environment.



The Idaho bankers interviewed represented each part of the state, with their banks ranging in size from \$125 million to \$1.6 billion in assets. While Idaho bankers were pleased with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) efforts to reduce regulatory burden on community banks, they felt Congress could have done more to level the playing field with nonbank financial service providers. They highlighted inconsistencies in the regulatory oversight of banks compared with credit unions, the Farm Credit System, fintech firms and others that are encroaching on the traditional banking services market.

Idaho bankers also felt that EGRRCPA did not do enough for small institutions, providing more relief to midsize and regional banks. Institutions with assets over \$1 billion applauded the expansion of the safety and soundness examination cycle to 18 months, the reduction in requirements for the Home Mortgage Disclosure Act (HMDA) exemption and the revision of the small bank holding company reporting level from \$1 billion to \$3 billion. The bankers appreciated the bipartisan support they have seen for "common sense" financial reform.

Idaho bankers acknowledged several other measures that should be addressed. They noted the need to strengthen credit union field of membership rules, with a clear directive for enforcement. They would like simplified capital levels and risk-based capital reporting, as well as the removal of the Consumer Financial Protection Bureau's discretion to add required HMDA reporting fields. Idaho bankers said they would also like a clearer framework for banks to follow regarding rural appraiser rules, better definitions of customary and reasonable fees, and timeliness standards. They also suggested the repeal of the Durbin Amendment, as this amendment has caused the greatest direct financial loss to community banks of any provision of the Dodd-Frank Act.

Idaho bankers also recommended modernizing Regulation E and ACH liability rules, since these rules have not kept up with technological advancements. Doing so would allow community banks greater flexibility to deliver a broader array of services. Idaho bankers also would like clearer guidance regarding the implementation of the community bank leverage ratio and reforms that enhance regulation of government-sponsored enterprises. Idaho bankers lamented that nonbanks can do more than community banks can.

Reducing burden in examinations with technology

Idaho bankers stated that, overall, recent examinations have gone well and seemed streamlined with portions that are conducted off-site. One general theme was that the examination process

seems more risk-based and efficient. One key way to further reduce regulatory burden would be for examination staff to tailor their request lists to each bank. The bankers said a major source of frustration stems from bankers getting multiple requests for items that have already been provided to examination staff. One banker proposed that, prior to visiting a bank, all examiners take time to review all requested items.

Idaho bankers believe that with advancements in technology, more loan and operations work could be done off-site. However, they want to retain a balance with on-site work so that management can be on hand to tell their story. For example, an examiner reviewing loans in another state may not have a clear picture of the environment in which the bank operates without being on-site. The bankers also shared that they do not want to give up one-on-one discussions with examiners and are interested in exploring how technology can help maintain these interactions. They reinforced the view that their banks would not get the full value of the examination process without a proper balance of on-site and off-site reviews.

Idaho bankers recommended that regulators leverage technology to improve the examination process by using banks' loan imaging systems, conducting more off-site loan reviews and using video conferencing for examination exit meetings. This would allow all participants to be present so that items discussed are made clear and understandable. Overall, while Idaho bankers agreed that more work should be done off-site, there were concerns as to how information would be secured, shared and destroyed in an efficient manner.

The future of funding, liquidity and raising core deposits

The outlook for funding and liquidity over the next five years was mixed. While Idaho bankers expect funding levels to remain somewhat stable, the consensus was that it will become increasingly difficult to attract core deposits over the next five years. One bank shared that it has consistently grown core deposits and believes it can continue to do so. However, this has been largely overshadowed by strong demand for loans. Another banker shared that funding is one of the top two or three areas of greatest concern for the bank's management team. One bank is focusing more effort on organic deposit growth through the development of new and existing customer relationships. This has increased the need for the bank to be better than average at taking care of its customers and providing them with the services and products that they need.

Idaho bankers agreed that the ability to raise core deposits will become more difficult as traditional and nontraditional competitors fight for deposit market share, causing margin compression and colliding forces on spread. One bank stated that it will need to be more innovative and step out of its comfort zone, and that it is already considering brokered deposits. Pricing

Idaho continued

pressure is coming not only from credit unions, but also from large banks and fintech firms. Some bankers see the Federal Home Loan Bank as a critical source of liquidity.

Idaho bankers said there is a disconnect from a regulatory standpoint in that regulators urge banks to evolve and embrace new technology though the implementation and adoption of new technology carries enhanced regulatory risk. One banker noted that regulators view online account opening as a negative, while nonbank competitors can open an online account in minutes.

Technology and strategic plans

Idaho bankers discussed the impact of rapid changes in technology and how technology has become a priority in strategic planning. They believe that now, more than ever, they must be willing to step out and adopt products and services earlier in the product's life cycle. While they recognized that community banks cannot be all things to all customers, they said they need to be aware of the technological advances that are changing the way that consumers bank. In the past, some of these advances would have been considered supplementary or nonessential, but they are rapidly becoming essential. For example, the bankers cited the growing importance of mobile banking services. Technology is at the core of every strategic initiative within their banks, and it continues to be the significant focus of boardroom discussions.

Idaho bankers are focused on developing relationships with customers through electronic channels that are as valued and as meaningful as personal relationships. All activities hit the expense side, so going forward it will be important to find ways for electronic interactions to generate revenue. The bankers agreed that they must continue reviewing products to make them relevant for the next generation.

Specific technology plans included the creation of an e-branch in order to focus on the customer base that wants to bank via electronic means. This means working to provide the most innovative products and services to customers who want to bank remotely.

Idaho bankers added that the burden of changing technology is not spread evenly across institutions based on asset size. Smaller institutions may lack the means and/or expertise to be an early adopter of new technology, putting them at a disadvantage.

Evaluating cybersecurity risk

Idaho bankers noted that community banks could benefit from a set of industry best practices, not necessarily regulations governing what must be done. Idaho bankers believe that regulators are in the best position to create such a best-practices document. Regulators can assist institutions in protecting against cybersecurity threats, both existing and new, because they have access to and are familiar with financial institutions of all sizes, and because they gather information during regulatory examinations.

Idaho bankers said that establishing partnerships among all types of businesses, industries, financial institutions and government agencies (both at the federal level and state level) to address cybersecurity is a must. They think state and/or federal regulators should create a cybersecurity task force to assist community banks in better preparing for any eventuality. This would allow for fast, comprehensive and confidential sharing of cybersecurity risks. The task force could also facilitate the acquisition and implementation of methodologies to mitigate those risks.

Idaho bankers said they would like to see increased deterrence of illicit activities with more aggressive pursuit and punishment from law enforcement and the judicial system. One banker noted how rare it is to hear of a cybercriminal being prosecuted and punished.

Idaho bankers also want more transparency in the examination results of third-party service providers (TSPs). For example, a bank should be able to sign nondisclosure agreements with a TSP prior to signing a long-term contract. This would allow the institution to review regulatory reports and findings before entering into the contract. One banker suggested that regulators mandate that banks not enter into TSP contracts in excess of five years. Under current contract agreements, which usually span seven or more years, a bank's technological progress is reined in, as the vendor has no incentive to innovate.



Community bankers in Illinois had mixed responses to the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA). Some bankers said that it clearly provides benefits to community banks and was a positive step, while others said it provides only mild relief. The bankers in favor of EGRRCPA believe that it demonstrates an important shift in thinking about bank regulation and are optimistic that Congress is shifting its focus toward lightening regulatory requirements. While one banker expressed concern that EGRRCPA provides relief only to large community banks (those with assets over \$3 billion), others noted that the increase in the examination cycle from 12 to 18 months for banks in the \$1 billion to \$3 billion range will reduce regulatory burden and allow bankers more time to focus on business management.

In regard to areas where Congress could focus on improvements, Illinois bankers suggested that lawmakers look at the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act to modernize regulation in those areas. They also suggested that Congress look at creating more standards for regulatory agencies that would foster communication and specificity for bankers in examination processes. However, one banker noted that Congress does not impose excessive regulatory burdens on community banks and sees legislation as a set of limitations within which banks must operate.

Reducing burden in examinations with technology

A common theme among Illinois bankers was the idea that lessening examiners' time spent on-site would reduce regulatory burden, as too many examiners on-site at once is often not efficient for bankers or the examiners. The bankers would welcome technological improvements that would allow for more off-site analysis during examinations. This would free up resources for the bank to conduct day-to-day business and to gather information for examiners more efficiently. Other regulatory improvement recommendations included greater communication and encouragement from examiners, clearer guidelines for CRA examinations and more experienced examiners to manage exam processes. Overall, there was consensus that better communication of guidelines between bankers and examiners would benefit both parties.

The future of funding, liquidity and raising core deposits

While some bankers were optimistic about funding and liquidity over the next five years, others said they anticipate that it will be difficult to remain competitive in deposit markets. Some bankers see challenges in competing for deposits with large and

regional banks and believe that these challenges will grow. In fact, some bankers said there will be a greater need for wholesale funding at the community bank level to maintain liquidity and continue offering loans. Bankers noted that there is still a market for customers interested in brick-and-mortar community banks that can offer in-person guidance. However, with younger consumers more interested in digital banking, some bankers said that it was important to invest in digital banking products in addition to more traditional ones.

Technology and strategic plans

Community bankers in Illinois have been proactive about technological advancements in the industry, planning to incorporate new technologies to adapt to customer needs. The bankers agreed that investing in technology is necessary, and most are happy to do so. One bank reported it had forgone short-term profits to invest in technology that will pay long-term dividends. Another bank recently launched a special program called the "Innovation Games," where employees are encouraged to submit new innovative ideas. Some bankers expressed concern about certain technology investment costs, such as increased data charges. However, the consensus was that providing technology-based products is crucial to community banking.

Evaluating cybersecurity risk

Illinois bankers acknowledged that cybersecurity risk is one of the largest threats facing the banking community today. They are making investments to mitigate this risk. For example, one bank has spent \$100,000 on new employee salaries for monitoring cybersecurity. The bankers agreed that it would be beneficial if regulatory agencies provided more information concerning cybersecurity threats. One banker suggested creating an industry portal where information could be shared about cybersecurity incidents. Another banker suggested holding annual or semiannual conferences focused on cybersecurity training. Overall, bankers want as much information sharing as possible when it comes to cybersecurity threats.



Indiana bankers indicated that only modest relief was gained from the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) but understand that some provisions that may prove beneficial are still in process. They noted that the reduction in Call Report requirements did not provide substantial relief since it mostly eliminated pages they were not required to complete based on their size and activities. However, they acknowledged the importance of regulators having sufficient information to perform off-site analysis and to properly assess the scope of risk for examinations.

Going forward, Indiana bankers would ask Congress and regulators to continue looking at the brokered deposit and rate cap rules. Additionally, bankers said that revisiting the Community Reinvestment Act to modernize the regulation would be an important and beneficial exercise. Indiana bankers also would like to see common-sense and risk-based approaches to all compliance rules, particularly the Bank Secrecy Act and the Home Mortgage Disclosure Act. An emphasis on intent or poor systemic processes, rather than on inadvertent errors, would be beneficial when reviewing compliance tolerance. Bankers added that there should be tolerance thresholds for errors. Still, the bankers reiterated that having regulatory stability would be more beneficial than continual changes and the consequential need to educate, implement and administer regulations that change every couple of years.

Reducing burden in examinations with technology

Indiana bankers said that regulators are progressing in easing the examination process through technology. The implementation of more off-site work and electronic requests for information has been helpful. While Indiana bankers appreciate the addition of more off-site examination components, they also want regulators to ensure meetings are held and important topics are discussed in person before findings are completed. Bankers believe there is a significant benefit in sitting across the table from examiners, as well as in providing examiners with access to staff who perform daily functions. Analytics should not fully drive the examination; rather, they should serve as a starting point for examiners to engage bankers in strategic and risk management discussions.

The future of funding, liquidity and raising core deposits

Indiana bankers recognize that markets are tightening but do not view funding growth as an immediate significant hurdle to asset expansion. They did acknowledge that the funding market is very competitive and that substantial growth in some markets may have to come more from bank acquisitions than traditional organic deposit generation. Market players have generally remained disciplined in deposit rates being paid as institutions are adjusting to the current environment.

Credit unions remain a significant competitor in many Indiana markets, while nonbanks also continue to grow. Bankers also expressed some concern that changing demographics in more rural markets will continue to reduce deposit availability, which could result in institutions needing to attract more nontraditional types of funding. They will continue to look at a mix of core and noncore funding to fuel asset growth, recognizing that the financial services environment is changing. While community banks may have to rely on some noncore sources, more consideration should be given to the current definition of core funding, which is not always accurate.

Technology and strategic plans

Indiana bankers recognize the importance of technology from both the retail development/maintenance standpoint but also from the perspective of information security. Technology is a significant part of today's strategic planning discussions. Most Indiana bankers said they are very dependent on their core service providers for options and integration. Their fees continue to increase, however, which somewhat dictates product implementation. Bankers spend a lot of time ensuring customer demands are met and providing products that are competitive in the marketplace. They attempt to gauge what products their customers truly desire versus deploying every new available technology. They do not consider their banks leaders in deploying cutting-edge technology. They would rather be second-phase implementers, which would allow them to assess a particular technology's functionality and its impact on the market.

Indiana bankers recognize the importance of an effective information technology risk management program. They acknowledge that this is a necessary function in today's world and will remain so. They will continue to dedicate more personnel and monetary resources to cybersecurity, since the potential costs of not properly funding and assessing risk outweigh the costs currently being deployed.

Indiana continued

Evaluating cybersecurity risk

While legislation and additional regulatory prescription and guidance could be helpful in establishing standards for transparency, Indiana bankers also said that the cyber environment changes so quickly that maintaining current statutory language could be difficult. Indiana bankers continuously emphasize risk identification and mitigation within their institutions. This will continue with or without additional statutory language.

Indiana bankers asked that regulators continue to employ specialized and risk-focused examiners, rather than jack-of-all-trades examiners, to review cybersecurity risk. Regulators with a more consultative approach are extremely helpful, as bankers can learn what other institutions are doing to combat risks. Bankers have appreciated the depth of reviews but also the way findings and recommendations have been presented.

Indiana bankers noted difficulties with finding sufficiently qualified people at reasonable salaries to oversee information technology areas. In addition, the overall cost of protecting data continues to increase.



Kansas bankers felt that while the intent of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was welcomed, it missed the mark as far as creating measurable change. The bankers acknowledged small effects from the bill, but they lamented its overall insignificance for their businesses.

One banker noted how the change to the Truth in Lending Act was helpful in renewing balloon loans. This change has allowed the bank to keep home loans on the books instead of outsourcing them or holding long-term mortgage loans. Another Kansas banker acknowledged that changes to the commercial real estate appraisal threshold have been beneficial.

Kansas bankers identified several pain points they believe that Congress and the federal banking agencies could help alleviate, including the Community Reinvestment Act, Regulation Z, the Call Report, the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) rules and the current expected credit loss (CECL) methodology. Kansas bankers were especially frustrated by CECL, which they see as a major compliance burden. Regarding BSA/AML, they shared frustration over the costs and the required thresholds. One banker suggested statutorily defining an ultra-small community bank that would have similar protections as credit unions. For the Call Report, Kansas bankers noted that core service providers already automate much of that process for them, limiting actual burden reduction.

Reducing burden in examinations with technology

Kansas bankers noted broad improvements in examinations. Three areas stood out: communications, off-site examinations and the secure transfer of documents. One bank reported that being notified well in advance of its examination has been a huge benefit to its preparations. Electronic transfer of documents was also popular, with many bankers saying it has reduced on-site exam time. However, they stressed that the on-site portion of the exam remains critical and should not be discarded.

Kansas bankers named a few areas to target for further improvement, including widely imaging loan files, increased standardization among regulators, data-driven examinations, sample policies and risk assessments, and continued risk-tailoring. One banker noted more lenient compliance standards at the Federal Deposit Insurance Corp. for ability-to-repay requirements for residential mortgages, noting recent examinations have gone very well. Another bank recently switched from a national charter to a state charter and commended state bank regulators for offering templates and suggestions that have helped to improve its operations.

The future of funding, liquidity and raising core deposits

Kansas bankers said that liquidity and funding will remain challenges as online lenders continue to poach deposits. Many banks reported struggling with higher loan demand but fewer core deposits to fuel loan growth. Bankers reported using Federal Home Loan Bank borrowings, Certificate of Deposit Account Registry Service brokered deposits and letters of credit for pledging requirements. They noted that the downturn in agriculture has been particularly difficult, with funding and liquidity varying greatly based on demographics.

One bank said that it covers two fast-growing economic centers in the state, which has allowed it to maintain core deposit growth. Other banks reported using unique methods to forecast liquidity needs but noted relief is needed. Rural banks said that discontinuing high-priced deposit guidelines would be helpful, since capital flight and changing community demographics are causing them to struggle to keep core deposits. As a result, the acquisition of small rural institutions will continue, one banker noted.

Technology and strategic plans

Kansas bankers said that technology ranks as a top concern and is playing a major role in their strategic plans. One small rural bank's strategic plan calls for it to be "leading edge, not bleeding edge," which requires incorporating technological innovations as they become economically viable in order to serve customers' needs.

Bankers noted the addition of mobile check deposit and online bill pay to their suites of services are must-haves to recruit young depositors. They noted that building out this technology requires staff training and time away from normal banking functions, which is putting a strain on budgets. Regarding payments system innovation, one banker said that some of the most popular and effective payments systems are proprietary and only realistically available to the large banks. Overall, Kansas bankers intend to prioritize technology moving forward.

Evaluating cybersecurity risk

Kansas bankers continue to find evaluating cybersecurity risk a difficult endeavor. They noted the limited amount of skilled cybersecurity personnel in rural communities, and they appreciate any training on this topic. Bankers would like more guidelines specific to small banks, noting that the Federal Financial Institutions Examination Council's cybersecurity risk assessment tool is geared toward larger institutions.

Kansas continued

Due to its unpredictability, cybersecurity risk particularly weighs on the minds of bankers. One Kansas bank's CEO said the most challenging responsibility of the position is cybersecurity oversight. As another banker noted, banks can anticipate and plan for a downturn in the local economy, or adjust loan margins and change products either in anticipation of, or in response to, some event. But they cannot foresee most cybersecurity events. Therefore, plans and mitigation strategies are limited to reacting to what has happened to similar institutions or to what the banks can foresee. While the same banker noted that examiners have historically viewed the bank as taking the appropriate steps for its risk level, the burden of protection is growing. Approximately 5% to 7.5% of the bank's staff are now almost completely devoted to dealing with cybersecurity protection and providing customer remedies.

Kansas bankers want legislative relief from cybersecurity costs, particularly in the case of data-breach liability. Currently, banks bear the ultimate costs of cyberattacks in terms of both the money lost and the cost of recovery. Meanwhile, there isn't any motivation on the part of retail businesses to improve their own processes. While all business entities (including financial institutions) have suffered cybersecurity breaches, the retail (nonfinancial) sector represents the lion's share of cases. Kansas bankers are frustrated by the lack of accountability by their retail counterparts.



Kentucky bankers have seen positive outcomes from passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) but believe that Congress should have done more to provide regulatory relief to community banks. The most significant benefits have included modest relief from Home Mortgage Disclosure Act reporting, qualified mortgage portfolio lending requirements and some provisions of the Truth in Lending Act.

Bankers agreed that a simplified capital rule would be beneficial but do not believe the proposed 9% community bank leverage ratio and associated prompt corrective action standard will offer the regulatory relief intended under EGRRCPA. Kentucky bankers would like for Congress and regulatory agencies to consider institution size, complexity and risk profile when implementing new laws and regulations, especially those that pertain to capital requirements, the Bank Secrecy Act and the Community Reinvestment Act (CRA).

Reducing burden in examinations with technology

Bankers said they consider pre-examination document request lists to be extensive but appropriate. They agreed that a balance of on-site and off-site examination time is most efficient. Such a balanced model allows for effective communication between examiners and bank staff while limiting disruption of daily bank operations. They would also prefer the option to request concurrent safety and soundness, information technology, compliance and CRA examinations. Many bankers said that a risk-based approach for examinations would further reduce compliance burden. Additionally, bankers were open to using technology to securely exchange examination information.

The future of funding, liquidity and raising core deposits

Over the next five years, Kentucky bankers predict funding and liquidity levels will remain manageable. However, compared with five years ago, more competition exists for core deposits. To maintain and increase these deposits, Kentucky bankers are adopting a more customer-centric approach. Bankers are striving to design products that meet consumer needs at a reasonable cost while continuing to offer services that add value to customers.

Technology and strategic plans

Kentucky bankers agreed that technological innovations have raised customer expectations. Customers expect to have the ability to access personal financial information anytime and from anywhere. While pressure exists to offer technological solutions that meet these expectations, customers of Kentucky's banks have only slowly adopted new technologies.

Banks have found it difficult to compete with fintech firms, which are able to rapidly develop and deploy innovative solutions absent the onerous regulatory hurdles that community banks face. Still, Kentucky banks seek to offer technologies that enhance the customer experience. Both strategically and operationally, bankers must balance customer expectations with the risks associated with offering new products and services through unfamiliar technology platforms.

Evaluating cybersecurity risk

Cybersecurity and data protection remain a top concern for Kentucky banks. However, bankers said they do not believe that legislation to reduce these risks will necessarily deter cybercriminals. Overall, bankers viewed enhanced communication and training as the best option to evaluate and reduce cybersecurity risk. They see a role for regulatory assistance in issuing additional best-practices guidance for cybersecurity and data protection. In evaluating institutional cybersecurity risk, bankers recognize a great need for public and industrywide education. They recommended ongoing training for all bank staff and boards and for educational topics to include customer best practices for protecting and monitoring information. Kentucky bankers also would like to receive cybersecurity and data breach incident alerts so their staff can better prepare and protect customers and the bank.



Louisiana bankers found the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) beneficial, specifically for institutions with assets of \$10 billion or less. The bankers noted the changes have helped in reducing compliance costs and increasing credit availability to local communities. They specifically noted the benefits of revised rules for bank holding companies, ability-to-repay requirements, the extension of examinations from 12 to 18 months, relief from Dodd-Frank Act stress test requirements, and more flexibility on risk-based capital requirements. Additionally, the bankers noted the benefits of the short-form Call Report and the reduction of additional Home Mortgage Disclosure Act fields. One banker did criticize regulators for not fully embracing the spirit or the letter of the law in granting real relief. Another banker expressed doubt that the bill would impact areas such as mergers and acquisitions. Consolidation is driven by the age of the CEO and the board of directors, as well as by regulation, the banker noted.

Louisiana bankers targeted multiple areas for further regulatory reform consideration, including fair lending regulations, the Community Reinvestment Act and the Bank Secrecy Act/Anti-Money Laundering rules. Regarding fair lending, one banker expressed frustration that the Department of Justice is involved when the bank's primary regulator already has all the tools it needs to handle violations.

Reducing burden in examinations with technology

Louisiana bankers were very appreciative of the increased use of technology to facilitate off-site examinations. The bankers also applauded further streamlining, particularly the advances that have been made in securely sharing digital files. While one banker believed the entire process should be moved off-site, others noted that examiners should not lose personal touch with banks.

Regarding further improvements, bankers asked for uniform forms and software that would allow their institutions to make their data more transferable and easier to manage. Additionally, Louisiana bankers would like consistent expectations and guidelines from all regulatory authorities.

The future of funding, liquidity and raising core deposits

Louisiana bankers were concerned about raising core deposits. Some believe that regulators need to update their protocols to reflect the internet age. They remain concerned that banks in larger markets or tax-advantaged credit unions can poach their deposits with ease. Some are facing demographic factors that increase the pressure to gather deposits, such as long-time customers passing away and leaving their money to children who live out of state.

Louisiana bankers are being pushed toward noncore funding options, in which they expect a robust pool of liquidity to remain available. These sources include the Federal Home Loan Banks, deposit brokers, reciprocal funds providers and various excess liquidity exchanges. Another key for deposit gathering is staying technologically relevant. Some Louisiana banks offer online banking, which represents a growing pool of liquidity as clients become more comfortable moving funds and using other services online.

Technology and strategic plans

For Louisiana banks, technology has become an integral part of their strategic plans. Institutions are using technology to better serve their customers, promote and sell their products, and improve efficiency of processes and operations.

The scale of these changes varies by institution size and funding capability. One institution has prioritized the retention of employees who have a better understanding of technology, while another has created a technology-focused committee that reports directly to its board of directors. For one larger Louisiana institution, technology has had a massive impact on its core services. A mobile platform has become very popular, with over 52,000 unique logins in one month alone. It is also planning to launch Zelle, provide access to integrated file service accounts and improve the tools available to frontline associates so they can solve digital issues as they arise.

Evaluating cybersecurity risk

Louisiana bankers view cybersecurity as a priority and encouraged regulatory agencies to continue educating the industry on this issue. They feel the more cybersecurity training, the better. They also noted that their regulatory counterparts need more training and suggested involving the departments of Defense or Homeland Security experts to provide detailed cybersecurity examinations. Bankers also noted the need for uniformity among state and federal authorities in cybersecurity laws. One banker suggested organizing peer groups to collectively discuss cybersecurity trends, risks and challenges.



Bankers in Massachusetts identified several provisions of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) as beneficial. They cited exemptions from some provisions of the Home Mortgage Disclosure Act, simplified capital rules and the extended examination cycle as being very helpful. Loosening of the Volcker Rule requirements, on the other hand, provided only marginal relief.

Bankers are concerned about the impact of the current expected credit loss model, the increased market share of the nation's top 10 banks and competition from disruptors in the digital sphere. They agreed that some reporting thresholds, such as the number of foreign wire transfers processed, are quite burdensome. Many of these thresholds were put in place at least a decade ago and are too low for today's banking environment. The bankers felt adjustments may be necessary to provide regulatory relief for small- and medium-sized community banks.

Reducing burden in examinations with technology

In Massachusetts, the electronic examination process has been "game changing" for banks, with the 18-month examination cycle especially beneficial to small banks. However, all of the participating bankers noted that the process of uploading documents can be confusing because the examination request list does not align with the online portal. In some cases, bank employees have been unable to determine where to upload the documents, which has led to examiners asking for items that the bank already provided. The absence of a dedicated folder in the portal for the state regulator has resulted in banks having to add an identifier to every file created—an additional drain on bankers' time and resources. To alleviate this, they suggested a reorganization of federal agency portals could streamline the process significantly.

Overall, bankers reported that examiners are open and collaborative. Technology has greatly enhanced the examination experience. Nevertheless, they indicated that pre-examination requests by federal agencies require a great deal of information. They noted that negotiating with core providers to release this information can be very difficult for community banks; they said they would appreciate help from regulators and/or legislators in this regard. They also would like examiners to distinguish between requirements and recommendations for greater clarity in pre-examination preparation.

Massachusetts banks appreciate periodic information on emerging technological risks. To compete more effectively with digital

companies, bankers advocated for continued modernization of the Community Reinvestment Act so that they do not have to turn away customers from outside their assessment areas.

The future of funding, liquidity and raising core deposits

Massachusetts bankers said they are focusing on raising core deposits, developing their brands and investing in their communities. They are simplifying their product lines, advertising constantly, developing government-sponsored banking groups and raising core deposits by encouraging customers to open deposit accounts when they apply for loans.

Massachusetts customers like to keep their money local and seem to trust brick-and-mortar banks with their deposits, which is why some bankers are keeping their branches open for longer hours by using the universal teller model. Bankers see an advantage in being available on a face-to-face basis to their customers and will continue to be proactive to ensure that their banks thrive in the coming years.

Technology and strategic plans

Most Massachusetts bankers viewed technological innovation as crucial to their business models. Although most banks tend to be fast-followers rather than innovators, they are enthusiastic about offering their customers technological products that they feel have been vetted and tested by the market. Although many of their customers will not use some of the products offered, bankers see these offerings as critical to long-term success.

The biggest risk that bankers identified stems from customer access. While improving authentication systems is helpful, many customers are not using them to help mitigate risk. Banks also are concerned with their risk exposure from data aggregators and screen scrapers. Banks are responsible for communicating with impacted customers and replacing credit or debit cards, which can become expensive, especially when there is a string of data breaches. One bank had to instruct customers not to use recently mailed cards because the new cards were compromised during the time between manufacture and receipt by the customer.

Bankers noted that customers tend to blame banks for breaches since the banks are the ones interacting with them. Furthermore, customers who are victims of fraud often look to the banks to restore associated losses. Though the banks do what they can, often it is not possible for them to identify and stop fraud and criminal activity on their own. Bankers hope that regulators can do more in this regard.

Massachusetts continued

Evaluating cybersecurity risk

Although Massachusetts bankers recognize that digital products are key to their success, the threat of data breaches provokes great anxiety. One bank reported that its website was spoofed twice. Many banks are providing training to their customers to help them recognize cybersecurity risks.

Bankers were united in the idea that all banks face the same threats and should work together with regulators to mitigate them as much as possible. Suggestions included collaboration on vendor management, development of standards to measure vulnerability, periodic discussions between regulators and bankers regarding current cyber risks, and greater transparency when breaches occur.

Most bankers said they have grappled with how to offer banking services to marijuana-related businesses. This industry is susceptible to illegal activity, and Massachusetts' banks are struggling with how to serve both current and potential customers. Because the marijuana industry has a wide, trickle-down reach, banks are having to turn many customers away. Therefore, the passage of the Secure and Fair Enforcement Banking Act of 2019 is critical to their ability to serve their customers. The banks identified the Bank Secrecy Act and antimoney laundering regulations as the top compliance considerations for providing banking services to marijuana businesses.



Overall, Michigan bankers feel that the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) has provided minimal relief. Some bankers noted that a quicker, full implementation of EGRRCPA would be appreciated, with a continued effort to keep the Call Report at the minimum size needed to assess risk relative to the complexity of the financial institution. They noted that the single biggest aid to the survival of the community bank business model would be leveling the playing field with credit unions. Michigan bankers feel that taxation, regulation and oversight should be the same for a commercial bank as for any credit union that expands beyond a single employer/religious or charitable affiliation/ underserved geography common bond.

Two bankers addressed government-sponsored enterprise (GSE) reform and how little has been accomplished regarding Fannie Mae and Freddie Mac. While EGRRCPA has provided some relief relative to the qualified mortgage rule for certain mortgages held in portfolio, the bankers felt that it did not go far enough. In fact, the bankers commented that GSEs are repeating many of the same residential mortgage underwriting patterns exhibited in 2000-06. In addition, one banker noted that the Farm Credit System's loose definition of "ag-related" loans creates unfair competition with a taxpayer-funded backstop.

Michigan bankers believe that more could have been done with reforming the Call Report, the Home Mortgage Disclosure Act (HMDA) and the current expected credit loss standard. The reduction in the Call Report requirement to every other quarter was generally viewed as not providing relief since all data elements must still be tracked. One banker felt that the 25-loan threshold for HMDA reporting is too low. Also, while the forthcoming community bank leverage ratio is welcomed, the real issue with regulatory capital is the complicated risk-based capital applied to community banks. Finally, the bankers also believe that the community bank business model is much different for a \$100 million bank than it is for a \$1 billion bank; therefore, different requirements should be considered for truly small community banks.

Reducing burden in examinations with technology

Michigan bankers appreciate the increase in off-site examination components, believing it can help expedite on-site work and reduce staff burden. However, some bankers noted that while they continue to submit incredible amounts of pre-exam data to regulators, they still field the same questions in person once the exams start. There is often no indication that the examiner looked at pre-exam submissions. Another banker noted that although more work is done off-site prior to the exam, it seems the Federal Deposit Insurance Corp. (FDIC) feels the need to stay on-site for

the allotted time. One banker suggested updating FDIC*connect* to a more user-friendly system for transferring files (allowing for larger file sizes, better naming and multiple file transfer—e.g., currently only five files can be transferred at a time).

One Michigan banker suggested changing the safety and soundness exam cycle from 18 to 24 months for small community banks with a low-risk business model. In addition, bankers would like examiners to use Call Report data to better calibrate their exam questionnaires. One banker specifically noted the voluminous questionnaire required for a recent Community Reinvestment Act examination, which seemed to be geared toward a much larger, more complex institution.

While bankers commended the state's clear, concise and timely administration of examinations and the risk-based approach to safety and soundness exams employed by the state and the Federal Reserve, the bankers felt the compliance exams needed improvement. One banker noted that preliminary findings and potential issues remain open for months without a clear determination of whether there has been a violation and, if so, its severity.

The future of funding, liquidity and raising core deposits

Michigan bankers were optimistic regarding core deposits, which remain sticky even in the face of revitalized competition for deposits from in-market and online institutions. One banker commended the reciprocal deposit rule change, though his bank had not needed to take advantage of the change due to its success with core deposits. Overall, the bankers feel that tax-exempt credit unions hold an unfair advantage and present the greatest competition in some markets.

The bankers also noted how banking may change, or needs to change, to maintain account relationships amid the ever-changing technology landscape. One banker stated the belief that deposit insurance is less important to the public than it used to be.

Technology and strategic plans

Michigan bankers reported that it can be a struggle to stay abreast of technological changes without breaking the bank. They said the costs associated with the largest service providers do not help. The bankers noted that while they must be competitive, they do not necessarily need to be the leaders. The bankers continue to think about what customers want and have implemented necessary additions, such as mobile banking.

One Michigan banker stated that after returning from a conference with a technology service provider, the bank adjusted its thinking toward being a technology company that provides and delivers banking services (e.g., Zelle, mobile banking, online loan apps, online account opening). Another bank organized focus groups

Michigan continued

comprised of millennial customers and noncustomers and was surprised to find that many noncustomers wouldn't bank with a community bank because they assumed the bank could not offer the technology that big banks offer. While community banks can offer these products and services, getting the word out has been a struggle due to limited advertising budgets.

Overall, Michigan bankers find it challenging to strike a balance between today's technology and the needs and wants of the markets they serve.

Evaluating cybersecurity risk

Evaluating cybersecurity risk is important to Michigan bankers. Several bankers noted that they will spend a large portion of capital over the next few years to address cybersecurity threats. Two bankers were concerned about the limited number of available core service providers. Specifically, one banker remarked that the Gramm-Leach-Bliley Act and regulators have pushed the responsibility of vendor due diligence to individual banks. However, should they fall prey to a cyberattack, the core service providers would pose a systemic risk to the banking system; therefore, there should be more consideration of this risk.

One banker noted that the Federal Financial Institutions Examination Council's cybersecurity assessment tool (CAT) is helpful and has provided context for senior management and the board in evaluating risks. Any future updates to the CAT are welcomed. Moving forward, Michigan bankers would like to see more training for community banks covering each area of risk assessment, including outsourcing services and best practices. They would also like to see regulatory agencies provide more low-cost assistance for managing cybersecurity risks.



While Minnesota bankers acknowledged the benefits of reduced Call Report requirements, none of the five bankers interviewed this year believed that the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) had a positive impact on the community bank business model. The bankers indicated that more could have been done, specifically regarding the treatment of brokered deposits and the calculation of national interest rate caps, for which they expressed concerns about large national branches being included in the average rate calculation.

Reducing burden in examinations with technology

Minnesota bankers noted that the FDIC*connect* Business Center works exceedingly well for sharing information. They also mentioned the benefits of increased off-site work by examination teams, particularly during pre-examination periods. They said that initiating a larger portion of the work before the actual examination cycle begins would be significantly less burdensome. Overall, the bankers said they find value in having examiners on-site for examination-related and general industry discussions.

The future of funding, liquidity and raising core deposits

In Minnesota, local core deposits are becoming difficult to generate, especially for banks looking to expand into competitive markets. The bankers perceive online banks and fintech firms as their most formidable competitors, since they can provide more varied features to consumers. Bankers believe these entities will continue to pose a threat to core deposit generation over the next five years.

Technology and strategic plans

The bankers collectively viewed investing in technology as necessary to meet customer demands and to remain viable. However, they noted that larger institutions practically "give the technology away," which means the cost of such investments cannot be transferred to customers. As a result, the strategic plans of smaller institutions have not involved a reduction in the high costs of technology.

Evaluating cybersecurity risk

Minnesota bankers said they believe additional regulatory assistance will be helpful only if it is geared toward nonbank entities. As mentioned previously, bankers view these organizations—i.e., fintech firms—as a direct threat to the community bank business model. All bankers stated that increased cybersecurity training remains their top priority.



Community bankers in Mississippi were encouraged by the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA). They were optimistic regarding the potential benefits of some of the provisions for community bankers. For example, the limited exception provided for reciprocal deposits will enable banks to hold more of these deposits without treating them as brokered deposits. However, they felt EGRRCPA was focused more on providing relief for larger banks while failing to address the pressures and burdens imposed on smaller financial institutions.

Bankers expressed concern that the proposed modifications for the community bank leverage ratio, originally designed to provide a simpler way to report capital, has the potential to negate the intended regulatory relief. Bankers have concerns about where the leverage ratio will be set (between 8% and 10%), as well as the punitive consequences that are being considered for falling below the established percentage thresholds.

Mississippi continues to struggle with ongoing depopulation, which is most prevalent in rural areas of the state. This has made it difficult for community banks to grow their customer base. It is especially difficult to attract younger customers, and the customer base of community banks is aging. In rural areas, financial literacy and education is a long-term challenge. However, community banks in the state are playing a leading role in correcting this trend by sponsoring financial literacy programs in schools and participating in outreach events. Mississippi bankers said they view their engagement in these efforts to be vital to the future of community banks and the communities they serve.

Traditional competitors remain, but bankers reported increased competition from nonbank financial services providers and online lenders. These competitors have created pricing pressures; however, community banks have relied on quality customer service and the relationship banking model to retain their customer bases. Competition from virtual and alternative financial services providers has impacted mortgage lending operations more so than traditional banking services.

Reducing burden in examinations with technology

Mississippi bankers said that examinations are generally efficient, but that regulators could better leverage technology to conduct more exam functions off-site. Nonetheless, they stressed the importance of on-site interaction with examiners. It will be important to balance the on-site and off-site portions of exams to ensure this engagement isn't lost. The bankers also said they believed that regulators can do more to shape examinations based on risk.

The bankers were more concerned about existing regulations than the potential for new rules. For example, compliance with various aspects of the Bank Secrecy Act (BSA) continues to challenge banks in terms of staffing, training and compliance costs. Unrealistic expectations for teller staff have resulted in a high level of turnover. Mississippi bankers noted that they do not want to be in the position of law enforcement and believe there are more efficient ways to collect beneficial ownership information and to comply with the BSA requirements. They also suggested that the currency transaction report thresholds are too low and should be increased.

Regarding other regulations, the bankers emphasized a need to simplify and synchronize documentation requirements for mortgage lending, modernize the Community Reinvestment Act, reevaluate the definition of core deposits, and impose strong data breach legislation to place more accountability on merchants. Mississippi bankers said they are also concerned about the potential need to collect small business loan information under section 1071 of the Dodd-Frank Act. In general, they would like to see federal regulators incorporate the context of local markets and conditions into their regulations.

The future of funding, liquidity and raising core deposits

In certain communities, bankers reported that funding sources are a concern because of a limited and/or shrinking deposit base. Several bankers noted that liquidity and funding are the most significant strategic challenges facing their institutions. However, other bankers reported a strong deposit base. In metro areas, community bankers are making use of wholesale funding, which is an increasingly viable funding source when properly used.

The increased presence of credit unions and large regional banks in small communities has had a material impact on the ability of community banks to raise and retain deposits. In some cases, this has resulted in a rate war between community and large regional banks.

Several banks with excess on-balance-sheet liquidity expressed a different concern—the inability to deploy liquidity due to a lack of loan demand in rural areas and the difficulty in attracting and retaining skilled loan officers. Many small businesses in rural areas are being squeezed by the entrance of large regional and national chains. This has resulted in a decline in the demand for small business loans in these areas.

In response to these funding concerns, many bankers have incorporated branch and merger strategies into their strategic plans. They are researching ways to expand their customer demographics to capture a generationally mixed customer base and are investing in technology to reinforce their presence.

Mississippi continued

Technology and strategic plans

To effectively compete and remain relevant in the market, Mississippi community bankers said they are increasingly incorporating technology as a key component of their strategic plans and business models. They are also aware that while the use of technology will help maintain their relevance in local and adjacent markets, it also lowers barriers to entry for other banks into their markets. Market demand dictates the types of products and services that community banks deploy, but the speed of deployment is measured and often driven by the board of directors.

Evaluating cybersecurity risk

Cyber threats have become a constant in the banking industry. As such, many Mississippi community banks have implemented layered security measures, including patch management, aggregation of security logs, enhanced firewalls and staff training. Some bankers said they are relying on vendors for contract negotiations due to the complexity of many cybersecurity contracts. While some bankers noted an increase in technology costs, others saw costs leveling off.



Montana bankers said that the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) provided some relief for community banks, but it should have, and could have, done more. For instance, instead of simply addressing relief for community banks with less than \$10 billion in assets, the bill should have focused on relief for the smallest banks (less than \$250 million in assets). These latter banks are serving communities that would not have access to financial services if these banks didn't survive. One suggestion to relieve burden on these "microbanks" would be to exempt them from the mortgage lending compliance rules if the loans are kept in their portfolios.

Reducing burden in examinations with technology

Montana's Division of Banking is increasing efforts to use technology to do more off-site examinations, and some bankers appreciate this approach. For others, the time taken to use the technology is a drawback because it requires more staff time to prepare for the examinations. The bankers said risk-based scoping is always appreciated, but examiners seem to be struggling to implement it in a way that really reduces burden. Overall, Montana bankers concluded by saying more can certainly be done.

The future of funding, liquidity and raising core deposits

Most Montana bankers said they are experiencing a tightening in liquidity. They are concerned that technology, combined with demographic challenges, is going to lead to liquidity challenges. If rules are not modernized to allow for more rural banks to access deposits that are leaving the community, then farms, ranches and other small businesses may be unable to access capital that is needed for growth.

Technology and strategic plans

Technology adoption is very diverse among Montana banks. Banks in college towns or more metropolitan areas are far more concerned about this topic and are investing in services such as mobile banking to keep up with technology to attract and keep customers. In rural Montana, challenges with broadband and a lack of reliable internet service make technological advancements less of a necessity, as customers there still rely on more traditional methods of accessing services.

Evaluating cybersecurity risk

Montana bankers emphasized that training and regulatory assistance are always appreciated. Practical solutions that consider cost are the most helpful.



Community banks in Nebraska reported that some regulatory relief steps, such as the reduction in the number of data fields required by the Home Mortgage Disclosure Act (HMDA) and the higher debt-to-income ratio for qualified mortgage loans, have been helpful. However, they said more needs to be done to truly benefit Nebraska's community bank business model.

Some bankers commented that regulation can become more attentive to community banks by offering right-sized solutions. Examples included exempting banks that process fewer than 120 applications a year from HMDA reporting or waiving the real estate appraisal requirement for properties under \$100,000. One Nebraska banker recommended that the audited bank financial statement threshold be increased to \$1 billion. Additionally, the bankers said they desired greater recognition of the contributions made by community banking. Ultimately, Nebraska bankers would like regulators to provide guidance to Congress to reduce excessive regulations.

Reducing burden in examinations with technology

Nebraska bankers said they are looking forward to full modernization of the Federal Financial Institutions Examination Council, which they believe will enhance the effects of prior regulatory relief. One banker emphasized the value of, and the need for, strong rapport between bankers and examiners. The bankers believe that leveraging technology can improve this rapport by creating more opportunities for regional like-sized banks to meet with examiners and discuss the exam process.

In recent years, increased off-site information collection and the use of video conferencing for banker-examiner communications have improved the exam process. Nevertheless, Nebraska bankers would like for examiners to fully review and seek to understand the information they request from banks as part of their pre-examination checklist. They also recommended adjusting examinations to match varying bank portfolio sizes and risk levels.

The future of funding, liquidity and raising core deposits

Nebraska bankers said that, moving forward, regulators should embrace brokered funding. They said they believe banks are harmed when regulators force banks to exit the brokered funds market. They confirmed the ability to manage funding and liquidity is price-driven. Price is so significant, one bank said it expects that software may one day be designed to simply route excess checking and savings balances to the highest paying "bank of the day." Still, Nebraska bankers were optimistic regarding their ability to manage bank funding and liquidity over the next five years. This sentiment relies on each bank's ability to assess its

changing market and to offer an appropriate blend of prices and services to attract and keep deposits. Several bankers expressed their concerns about the Farm Credit System's (FCS) advantage in funding and liquidity. The debt issuance and tax exemption abilities of FCS entities make funding a challenge imposed by government, not by the market. Therefore, Nebraska bankers said they are looking to government agencies to address this matter so they can continue to effectively serve their communities.

Technology and strategic plans

Changes in technology have significantly altered the strategic plans of Nebraska bankers. In fact, they said that this rapidly evolving landscape has fundamentally changed what it means to be a banker.

Bankers have increasingly relied on their core technology service providers with the hope that a large processor, with the capital necessary to invest in change, will keep the industry competitive by leveling the technology playing field for all banks.

Organizational staffing continues to be a big part of Nebraska banks' strategic plans for technology. Finding the right balance of banking and information technology personnel, who also have a realistic vision for their community banks, remains a challenge. However, this balance, when achieved, has proven largely successful.

Evaluating cybersecurity risk

In Nebraska, bankers stand ready to partner with policymakers to curtail cybersecurity threats. This partnership would be a welcome change. Regarding methods to evaluate cybersecurity risk, most bankers indicated that better regulator reporting of real-time fraud occurring at similarly sized or situated banks would be helpful. Two bankers said they desired regulatory guidance for a recommended method to evaluate bank cybersecurity processes. A second recommendation was for regulators to assist in educating customers on self-imposed risks caused by their information-sharing practices.



According to New Mexico bankers, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was the first legislative acknowledgement of the regulatory restrictiveness on community banks. Bankers hope Congress will take time to analyze the role of community banks in meeting credit needs, particularly for rural and capital-poor areas. Bankers believe such analysis would allow policymakers to see the necessity of more substantial regulatory relief.

Bankers did not doubt the intent of EGRRCPA to assist in the preservation of community banks. But they said that its regulations, while well-intended, misunderstood the community banking model. Community banking, they said, is built around bankers' knowledge of their respective communities and customers, with each bank's success tied to a narrow geographic region and a particular set of industries. This increases risk, insofar as a negative and localized economic shock might have serious consequences for a specific community bank. This also poses a huge risk to bank investors, who are typically drawn from the community.

Bankers said EGRRCPA fails to address the loss of the traditional business model in community banking. If banks are not allowed to take risks on customers they know, because these risks are either seen as discriminatory or could pose systemic threats, then there is far less room for bankers to operate. When combined with the increasing costs of technology required to keep pace with regional and national banks, as well as the overwhelming expense of regulatory compliance, the return on investment becomes so narrow that it is difficult to attract new capital or even to retain existing investments. In addition, credit unions, which face less regulatory scrutiny and benefit from tax exemptions, are becoming a greater competitive force. Without significant change beyond what was accomplished with EGRRCPA, bankers said the future of community banking looks bleak.

While New Mexico community bankers appreciated the efforts to separate them from Wall Street megabanks, they described relief under EGRRCPA as too little and too late. The bankers believe that Congress should have done much more to help citizens in rural areas. For example, the act effectively restricts one-to-four-family home mortgage loans below \$50,000, which is a problem in rural New Mexico, where many homes are priced below that level. As a result, people are forced to rent at much higher rates than if they had been able to purchase.

Student loan reform has been another pain point for New Mexico banks. EGRRCPA did not ensure that community bankers would be able to serve their customers in this area.

Bankers said that other aspects of EGRRCPA have benefited only small segments of community banking. For instance, few New Mexico banks deal with the Volcker Rule. And while the shorter Call Report form is unanimously preferred, it does not influence the core issues facing New Mexico community bankers. Mortgage simplification also is important, as many community banks were driven out of mortgage lending by both market forces and regulatory action. Similarly, appraisal guidelines, pushed so hard by regulators for the last decade, have had little impact because the industry has changed, as has the mindset of bankers and regulators.

Reducing burden in examinations using technology

In New Mexico, bankers described regulators as "behind the curve" when it comes to modernization. One banker proposed having more frequent, but narrower, exams to be conducted primarily off-site. For example, loan reviews could be completed by allowing examiners to use imaging systems. More digital communication—including reviews of asset quality reports, specific credit relationships, and discussions on variances and trends in financial statements—would mean that bankers "would not have to bring day-to-day proceedings to a near halt to create files and submit data," as one banker noted.

New Mexico community bankers noted that examiners focus unduly on low-risk areas. When the next year rolls around, examiners don't always address the previous year's points of focus, even after bankers have exerted efforts to address them. To remedy this, bankers highly recommended a more risk-based approach. Updating data-submission processes also would improve efficiency and ease of use.

The future of funding, liquidity and raising core deposits

While the liquidity of New Mexico's banks is fairly high overall, some markets are seeing much more competition for low-cost, stable funding sources. Such funding is a key to community banks' success. Over the next five years, it is anticipated that asset generation will become more competitive and rate-sensitive due to expansion of loan offerings by fintech firms. These companies will compress margins and require asset growth to achieve equal profitability levels. This will put pressure on community banks for funding and will probably result in a continued reduction in charters as larger institutions acquire rural banks for their low-cost deposits. In addition, credit unions are increasingly competitive, constraining community banks' ability to increase their local deposit base.

New Mexico bankers said they believe at least some customers will continue to seek out community banks. They also believe (and history supports) that fewer and fewer community banks will be necessary to meet that demand.

Bankers believe that regulators are falling behind in terms of thinking about liquidity. The sources of liquidity were described as "comparatively infinite" because of technology. Today, customers shop for rates on a national scale. Because competition for local

New Mexico continued

liquidity can come from the other side of the country, bankers must look nationwide to compare rates. This trend will become increasingly common.

Banks in smaller communities may not be able to persist without consolidating with other banks in neighboring communities or selling out to growing regional banks. As such, the distinction between a state bank and a national bank is quickly being erased. There are no borders to online banking, and it will not be long before that it is the dominant form of banking.

Technology and strategic plans

New Mexico banks have been investing heavily in technological upgrades for the last seven years and expect the coming decade to be far more expensive than anything yet experienced. Bankers genuinely believe that those who do not, or cannot, sustain this level of investment can expect to lose their entire customer bases over time.

Based on changing customer demographics, one banker estimated that it would take 10 years for the market to shift in full. The 30-year-old customer of today uses technology for almost everything but controls only so much of the economic decision-making of a given company, community or industry. However, in 10 years, that 40-year-old customer will have much greater sway, and even younger people will be pushing the latest in banking technology. Therefore, New Mexico's community banks need a new set of regulations to address those needs and risks, enabling them to provide services that appeal to a changing customer base.

Evaluating cybersecurity risk

Customers are shifting to unregulated financial services because regulated institutions face longer lead times for providing similar products or services. Because this shift affects the whole banking system, bankers recommend increased regulatory scrutiny of shadow industries and fintech companies. New Mexico bankers lack the resources or ability to oversee core service providers and credit card companies. They also are subject to data breaches by national retailers that may affect their customers. They request that regulation across the entire financial services landscape focus on core providers with expansive impacts (e.g., national banks, national data service). In addition, second- or even third-tier institutions with more localized impacts also should be regulated.

For cybersecurity threats, bankers would like to see continued regulatory assistance, a level playing field, and government and private industry participation. Ongoing regulatory assistance would be helpful in preventing banks from underestimating risks. Greater government and private agency involvement should take the form of an intense crackdown on cybercriminals.



North Carolina community bankers said the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was helpful, but overall it provided limited regulatory relief to community banks. The increase in the small bank holding company threshold, reduced Home Mortgage Disclosure Act reporting and changes to the Qualified Mortgage Rule were all beneficial for community banks. However, since these changes impacted only a small portion of the banks' overall business, the benefits were relatively minor.

One significant provision, the community bank leverage ratio (CBLR), was considered too high at 9% to provide meaningful regulatory relief. Community bankers commented that their banks would have to spend additional time monitoring risk-based capital levels in anticipation of needing to revert to a risk-based framework. In addition, they noted that regulators are not considering how the upcoming shift to the current expected credit loss (CECL) standard, coupled with the CBLR, will require banks to set aside even more capital. One banker suggested that if the CBLR ratio remains at 9%, banks using it should not be required to comply with the CECL accounting standard.

Bankers stated that the most burdensome regulations were not addressed by EGRRCPA. They noted that the Community Reinvestment Act is in need of modernization and again pointed to CECL as a regulatory shift that carries with it uncertain impacts on capital and allowance levels. North Carolina's community bankers would also like to see a new approach to evaluating the use of brokered deposits that goes beyond the carve-out that EGRRCPA provides for reciprocal deposits.

Reducing burden in examinations with technology

North Carolina's community bankers generally view the safety and soundness exam process as adequate and appropriate. More guidance in certain areas, such as stress testing and modeling, would be helpful. Generally, bankers said they felt the exams have the right balance of on-site and off-site presence. One banker noted that examiners appear to be coming on-site without having spent enough time reviewing materials provided by the bank prior to the exam.

Compared with safety and soundness exams, consumer compliance exams are frustrating experiences, the bankers said. More transparency into the process for fair-lending reviews and the regulatory treatment of nonbank lenders would help community banks better understand how they are being assessed.

The future of funding, liquidity and raising core deposits

With the relationship banking business model under threat from technology-based banking platforms, North Carolina bankers have devised unique approaches to attracting and retaining core deposits. Rather than chase rate-sensitive customers of larger banks, bankers are investing in technology to retain existing customers. Especially in rural areas where branches are closing, bankers are focused on providing mobile platforms coupled with community engagement. Leveraging investments in technology while continuing to focus on relationship banking has been a winning strategy for North Carolina's community bankers.

Technology and strategic plans

Overall, the bankers said they are embracing changes in technology but are wary of being on the "bleeding edge" of adoption. It is difficult for community banks to apply the same level of resources to achieve the cost efficiencies that larger banks have found via new technologies. Some community bankers commented that they feel constrained by their core vendors, who largely control the technology platforms used by their banks.

Evaluating cybersecurity risk

Data protection and cybersecurity are top of mind for North Carolina bankers. Many bankers feel that regulators have failed to provide meaningful guidance on effective cybersecurity measures. In addition, their nonbank counterparts are not held to the same standards for disaster recovery, employee training, third-party oversight and cyber insurance. Several banks have been the target of small frauds and have shared information with law enforcement with little or no follow-up. Bankers also suggested that regulators play a greater role in vetting vendors for cyber readiness.



According to North Dakota bankers, the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) did not provide much relief or benefit for smaller community banks. However, they said some progress was made in the area of Home Mortgage Disclosure Act (HMDA) reporting, which has become less cumbersome with the reduction in the number of required data fields. Moreover, all bankers applauded what they viewed as EGRRCPA's main accomplishment—bringing federal awareness to the fact that one size does not fit all for the community bank business model.

In the aftermath of the Great Recession, much additional regulation was piled on banks without regard to size and complexity, the bankers noted. The compliance burden grew particularly heavy for small community banks, which did not employ entire departments to handle compliance functions. In North Dakota, banks invested significant dollars to adhere to new regulations that were crafted for practices in which community banks were generally not engaging. To be sure, North Dakota banks adapted. Their income statements and balance sheets now reflect this new normal.

With attention now focused on lessening the burden on community banks, North Dakota bankers said they hope and expect to have the opportunity to continue to offer recommendations to policymakers that can truly make a difference to the smallest and rural community banks. These banks have their boots on the ground and are committed to the communities they serve. The bankers said it is important that regulators somewhat loosen the reins so banks can continue to serve their customers.

Unfortunately for some banks, the slight HMDA relief came after the effective date of the final rule. So, banks that already had their policies and procedures in place ended up doing twice as much work to change bank procedures, retrain staff and wait for software companies to make necessary changes. Likewise, the Call Report modifications have not been of benefit since the areas eliminated do not affect smaller community banks. Thus, day-to-day compliance burdens remain.

Overall, North Dakota's bankers were grateful for any and all efforts to relieve regulatory burdens. They offered the following proposals for future relief, which they believe will benefit the North Dakota community bank business model: an exemption from beneficial owner regulations for small banks; the creation of a two-tier regulatory system that would eliminate many of the burdens for community banks; and additional exemptions from real estate lending requirements.

Reducing burden in examinations with technology

In North Dakota, banks were recently asked to develop a system for facilitating electronic reviews of loans by examiners. The bankers were very supportive of this initiative since it was expected to expedite loan processing. However, it was determined to be quite costly for small community banks to help establish this system. Banks feel that the Federal Deposit Insurance Corp. (FDIC) should cover the costs of this program, rather than look to banks to fund this research.

While enhanced technology may increase the overall speed of examinations, North Dakota banks stressed that effectiveness should be the top priority. Use of electronic methods for exchanging exam information with regulators has not always been effective. Bankers have experienced several circumstances where FDIC*connect* was not working properly, where information had to be sent more than once, and where examiners had not looked at the information that the banks had taken the time to upload. This suggests that perhaps it is the examiners who should be pursuing the best technology to handle electronic data exchange. Regardless, having examiners on-site allows for better communication and a better final product, for both the bank and the regulatory agency.

For North Dakota banks, it has been truly beneficial to provide documentation prior to exams so that examiners can conduct some of their analysis off-site. One banker was interested in having even more exam work completed off-site. Another bank noted no relief in examination preparation was evident in its institution. According to this banker, the most recent pre-exam request list for an FDIC safety and soundness examination was the exact same list used for previous examinations. This points to a greater need to modify examinations based on each bank's risk profile, the banker suggested.

Not all bankers regarded the exam process as burdensome. One North Dakota banker viewed the proceedings as an opportunity to make sure the bank is up to date with policies, procedures, laws and regulations. For example, the loan review may reveal weaknesses in a loan that the bank might not detect on its own.

The future of funding, liquidity and raising core deposits

With online banks, insurance companies, fintech firms and investment companies all vying for the same funds, North Dakota banks face big challenges ahead in regard to liquidity and obtaining deposits. Bankers expect increased competition to lead to lower margins over the next five years. Brand loyalty is also in decline, since customers can chase the highest rates anywhere in the country. Banks have had to increase rates to compete, but they are often unwilling to match online bank rates. Therefore, raising core deposits will become increasingly costly as customers have a variety of options at their fingertips.

North Dakota continued

Since liquidity is forecasted to be a long-term problem, the bankers suggested that alternative funding source rules should be relaxed. North Dakota bankers asserted that the negative perception of utilizing brokered deposits and alternative funding sources must change. Access to alternative funding sources expands a bank's ability to lend since these sources are cheaper. Additionally, deposit brokers do not renegotiate rates as some local customers do in a rising rate environment; so, in some respects, brokered deposits are more stable than normal core deposits. Bankers believe brokered deposits will become an important funding source going forward and, if used correctly, will be the preferred funding tool.

A few bankers reported that they are currently liquid and are in a deposit-rich banking environment. Low-cost core deposits are funding steady loan growth.

For North Dakota's agricultural banks, cultivating liquidity is a continuous struggle as working capital is reduced on the farm. One of the biggest drains to deposits in rural areas is the settling of estates. As customers age and eventually pass, their assets transfer to younger heirs who desire the conveniences offered by larger or mobile banks. North Dakota community banks have been taking steps to maintain relationships with the next generation by ensuring their technology assets are up to date.

At North Dakota banks' ongoing asset liability committee meetings, bankers have been focused on what they need to do to bolster customer loyalty. To the community bankers, relationships remain key, which is why each bank spends time ensuring that its customers and respective communities know how much bankers appreciate their banking relationship.

Technology and strategic plans

North Dakota banks, especially the smallest ones, reported that is has become clear that they are not going to be able to keep up with the ever-changing array of electronic banking services on their own. Their strategic plans are focused on creating partnerships with entities that can help them provide these services. North Dakota bankers said they are taking a community-tailored approach to technology implementation, since they do not want to seem disconnected from their communities by offering services that are not wanted or needed. Therefore, the changes they make will not necessarily include the latest fintech update introduced at a national or global level. In this way, they can stay well connected to the communities they serve.

While a significant amount of their strategic plans deal with technological innovation, North Dakota bankers do not feel the need to be leaders in technology. However, they know they must offer technology products as the marketplace dictates and that consistent investment in technology is important to stay

competitive. They noted that current plans include budgets for technology investment, community education and continued focus on relationship development so community needs are prioritized. Discussion on the addition of appropriate products is ongoing, as market segments quickly change. The bankers noted that their strategic plans must be flexible so they can evolve with the dynamic technological landscape.

One bank reported it is focusing on a complete overhaul of its website to add functionality such as applying for loans, opening deposit accounts and banking on the go. This overhaul addresses customer requests for increased usability and 24/7 banking capacity. Another banker stated that new technology that promotes banking without entering a branch has allowed the bank to reduce its hours of operation and move to a five-day business week. Yet another bank's strategic plan includes creating a virtual banking department led by a customer experience officer to help the bank stay up to date with technological innovations.

Evaluating cybersecurity risk

Cybersecurity risk is the No. 1 worry for North Dakota institutions—equal to, or even greater than, the risk tied to their loan portfolios. They are appreciative that exams are starting to reflect this concern. As banks feel applicableness based on bank size and complexity is frequently overlooked, they believe cybersecurity protocol should be molded to meet each bank's unique needs. To date, North Dakota's banks have done a great job in managing this risk, but they are always looking for ways to improve.

In evaluating whether a bank meets the cyber insurance requirements for a breach, the number of variables to consider can be very taxing. Therefore, North Dakota's bankers would appreciate it if policymakers would tie these requirements to data protection laws. This way, if a bank meets the requirements of the law, it will meet the insurance requirements as well.

All bankers agreed that more knowledge is always better regarding how various data protection and privacy laws impact business, but it needs to be received quickly in this environment. Information sharing should involve external vendors because many smaller financial institutions use outsourced services. Additionally, it would be helpful to have training resources to ensure contracts and services from these vendors meet data protection and cybersecurity standards.

Since most businesses have websites, the bankers said regulators should consider subjecting community banks to General Data Protection Regulation, California Consumer Privacy Act and other local data protection and privacy laws. Exposure could be limited by documenting customers, configuring websites to be specific to the customer base served, and querying customer bases to find customers who meet the criteria for these laws and then address

North Dakota continued

them. Community bankers caution against the push for a national law, especially for institutions with a limited geographical footprint. They ask that state laws help limit the exposure of these institutions to the laws of other countries, states and cities they do not do business in and therefore help protect them against trolling lawsuits.

Bankers are convinced that regulatory relief in other banking segments will free up resources and time for focusing additional staff efforts on enhancing cybersecurity and data protection. Policymakers could also better serve North Dakota banks by providing resources for training bank employees and direct intervention when an issue occurs.

According to North Dakota's banks, regulators need to rebrand the intent behind the information technology (IT) examination so the exam is seen as more of an opportunity to help instead of an avenue for catching banks doing something wrong. North Dakota banks would also like the IT portion of the exam process to be more interactive. There is an incredible amount of information being thrown at bankers and regulators alike, making it almost impossible to thoroughly comprehend. Still, bankers in North Dakota see a glimmer of hope in that cybersecurity affects all entities. It can become an area where banks of all sizes work together to come up with unique, collaborative solutions that benefit the community banking industry and the communities they serve.



Ohio bankers were appreciative that Congress took a step in the right direction with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) but noted that the changes were small. Still, they appreciated the recognition of the differences between the largest banks and community banks.

Reducing burden in examinations with technology

Banks undergoing examinations within the past year agreed that there have been improvements as examiners continue to leverage technology. A banker from the Cincinnati area said the amount of off-site review has improved. The on-site review time has not changed, but there were fewer duplicate requests for information (i.e., information provided during the off-site portion that was requested again during the on-site portion). This was a welcome change. A southeastern Ohio banker stated that it is still a lot of work just to gather the information needed for examinations, and added that scoping examinations to help tailor and limit information requests should be reconsidered or reviewed. Another banker mentioned that even when the process goes smoothly, nearly everyone in the bank is consumed with the exam process, which causes a two-to-three-week loss of productivity.

Ohio bankers also heard that some regulators would like to push the boundaries of off-site reviews, but they stressed that there still needs to be an on-site portion because it is very valuable to the examination process. Feedback received from the FDIC's interactions with bankers indicates that bankers want to see examiners on-site as well. There has also been an increased focus on risk scoping.

A north-central Ohio banker reported sensing a distinct shift in how best practices are handled. In the past, regulators included a great deal of best-practice discussion during exit meetings and in exam reports. Now, federal examiners say they can no longer do this. The banker would like to have one or two meetings during the exam that are set aside as "neutral time." This would provide bankers and examiners the opportunity to learn from each other without fear of "getting in trouble," being seen as providing legal or financial advice, or creating ad hoc rules or regulations.

The future of funding, liquidity and raising core deposits

Ohio bankers said that wholesale funding will continue. General observations included: 1) depositors are starting to have some incentive to move their money as rates creep up; and 2) depositors can now move their money more easily when they decide to (with just a few clicks of a button).

Ohio bankers also noted that Community Reinvestment Act modernization needs to be a priority for federal regulators to reflect a more modern, electronic deposit environment, particularly in regard to the definition of volatile deposits.

Technology and strategic plans

Ohio bankers were focused on how newly adopted developments in technology are addressed in an examination environment. A north-central Ohio banker shared that 99% of recent information technology (IT) exam findings offered enhancements to bank operations. This was a welcome change from the past, when examiners were seemingly trying to poke holes in bank operations.

Another Ohio banker noted that banks have many middle managers with "quality improvement fatigue," explaining that it has become harder to distinguish between recommended changes from examiners, auditors and consultants. Almost every month, there is somebody in the bank offering ideas and "improvements." Sometimes the recommendations are contradictory. The banker said that examiners, auditors and consultants should better coordinate their messaging. This banker also observed that examiners did not want to leave the bank without any findings. Overall, technology remains a concern and a double-edged sword: It's necessary but expensive, and the largest banks continue to have the upper hand.

Evaluating cybersecurity risk

A northern Ohio banker stated that third-party reviews are causing a lot of work and costing a lot of money. This banker suggested that the biggest technology providers be licensed and/or reviewed by some regulatory authority upon which the banks could rely, rather than having banks conduct their own costly, independent due diligence, which is duplicative, unnecessary and time-intensive.

Since small banks do not have any control or leverage over IT service providers, it would be helpful to have the Federal Financial Institutions Examination Council establish fair contract guidelines or rules, a northeast Ohio banker said. Based on hearing that the FDIC is focusing more on technology to help with supervision (i.e., "Reg Tech"), the bankers noted that such guidelines would help with standardization among the large service providers and make it easier for banks to compare providers.

A southwestern Ohio banker noted that the IT and cybersecurity compliance bar has been raised very high. Cyber risk is now considered higher than credit risk by regulators, and it has been causing a great deal of stress within the community bank industry. The bankers said that federal regulators should stand behind the banks and push other industries to hold themselves to a higher standard. It seems that whenever there is a breach in another industry, it raises the bar in the banking industry.



Of the five Oregon bank CEOs surveyed, only one felt that the regulatory relief provided by the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was significant. Benefits that this institution saw included the expansion in the size threshold (from \$1 billion to \$3 billion) for eligibility to be on an 18-month examination cycle, the implementation of the short-form Call Report and the establishment of the community bank leverage ratio (CBLR) framework. One CEO expressed concern about the yet-to-be-finalized rules to implement the capital simplification provisions and lack of clarity regarding an institution's ability to opt in or out of the CBLR framework. Another CEO stated that while the industry touted EGRRCPA as a victory for community banks, he saw no material regulatory relief for small banks such as his.

Oregon bankers remained cautiously optimistic, with one banker expressing hope that EGRRCPA is just the first step in efforts to reduce overall regulatory burden. Areas in which Congress and/or the regulatory agencies could do more in providing relief include Bank Secrecy Act compliance, Home Mortgage Disclosure Act reporting, and commercial real estate-related regulatory constraints and reporting requirements.

Reducing burden in examinations with technology

Oregon bankers were positive about steps being taken to leverage technology to improve the examination process. This included, but was not limited to, examiners being able to securely receive requested examination items and other bank records, reports and documents in electronic format and to review imaged loan files. In general, the CEOs were also positive about regulators' initiatives to conduct some portion of examinations off-site. However, they also noted the benefits of on-site, face-to-face discussions with examiners. Most bankers viewed examinations as opportunities for bank management and staff to learn and to improve policies and practices.

Oregon bankers said they have not seen any noticeable change from steps taken by regulators to modernize and improve the examination process by tailoring plans and procedures based on risk. They have observed examiners generally reviewing all of the CAMELS (capital adequacy, asset quality, management, earnings, liquidity, and sensitivity) components and other aspects of the bank's operations as they have in the past, but not considering actual risk exposure.

The bankers were unanimous in their opinion that compliance and Community Reinvestment Act examination processes need improvement. They said some of the processes were "outdated" and "broken." They added that examiners don't seem to adequately consider materiality when citing violations or issuing examination findings. One banker expressed concern about the number of "trainees" and less experienced examiners who were conducting examinations of his bank.

The future of funding, liquidity and raising core deposits

Oregon CEOs indicated that although the overall cost of funds has increased moderately in recent quarters, they expect liquidity to remain sufficient enough to meet their banks' funding needs over the next few years. None of the bankers was overly concerned about the ability to attract and retain core deposits, pointing to the relationship-based business model of community banks as the primary reason. Four of the five bankers interviewed were from banks that have extensive branch networks and benefit from strong and well-established ties with their local communities. One of the bankers, whose bank has just one branch located in a metropolitan market, saw a higher level of competition for deposits. This banker felt that the regional and national banks, with whom his bank must compete, have greater access to noncore funding sources and are less likely to be criticized for their use of such funding. This banker also said he believes the way regulators assess liquidity is outdated and unduly limits his bank's access to alternative sources of funding. Several bankers expressed concerns about paymentprocessing apps and about other companies entering the financial sector given the impact they could have on the banking system and on community banks in particular.

Technology and strategic plans

The topic of technology and its appropriate use and application is now an important part of every bank's strategic planning process, the bankers noted. None of the banks queried were interested in being an innovation leader. However, the bankers noted the importance of staying competitive with larger banks in regard to product offerings and delivery options. They did not want to lose customers or become irrelevant. They said banks are beginning to assess the costs and benefits of opening and operating physical branches versus investing in technology that enables online delivery of products and services. Most banks now have executive or senior-level management positions to lead their technology functions, underscoring recognition of the growing need to adopt appropriate technologies in a timely manner in order to survive and thrive.

Oregon continued

Evaluating cybersecurity risk

Oregon bankers named cybersecurity and data protection as challenging issues for their banks. They indicated that it would be helpful for regulators to provide clearer direction and more best practices related to cybersecurity and data protection. While the bankers agreed that ongoing employee training is a critical component of the cybersecurity and data protection framework, they did not feel that regulators should be the ones to provide such training. None of the bankers felt that legislative changes or increased regulatory supervision would be the appropriate or most effective way to help banks deal with cybersecurity and data protection challenges.



The impact of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) on South Dakota banks depends on each bank's business model. Two bankers said that it will have no impact on their banks whatsoever. Others indicated a variety of positive impacts: a reduction in reporting fields under the Home Mortgage Disclosure Act, rural appraisal relief, the treatment of qualified mortgages for portfolio loans (which helps offset the limited availability of secondary markets in rural areas), and a new designation for reciprocal deposits and core deposits. Bankers generally agreed that the bill was positive because it preserved the status quo and showed intent towards providing some relief to community banks.

Bankers expressed concern about changes to Call Report requirements and the community bank leverage ratio due to uncertainties including those regarding the next steps of federal regulators. They identified several other areas for additional burden reduction for community banks, including reform of the Bank Secrecy Act—particularly regarding beneficial ownership reporting. One banker suggested a national database like the one for military lending.

South Dakota bankers asked for revisions to burdensome consumer compliance regulations; a "cleared" path to more appraisers in the field, especially in rural areas; brokered deposit reform to better account for high-cost deposit states and deposit scarcity; and additional clarity on the current expected credit loss model, including intended outcomes and likely costs to the industry and borrowers.

Reducing burden in examinations with technology

South Dakota bankers indicated that the examination process has improved over the past several years and is valuable. As more banks implement imaged loan systems, the amount of work that can be done off-site or in advance of the on-site portion of examinations will increase. Bankers expressed a strong desire to continue to have direct, face-to-face interaction with regulators. They said the work done in advance of the on-site portion of the examination—to risk-focus the exam and to better understand the institution—increases the quality of discussions and reduces the time spent on-site.

South Dakota bankers would like federal regulators to provide "best practices" guidance to banks that have not moved to imaged loan files as it would likely increase "uptake." They described redundant information requests in some instances. They said it would be helpful if there was a way to acknowledge the information provided by the bank in advance of an exam.

South Dakota bankers also suggested ongoing dissemination of updated policies and procedures to reduce the time spent on

review. They believe that this would allow for more meaningful discussion at the scheduled examination.

The future of funding, liquidity and raising core deposits

Bankers agreed that the definition of core deposits must be revisited to reflect decades of market change. They said it is difficult to tie deposits to a specific location when banks are competing with other institutions, some of which do not have a physical location. Physical branches still play a strong role in deposit generation, but most banks rely on brokered or other noncore deposits to some extent. As one banker put it: "It is a population issue in our communities; there just are not enough deposit customers left to fund the loan customers in the same community."

Bankers are looking at various approaches to core deposits over the longer term. These include establishing branches in larger communities to access additional deposits, maintaining conservative loan growth within their funding availability, establishing a digital bank or branch to gather deposits online without using a broker, and launching an indexed savings account on a national basis tied to U.S. Treasury securities.

Technology and strategic plans

South Dakota banks are taking varied approaches to technology. The speed of adoption at different banks ranges from "fast follower" to "much slower." None of the respondent banks described themselves as "out in front of the industry on any technology initiatives," which was attributed to the "huge" cost associated with technology planning and adoption. One bank increased its technology expenditures by 75% over six years just to keep up with technologies already in the marketplace. Another bank adopted a separate strategic plan for information technology to address new products as well as a cybersecurity office to review new product offerings.

Several bankers noted technological challenges with respect to core providers. A bank can have a great plan and do all of its own due diligence, as one banker said, but "some things just are not possible" with current core providers. Or, if possible, they are not delivered with sufficient security in place to protect the bank despite a significant cost.

South Dakota bankers noted challenges for all banks, but for small rural banks in particular, remaining relevant in a fastchanging world is key. Related issues included integrating data into different delivery channels and getting rid of old technology in order to limit the number of entry points for cybercriminals.

South Dakota continued

Evaluating cybersecurity risk

South Dakota bankers want more user-friendly tools like the Federal Financial Institutions Examination Council's cybersecurity assessment tool and more hands-on training. While the bankers concede there is a great deal of training available from regulatory agencies, they note it can be overwhelming for small institutions. They asked that cyber and information technology offerings be sorted by size or complexity so that an individual bank can better gauge the level of training needed.

Much of the training available right now is for information technology experts. Bankers said the Executive Leadership on Cybersecurity events from a few years ago were very insightful and should be relaunched to further the discussion and understanding of executive officers and board members.

Bankers touted advantages in the area of cybersecurity with Dakota State University and its extensive offerings in computer systems, computer science, cyber leadership and cyber operations. These programs support cybersecurity experts in the private sector who work directly with banks in South Dakota and around the country to remain vigilant against the varied and increasing attacks against the banking industry. More partnerships involving the academic world, the private sector and regulators would benefit not only the banking industry but the security of the U.S. economy as whole.



Community bankers in Tennessee appreciate regulatory relief under the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA). But they believe that more must be done. They said the uneven playing field between community banks and credit unions should be addressed. They also suggested a study of the current expected credit loss model.

Reducing burden in examinations with technology

Tennessee bankers support the move to more off-site examinations and examinations that are tailored to risk. Although they recognize the reduced burden of examinations that is associated with technological advance, they suggested further benefits could be obtained if examinations were conducted every 24 or 36 months, as opposed to every 18 months.

The future of funding, liquidity and raising core deposits

Tennessee bankers said that concerns with funding, liquidity and core deposits have forced community banks to view their balance sheets differently.

Technology and strategic plans

Tennessee bankers agreed that any technological update or expense is instrumental to three-to-five-year strategic plans. They said each bank has to decide what "type" of bank it is, what it wants to offer its customers and how fast it can adapt to such changes.

Evaluating cybersecurity risk

Tennessee bankers take cybersecurity risks very seriously. In fact, there have been discussions with the Tennessee Department of Financial Institutions to hold forums with executives of banks, including heads of informational technology departments, concerning the resources needed to combat cybersecurity risks. Bankers noted that information technology examiners have a unique skill set. They agreed that action must be taken to ensure that there are more qualified/skilled examiners, as they consider it essential to have good working relationships with them. They encouraged "best practice" resources for the industry.



Texas bankers welcomed relief provided by the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) but felt that the impact was larger for banks with more than \$1 billion in assets. They found the greatest benefits in relief from Basel III and in changes to mortgage lending and reciprocal deposit arrangements. One Texas banker highlighted the Home Mortgage Disclosure Act (HMDA) exemption from collecting new data fields under the Dodd-Frank Act, the extension of the examination cycle from 12 to 18 months, the short-form Call Report and capital simplification.

Texas bankers said they see several areas where Congress should have done more to make the industry more efficient. Specifically, the bankers asked for rightsizing of regulations for small banks via greatly reduced HMDA data gathering, continual improvement in the short-form Call Report and a revamped Community Reinvestment Act.

Texas bankers also suggested extending examination cycles for highly performing banks, including a three-year on-site exam cycle with interim off-site and risk-weighted "mini exams," which they said would be more cost-efficient for both banks and regulatory agencies. Regulators already leverage third-party reviews (for example, loan reviews and compliance reviews) and use much of this information in conjunction with their own reviews. One Texas banker argued that using interim reports and off-site reviews would be less intrusive for banks; it would also benefit regulators, since they could deploy more assets to institutions that represent greater risk to the industry.

Texas bankers cited another area where they believe change is needed: filing thresholds for currency transaction reports (CTRs) under the Bank Secrecy Act (BSA). The \$10,000 threshold has not been adjusted since the inception of the BSA in 1970. One Texas bank reported filing over 4,000 CTRs based on this threshold on an annual basis. While an appropriate inflation-adjusted equivalent would be in excess of \$60,000, any adjustment would help reduce the burden of CTR filings. For this bank, an increase of the threshold to \$20,000 would yield a 40% reduction in the number of CTRs filed, while an increase to \$30,000 would result in a 61% reduction. Another banker lamented the sheer amount of data gathering and physical filing of Suspicious Activity Reports (SARs), adding that the teller managers, BSA officers, bookkeepers and SAR committee members are all involved to some degree.

Several bankers commented on the need for simplified capital calculations for banks with less than \$10 billion in assets, but added that setting the leverage ratio at 9% would not be particularly beneficial. They said they will likely continue to use existing measurements in determining capital required to remain well-capitalized.

Reducing burden in examinations with technology

Texas bankers said recent examinations have been less disruptive to operations with a reduced amount of time in the bank. They said state-chartered institutions face additional challenges not experienced by banks with national charters. Having dual regulators means that exams are vastly different every cycle. The bankers lament a lack of standardization or synergy between the Texas Department of Banking and the Federal Reserve. Considering that each agency makes ongoing changes to its respective exam procedures, banks with dual regulators experience a new scenario at each and every exam. Standardization of exam requirements, procedures and forms between the two agencies would be very helpful.

One Texas banker cited several low-risk areas that also are being reviewed by both internal and external auditors and could be cut back—including cash, cash items, collections, safekeeping, safe deposit, dormant accounts, official checks, fixed assets, policies and vacation policies. These areas take up a lot of unnecessary time and effort. The regulators could rely on third-party reports instead of in-person reviews.

Texas bankers said there have been great strides in the examination process by tailoring the audit process based on risk, size and complexity of the bank. While bankers credited technological innovation for improvements, they see an opportunity for further progress. For example, they currently submit data electronically through the regulator portal; so, regulators are already in possession of many of the exam materials they need well before they arrive on-site. Texas bankers reported that off-site exams can be effectively and securely managed through a temporary virtual private network (VPN) where regulators would have access to bank files and documents.

Texas bankers suggested that more loan file reviews be performed off-site, but conceded that data security issues and system limitations currently make that challenging. Another Texas banker recommended the use of publicly available data, supervisory data, audit reports and exam histories when assessing the size of the examination team and length of exams for well-run banks. For compliance examinations, it was recommended that regulators reduce attention on areas with very few consumer complaints. While examiners could probably do a great deal of off-site monitoring using technology, this wouldn't necessarily be a good thing because real-time interactions with the bank would be lost. One potential innovative approach suggested by a banker involved having examiners log into their system via temporary VPN access with the ability to limit it to a specific Internet Protocol address range.

Texas (Department of Banking) continued

The future of funding, liquidity and raising core deposits

Texas bankers' ability to generate new deposits continues to be a challenge. Even so, they said they do not anticipate major problems with respect to funding and liquidity in the coming years given strong organic growth. Competition for deposits has increased from multiple sources, including online banks, new banks entering the market through acquisition, and credit unions. Refining product offerings is critical. Bankers shared that they are adding online deposit-gathering features, peer-to-peer payments processing via Zelle and remote deposit services. They are using social media and other techniques aimed at attracting the younger millennial depositor.

Texas bankers noted that credit unions are doing everything they can to attract deposits. This includes taking advantage of their tax-exempt status to offer higher rates on deposit products. They also have entered the commercial lending and business banking segments, establishing relationships that otherwise would have been directed to a commercial bank.

Depositors' access to national market rates has increased significantly and is an ever-changing dynamic for community banks. This competition for core deposits in Texas requires that local rates remain in line with those offered outside of the market.

To combat some of the issues listed above, Texas bankers feel that additional flexibility on brokered deposits, and the use of public funds, is warranted.

Texas bankers said that funding and liquidity will continue to reflect conditions in the stock market and real estate markets. During times of economic prosperity, individuals and investors will take money out of the bank and place funds in higher-yielding opportunities. During times of economic contraction, deposits are brought back to the banking sector.

Technology and strategic plans

Texas banks are proactively incorporating technology into their strategic plans, and many have ongoing vendor evaluations. While they don't aim to be first to market, Texas banks do adopt technology once it is proven to be successful. As one banker put it, "We never aspire to be on the leading edge of any new technology, nor do we wish to be negligent in not providing new bells and whistles desired by customers." Bankers monitor larger banks' offerings and the need to provide those products based on customer interest.

Texas bankers feel technological adaptation and deployment must remain flexible. For example, interactive teller machines have not been as successful as first thought for many community banks. There are many cases where technology has helped banks remain competitive with products—such as mobile banking, remote deposit

capture and debit card fraud protection. However, community banks are only as good as their core provider product offerings. The cost of core providers is often expensive, especially considering how dated their offerings can be. All areas of business are changing faster than in the past, and technology is no exception. Texas banks will continue to rely on core providers and other technology partners to stay competitive in the banking sector.

Texas bankers attempt to capitalize on technology to create efficiencies and reduce or reallocate staffing as appropriate. For example, the use of teller cash recyclers allows for an enhanced customer experience and a more efficient transaction with reduced staff.

Unfortunately, technology requires significant investment. Vendor relationships are much more important. Consolidation among bank service providers has not been good for community banks.

Evaluating cybersecurity risk

Texas bankers noted that implementation of legislative guidelines for internet service providers would be helpful. They should be held to the same standards as banks for safekeeping personal and private information.

Many Texas banks participate in the Financial Services Information Sharing and Analysis Center (FS-ISAC) consortium; regulator related training; cybersecurity seminars/webinars; core provider, cyber and user group sessions; and several other initiatives. The bankers cited cybersecurity as a major concern, sharing that they are perpetually aware of its ever-evolving risks and will do everything they can to stay current. While Texas bankers were appreciative of regulators' outreach efforts, they were not sure what additional assistance would be needed at this time.

One Texas bank recently experienced a new scenario when an entity created a fraudulent website, replicating the bank's website, and proceeded to contact new "customers." The bank contacted not only FS-ISAC, but also its primary regulator, to report this incident. While the banker acknowledged there is no prescribed list of action items in such a scenario, early identification and prompt remediation was critical.

Texas bankers noted an inequity in the blame for data breaches that is assigned to banks and retailers. Although banks spend a great deal of time and effort to protect sensitive customer data, other industries have not had the same sense of urgency to protect their systems. For example, convenience stores have been slow to adopt the Europay, Mastercard and VISA (EMV) credit card chip technology and thus are susceptible to "skimming," thereby placing sensitive customer information at risk. This has reduced consumer confidence. It also places banks at risk for subsequent fraudulent

Texas (Department of Banking) continued

transactions that involve stolen information. Many retailers also expose banks to fraud by failing to verify the identities of customers processing debit cards as credit transactions rather than through PIN numbers.

The bankers discussed the usefulness of the Federal Financial Institutions Examination Council's cyber awareness training and asset-based maturity level recommendations, increased interactions with regulators in the form of training, information sharing and guest speaking events. The bankers also recommended more regulatory assistance in the form of alerts about specific cyber threats, regulatory trends and holding bank service providers accountable. One banker recommended a central repository for fraud and "hot-button" issues, because such matters often are raised at examinations, causing banks to react after the fact.

Finally, Texas bankers noted the importance of third-party service providers but want regulators to better police these entities. One banker also asked for a quarterly report on these entities to figure out what is happening in that industry, what products are recommended and which vendors are performing best.

Texas FIVE QUESTIONS FOR FIVE BANKERS

Department of Savings and Mortgage Lending

The impact of EGRRCPA on the community bank business model

Texas savings bankers agreed that the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) conceptually provided some relief, but they were discouraged by the resulting rulemaking from the federal banking agencies. The bankers specifically noted that the community bank leverage ratio (CBLR) was too high. While the CBLR framework seemed like a great idea, the way it incorporates a separate prompt corrective action framework makes it more of a trap. However, they noted two main benefits from EGRRCPA: the change regarding reciprocal deposits and the relief from escrow requirements.

The Texas savings bankers felt that there are still several areas ripe for reform, such as the high deposit rate calculation, which they feel unfairly weighs heavier on larger banks based on the number of branches. The bankers also suggested further emphasis on rightsizing regulations for smaller community bankers, especially the Community Reinvestment Act and the Call Report.

Reducing burden in examinations with technology

Texas savings bankers reported seeing several opportunities to reduce examination burden. For example, given the continued growth of examination teams, more examination work could be moved off-site. The bankers also felt that more resources should be given for information technology examinations and that a more user-friendly portal for file transfers should be developed. Furthermore, they noted that since an independent audit is completed annually, regulators should consider a longer examination cycle. Finally, the bankers said that the "discuss only list" is currently too long and cumbersome for the banks to prepare and discuss.

The future of funding, liquidity and raising core deposits

Texas savings bankers continued to see several headwinds, including liquidity risks, on the horizon. They acknowledged they must adapt to consumer deposits being largely driven by technological experience and rates. One banker referred to liquidity as a paper risk and lamented the uneven playing field. The bankers shared that credit unions and nonbank deposit gatherers have unfair advantages, and that large banks have a competitive advantage because of the high cost of technological innovations. Still, the small Texas banks have seen their core deposits increase as their human touch strengthens relationships and forges loyalty in their communities.

Technology and strategic plans

Texas savings bankers reported they are weaving technology into their strategic plans. Technology not only increases their operational risks, but also presents management challenges. Many of the bankers reported using agile methodologies to facilitate innovative moves, but noted the expense can be tough. One banker said if you are not constantly changing, you are losing.

The costs and associated risk of technology are challenging Texas savings bankers in the areas of research, design, compliance and implementation. The bankers asked that regulators be more receptive to adaption and innovation in the banking business model. They added that regulatory expectations to monitor risks are often high, leaving banks with little option but to buy additional monitoring products due to lack of educated staff and consumers. The bankers concluded by saying patience is key in implementing new technology and that implementing the latest and greatest is not always a good idea.

Evaluating cybersecurity risk

Regarding cybersecurity risk, Texas savings bankers said they wanted more access to resources and training. Many of the bankers referenced the importance of partnering with capable providers that are large enough to have the best training and that can stay on top of current trends. The bankers also want a better understanding of security hacks, their origins, the intended purpose and what other institutions have done to prevent such attacks. They suggested such information could be relayed through regulator-run training sessions. The bankers said they felt legislation is needed to increase penalties for cybercrimes and to improve enforcement. A timely issue that one banker noted was tracking synthetic identity fraud as beneficial ownership reform continues to be discussed in Congress.



Utah bankers described passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) as a nonevent. While they noted that expansion of the 18-month examination cycle is somewhat beneficial, most other relief provisions either do not apply or have limited applicability. The bankers characterized EGRRCPA as "more fluff than substance." The general consensus was that politics got in the way of better, more meaningful relief provisions.

Reducing burden in examinations with technology

The Utah bankers said they do not believe that a lack of technological innovation is a problem with examinations. Instead, they decried a perceived "one-size-fits-all" attitude among regulators and lawmakers. The trend toward more off-site work has been well-received, but the bankers cautioned that potential findings still need to be discussed with management during the on-site phase of the examination before conclusions are reached. Bankers were critical of the supervisory resources spent at smaller banks, which do not have a serious impact on the insurance fund or the industry. They want to focus more resources on larger institutions with more exposure to the financial system.

The future of funding, liquidity and raising core deposits

Raising deposits was a general concern for Utah bankers, as more players are competing in this arena. They said the situation will pressure net interest margins. Customer convenience and competitive rates are critical to retaining core deposits. The bankers were critical of the lack of regulatory oversight of nonbank entities. They were also critical of the apparently easier ability of credit unions to offer better rates, which has been an ongoing issue. Bankers are concerned that, as technology and demographics change, core deposits will become less important to bank customers.

Technology and strategic plans

Utah bankers are conscious of the need to innovate to stay relevant. By relying more on vendors and partners in providing updated services to customers, it becomes more important to understand and control third-party risks. Technology is also causing a change in branching strategy. While the Utah bankers said growth is still needed, they noted that branches have lost relevance with retail and commercial customers alike. As a result of changing trends, Utah bankers are shifting investment in buildings toward investment in technology.

Evaluating cybersecurity risk

Utah bankers were critical of law enforcement follow-up on large fraud occurrences. For example, one respondent noted that a \$250,000 case of wire fraud usually doesn't get much attention by investigators and prosecutors. The bankers said employee training for social engineering and phishing techniques is a continuing need. They recommended building a central clearinghouse, or centralized oversight of financial breaches, to provide relevant and timely feedback or alerts to institutions.



Vermont bankers' reactions to passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) depended largely on their business models. In general, it was not considered a monumental change; two banks, in fact, indicated the act would have no impact on their banks. For other banks, many of the core changes, such as qualified mortgage (QM) relief and reduced reporting thresholds under the Home Mortgage Disclosure Act (HMDA), have limited applicability. But some bankers identified a variety of modestly positive impacts, such as the reciprocal deposits change, which will open a previously untapped deposit pool, as well as changes to the HMDA, QM rules and the Call Report.

Bankers suggested legislators and regulators work further to define "community bank." They want lawmakers to modernize the Bank Secrecy Act and the Community Reinvestment Act.

Reducing burden in examinations with technology

Vermont bankers were similarly split on their impressions of examination effectiveness. While some felt there had not been much in the way of improvements, others noted major steps forward. One banker commented specifically on the convenience of FDIC*connect* for handling sensitive information, adding that "the pre-exam process is working as best it can." Other bankers appreciated recent efforts to tailor exams to banks' risk profiles and to add more off-site components.

Bankers' suggestions for improving examinations included increasing off-site work and adding more specialists in areas such as information technology, the Bank Secrecy Act, anti-money laundering rules, the exit process and examination focus. They advocated increasing staff and experimenting with a sandbox-style development site for examinations.

The future of funding, liquidity and raising core deposits

Bankers said deposits are harder to obtain in a strong economy. As a result, Vermont banks rely more heavily on advances from Federal Home Loan Banks as well as on brokered and reciprocal certificates of deposit. They see potential benefits of technological innovation but are also wary of the challenges it presents. They know that providing the technology that consumers want is going to be costly and will require alignment with technology firms.

Vermont bankers are concerned about competition for deposits from fintech firms and increased expenses from third-party service providers. One banker described changes customers want in the broader financial services industry, such as faster payment processes, international wire transfers, lockbox services, merchant services, combined deposit analysis and robust security. Vermont bankers said that their reputation for market-leading customer service and pricing practices that value relationships will continue to serve them well as they compete for core deposits. It will differentiate them from their larger competitors.

Technology and strategic plans

Vermont bankers are re-evaluating their strategic plans in order to embrace technological innovation. Due to the rapidly evolving environment, bankers are periodically re-evaluating technical solutions, balancing costs and profits, and requesting that partners continue to invest in proprietary solutions necessary to keep pace with broader industry innovation. One banker said that a decline in human interaction in banking has impacted "how every part of the business is transacted."

Evaluating cybersecurity risk

Vermont bankers want a level playing field when dealing with cyber breaches, specifically in terms of their retail counterparts. Vermont bankers feel that they are left financially harmed, unfairly, when a major retailer is breached even though banks are the strongest link in the data protection chain. Vermont bankers want stronger regulations for retailers. They want clear expectations and more tools.

Bankers noted the importance of core service providers and would like to find a better way for them to interact with financial institutions and regulators through mechanisms including a unified data framework. Variance between systems and data storage has hindered banking industry stakeholders from collaboration. Vermont bankers would also appreciate any cyber support they can receive from regulators, as reliance on industry experts is expensive.



For Virginia banks, the effects of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) ranged from modestly beneficial to beneficial. At the same time, bankers agreed that more changes must be made to strengthen the community bank business model. They proposed that Congress extend requirements under the Gramm-Leach-Bliley Act (GLBA) to others in the payments chain (merchants, aggregators, etc.) and preserve community bank access to the secondary mortgage market. Additionally, two bankers requested more relief from Bank Secrecy Act and anti-money laundering laws. Another banker appreciated that the asset threshold for an institution to be considered a community bank was raised to \$3 billion from \$1 billion.

Most bankers felt that excessive competition from credit unions due to the latter's tax-exempt status needs to be addressed. Concerning this matter, Virginia banks desire a more level playing field for community banks to survive in the long term. Bankers maintained that fair competition in the industry is healthy, but that unfair competition is not. In the past year alone, one banker witnessed several community banks being acquired by credit unions; the reverse, a community bank acquiring a credit union, is impossible. Thus, bankers consider the tax subsidies of credit unions to be indefensible, especially as they dismantle the very banking system that has stabilized local communities for generations.

Reducing burden in examinations with technology

In Virginia, banks' increased use of technology has greatly improved the examination process over the past couple of years. More off-site pre-examination work is being done electronically, which places less burden on bank staff when examiners are on-site. While face-to-face meetings are still invaluable, the bankers said they want to use more technology for off-site work. Continuing to expand off-site efforts prior to examinations, as well as adopting a risk-based approach, will further alleviate the burden on Virginia's banks and allow bankers to focus on other meaningful tasks.

The future of funding, liquidity and raising core deposits

Virginia bankers said that obtaining core deposits is extremely competitive and is expected to become increasingly difficult in the coming years. Large banks and fintech entities have become formidable competitors that innovate and integrate technologies. One banker indicated that community banks have taken some of the market share from larger banks while continually ceding shares to fintech entities and credit unions. Another banker said that implementation of liquidity coverage ratio rules appears to have changed the behavior of big banks, which now compete for deposits in places where they previously lacked a presence.

Regarding the future of funding and liquidity, many bankers believe market territories will become broader and require enhanced product selection, service and delivery channels.

Technology and strategic plans

Technology, and spending associated with technology, represents a major component of Virginia banks' strategic plans. One banker pointed out that dollars are being allocated not only to purchase software, but for employee training as well. Most bankers said they believe that competition from other banks and fintech entities is dictating the services they must offer, while rapid changes in the industry are adding pressure to act sooner rather than later. Although all bankers mentioned the high cost of technology, they also acknowledged having no other choice but to make technological investments. A recent topic at one bank concerned finding a way for community banks to participate in the digital payments space. One banker expressed hope from a meeting held by the American Bankers Association and three large fintech firms where the development of faster and more cost-effective innovations for community banks was encouraged.

Evaluating cybersecurity risk

The bankers said that employee training is essential for curtailing cyber threats. At present, Virginia's community banks lack the resources to develop training programs, so they tend to depend on expert vendors for assistance and on their networks for best practices. Thus, collaboration regarding risk prevention measures and techniques among bankers, regulators and even legislators is paramount. Virginia community bankers said they also desire legislation that ensures everyone plays by the same GLBA rules. Currently, banks bear an asymmetrical share of the cost of data breaches; therefore, more forward-looking, risk-based examinations for technology are recommended.

Given that regulators visit many financial institutions, the bankers said that sharing information and providing guidance on where gaps may exist, or where systems could be enhanced, is important. This information would aid financial institutions as they attempt to benchmark where they stand relative to other institutions. For example, knowing the level of cybersecurity dollars spent relative to asset size may assist community banks in evaluating their relative levels of spending. One banker mentioned that the Federal Financial Institutions Examination Council's cybersecurity risk assessment tool has been a valuable resource in this regard.



Washington bankers reported not seeing much relief from passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA). They noted advantages including the shortened Call Report, reciprocal deposit changes, qualified mortgage changes and longer examination periods for some banks. They noted disadvantages as well. Several of them mentioned that, although the community bank leverage ratio seems like a good idea, the federal proposal is too restrictive, which could lead banks to opt out. They said corporate tax relief did more for banks than EGRRCPA did. They said congressional and regulatory attention is needed in consumer protection regulations and the Community Reinvestment Act (CRA).

Most Washington bankers mentioned consumer protection regulations as a "pain point" and added that regulations are easier for big banks than for community banks. As one banker concluded, "If you don't have a whole department dedicated to these things it is very difficult, and regulators are unforgiving in their review (expectations are the same for a smaller community bank as a larger regional bank)."

Bankers said that most regulations have an unintended consequence of harming consumers, or limiting their access to financial services, because of the increased costs that must be passed on to them in order for banks to provide consumer products. Increased expenses for consumer compliance laws include added staffing, new and time-consuming reporting, introduction of new policies and procedures, and additional training required for both employees and boards. The regulatory burden created is, as one banker noted, an administrative "black hole," which has diverted management's attention from its core focus of providing full-service banking services and meeting customers' needs.

Costs of professional services for compliance audits and quality control reviews are increasing for banks in all operational areas: deposits, loans, mortgages and information technology. Washington bankers said burden could be alleviated by raising the asset threshold for some of these regulations. Larger institutions can staff departments to manage, report and handle examinations and audits more efficiently than can smaller community banks.

Washington bankers said updates to the CRA are needed. It is too complicated and difficult to implement for community banks that operate in only one or a limited number of locations. One banker would rather have a tax placed on banks that could be directed toward low- and moderate-income community projects because "compliance today is too complicated, and banks are not getting credit for all of the things they do for the communities in which they operate."

Reducing burden in examinations with technology

Washington bankers identified a few areas for improvement regarding examinations. Several respondents described the pre-examination request for materials as too voluminous and time-consuming. They said that pre-examination questions seemed to be the same for each exam. Specific recommendations included: 1) asking institutions to elaborate on what has changed since the previous exam cycle or simply reply "no changes since the last exam," rather than having them reiterate the same information every 18 months; 2) quarterly automated warnings on loan concentrations or other components of regulatory ratings; and 3) improved conduct of examinations that are more respectful of time and using smart resources. Banks "provide so much material before the exam, without knowing if it is helpful, used or necessary," one banker explained.

Washington bankers also would like more guidance on information technology. One banker noted that if risk assessment "doesn't include everything, then there will be findings on the exam. It's hard for community banks to keep up on everything."

Washington bankers said that technology allows some examination work to be done off-site and is improving access to FDIC*connect* (although there were criticisms about the Federal Reserve Board's file-sharing system). However, the bankers said examination costs are not decreasing. Furthermore, if loan reviews are going to be performed off-site, open communication will be needed in order to keep management "well informed of any concerns the examiners are having to ensure there are no surprises due to lack of appropriate interaction that could have prevented or otherwise explained/ solved any exam issues," as one banker said. Bankers also had some concerns with remote access to information by examiners. If examiners can access information at any time, there is a potential for surprise exams or review of information between examinations.

The future of funding, liquidity and raising core deposits

All Washington bankers, especially those operating banks in a growth stage, expressed concern over funding and obtaining deposits. Their No. 1 focus is liquidity and deposit-gathering strategies. They believe that stable and low-cost funding builds franchise value.

Bankers also said they need to utilize technology to obtain deposits. They said digital banking will make management of core deposits more challenging for community banks that have limited technology and personnel. To compete, new product bundling, technological offerings and innovative products are being created to appeal to current customers and a younger customer base that may not want branch banking. Consumers expect to be able to

Washington continued

do things quickly through technology. Investors expect a decent growth rate, and customers expect a decent rate on their deposits. Community banks, along with other financial institutions, are all competing for noninterest-bearing deposits.

Washington bankers noted that community banks would be hurt if federal regulators were to allow fintech deposit gatherers to directly access the payments system. Banks have a hard time scaling the technologies that fintech firms offer because core service providers are difficult to work with and have antiquated systems. Community bankers are at the mercy of vendors in terms of which deposit technologies they can provide to consumers.

Washington bankers lament that megabanks are becoming more dominant. They also lament that most depository-system deposit growth over the past decade has gone to credit unions due to what the bankers perceive is an unfair tax advantage. That tax advantage has added to bank consolidation, because bank management teams and boards do not believe they can compete fairly. Washington bankers want tax reform in addition to advertising reform and regulations for credit unions.

Technology and strategic plans

All Washington bankers said they are investing heavily in technological innovations involving information security, people and solutions. Finding ways to pay for these innovations continues to be a challenge. One banker reported a tripling of investment in technology expenses in the past five years. Another banker mentioned resistance to social media as a technology platform but recently hired a marketing person to assist with these efforts.

One Washington community bank is working to "take back control" of its technological infrastructure. Core providers can be inflexible, which means that community banks are forced to take what is given to them as far as technological solutions for customers. The digital platform matters to community banks because they have fewer branches and cannot operate like the big banks. The bank wants to buy what the customers need instead and volunteered that it is moving to fintech company Finastra, which operates an open platform.

Many bankers noted that the three large core system providers have antiquated and limited capabilities. These providers lock community banks into cumbersome contracts and make more money charging banks to end contracts than they do helping banks innovate through new products and services. The bankers report that the customer service is terrible, and it's harming community banks and their ability to compete because large megabanks can create their own platforms.

Evaluating cybersecurity risk

Washington bankers are very concerned about cybersecurity, which remains a major priority. All bankers expressed frustration with the lack of a uniform standard or guidance for cybersecurity. They would like regulators to provide more guidance; they said that they hire third-party vendors who never have any findings because there are no standards.

Although bankers get many best practice suggestions during examinations, they lack guidance on risk and prioritization of the recommendations. They said regulators could share more information to help institutions learn what is happening with respect to current events and evolving trends to prevent future attacks and to protect customers and bank assets.

One banker suggested more industrywide consumer education led by regulators. Also, several bankers mentioned that they want to see legislative changes in fraud protection because banks currently have little control over what the consumer does but, nevertheless, have to absorb losses. Some form of federal government intervention in security of data may be necessary.



Wisconsin bankers said passage of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was a good start in bringing regulatory relief to community banks. Although the bankers said that many changes were geared toward larger banks and could have done more to simplify the Call Report and to clarify the current expected credit loss model, positive changes were noted.

Bankers welcomed the ability to opt out of Basel III accounting standards as one way to reduce complexity. They supported the exclusion of the reciprocal deposits from the brokered deposit definition (although some of them noted that this could be problematic for banks categorized as less than well capitalized). They welcomed the extension of examination cycles to 18 months and the exemption from the Volcker Rule for banks under \$10 billion in assets.

Reducing burden in examinations with technology

Examinations under the Federal Financial Institutions Examination Council (FFIEC) are not considered to be excessively intrusive by Wisconsin bankers. Many of them said the FFIEC's focus on a risk-based approach seems to be working. They like the risk-focused supervision process in which more resources are used to address institutions or areas that present heightened risk versus those that do not.

One banker also noted that the ability to upload the majority of documents to the Federal Deposit Insurance Corp. has shortened the time examiners spend on-site. The bankers agreed that this time could be reduced further if loan files could be uploaded as well. Overall, Wisconsin bankers viewed the FFIEC's efforts to streamline and improve the examination process as a positive and welcome change for the state.

The future of funding, liquidity and raising core deposits

Wisconsin bankers have a positive outlook with respect to funding and liquidity. One banker did not foresee a liquidity funding problem within the next five years. Another banker said that capital is not a concern because the bank's capital ratio is north of 10%.

In terms of deposits, several bankers said they have strong core deposit bases. One banker noted that the recent increase in short-term interest rates caused some pressure on the bank's premium savings and money market accounts, but did not influence the bank's transaction accounts. However, an increase in nonmaturity deposit rates without a corresponding increase in long-term fixed-rate loans could add some pressure to margins.

Overall, Wisconsin bankers reported that banks are healthy and the economy is good; however, several bankers acknowledged a need to attract more people and workers to the state in order to increase core deposits over the long term.

Technology and strategic plans

Several Wisconsin bankers said that technology and innovation are "top of mind," especially when it comes to strategic planning. The bankers are working diligently to meet the needs of their online customers by increasing their focus on cash management and digital banking capabilities. Bankers also are offering customers more products. As for long-term plans, several banks are in the process of outsourcing core processing systems as well as researching the possibility of outsourcing information technology within the next five years.

Although one bank was said to be working continually to meet the financial needs of current customers online, it will not offer new accounts online. This allows the bank to serve the local market through organic growth, which "is the secret to this bank's more than 100-year history," the banker noted. Overall, Wisconsin bankers viewed technological innovation in a positive light and reported seeing a continued need for fintech firms to partner with banks that "still own the customer relationships," as one banker said.

Evaluating cybersecurity risk

Wisconsin bankers agreed cybersecurity is not a matter of "if" but "when." Several bankers reported that their core system processors have provided excellent resources to keep banks safe by continually conducting phishing simulations.

Bankers across the state would welcome more training. One banker didn't expect regulatory agencies to provide the training, noting that it is the bank's responsibility to seek out training resources.

One bank reportedly has "a handle" on data protection because it continues to improve data protection capabilities as changes in the industry are made. However, this bank also would welcome additional training opportunities.

Overall, Wisconsin bankers agreed education of both customers and employees is key to fighting cyber threats.



Community bankers in Wyoming said the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 (EGRRCPA) was primarily targeted at larger regional banks and did little to help traditional community banks. They said items geared towards community banks, such as changes to the Call Report and the Home Mortgage Disclosure Act (HMDA), provided only limited relief. For example, items removed from the Call Report included those that community banks do not report or report using automated processes. One banker said increases in the HMDA reporting threshold did not provide a shield against the reporting of a large number of new data points.

Bankers believe there are many ways in which Congress could provide meaningful relief to community banks. Many agreed that changes are needed regarding Bank Secrecy Act requirements and, specifically, beneficial ownership regulations. Bankers also suggested that Congress work to level the playing field on taxes and regulation for banks, credit unions and nonbank financial institutions.

Reducing burden in examinations with technology

Wyoming's community bankers were generally positive about recent examination experiences. Bankers noted that examinations seem to be increasingly risk-tailored. In addition, regulators are utilizing document imaging to review more loans off-site.

One area in which bankers said improvements could be made is the process for requesting items from a bank prior to an examination. One banker noted duplicate requests for items pertaining to operations, risk management, loans and other areas. Uploading duplicates is time-consuming, and bankers feel that the approach could be streamlined for the benefit of both examiners and bankers.

Another suggestion was to standardize requests for information across regulatory agencies. Bankers noted that they switch back and forth between federal and state examinations and that both regulatory agencies request essentially the same information in different formats.

The future of funding, liquidity and raising core deposits

Bankers said that changes in the interest rate environment and loan demand have resulted in a more normal banking environment. Stagnant rates and economic decline had created a false sense of comfort regarding liquidity throughout the industry, but core deposits are now subject to increased competition as rates change and loan demand picks up given the better economy. Banks have increased their focus on generating deposits. In the past, banks would work hard to get deposit business from their loan customers; now they are focused on building relationships

with depositors to supplement loan demand. Given the improving economic conditions, banks are seeing increased competition with online banks and brokerage firms selling certificates of deposit.

Technology and strategic plans

Bankers are investing in technologies that customers request while at the same time balancing the need to take care of a core deposit base that mainly uses traditional banking channels. With future changes in technology, depositors will have significantly more options for banking services. Community bankers in Wyoming said they aren't on the leading edge of adoption but are putting pressure on core providers and vendors to provide the same services available at larger banks and at competitive prices. They said it is important to fully consider the costs of adoption and integration with third-party systems. Bankers said they prioritize technology within their strategic plans. Overall, as new technologies and products are deployed, bankers said they will remain focused on providing a high level of service to their customers.

Evaluating cybersecurity risk

Bankers believe information sharing regarding cyber threats is critical. Although platforms are available for information sharing, "information overload" makes it difficult to identify actual threats. Bankers suggested that regulators develop a better process for sharing this information.

Wyoming banks immediately reach out to state and local law enforcement when they identify email fraud, wire fraud or any serious cyber threat, the bankers said. They are hopeful that this information is shared with other financial institutions. But they said banks often contact each other directly because regulators and law enforcement seem reluctant to share information.

Another challenge facing Wyoming's community banks is the difficulty in attracting and retaining qualified staff to help manage vendors and cyber risk. Bankers feel that additional guidance on managing cyber risks would be helpful.

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