

2026

CSBS Annual Survey of Community Banks



Findings from the 2026 CSBS
Annual Survey of Community Banks
Presented at the 14th Annual
Community Banking Research Conference

Oct. 6-7, 2026

Foreword from Rhoshunda Kelly

Community bankers appreciate the recent relief in regulatory requirements—but are cautious they may be short-lived due to pendulum swings with changing administrations.

Net interest margin pressure and core deposit growth are the top risks on their minds—again. The growth of the stablecoin market is fueling some of their concerns, due to potential siphoned deposits and uneven regulatory frameworks.

Meanwhile, rapidly changing technology is creating both opportunities and challenges. Many community banks have adopted or plan to adopt artificial intelligence in the next couple of years.

At the same time, they continue to identify cybersecurity as their greatest internal risk, followed by the challenges and costs of implementing new technology.

In my 25 years of state supervision, I have always looked for emerging and reoccurring trends affecting financial institutions both in Mississippi and across the nation. Understanding the concerns of community banks helps craft policy so they can better serve their customers. That is why I always look forward to the Conference of State Bank Supervisors' Annual Survey of Community Banks. For 13 years, the survey has provided policymakers with valuable insights into the challenges and opportunities community banks face.

The survey also highlights the resilience of community banks as they adapt to a changing financial landscape. That resilience underscores the vital role community banks play in supporting local businesses, serving consumers, and strengthening the communities they call home.

I invite you to read the full report to learn more about the issues community bankers identify as their most pressing concerns and greatest opportunities.

Rhoshunda Kelly

*Chair, Conference of State Bank Supervisors Board of Directors
Commissioner, Mississippi Department of Banking and Consumer Finance*

2026 CSBS Annual Survey

Introduction

The 2026 Annual Survey of Community Banks (Annual Survey) continues to provide a comprehensive look at the evolution of community banking in the United States. The survey findings offer unique insights into the industry and provide perspectives that can influence future research and policy decisions. The survey would not be possible without the significant efforts of the state banking commissioners who actively promote it within their states. But ultimately, the value of the survey rests on the hundreds of community bankers who faithfully respond to it each year, thus promoting a clear and unvarnished view of the forces impacting their industry.

The Annual Survey, conducted by the Conference of State Bank Supervisors (CSBS), was administered from April 15, 2026, to July 15, 2026. The survey, which first launched in 2014, provides fresh insights into what community bankers view as the most significant opportunities and threats to their operations today and offers a glimpse into the issues they see emerging in the future.

The public release of the survey findings takes place at the start of the annual Community Banking Research Conference¹ and has become a vital component of the research proceedings themselves, serving as a reference point throughout the event. The survey findings provide context for the research that is presented each year and for the other expert views that are offered over the two days of the conference.

As envisioned by CSBS more than a decade ago, the Annual Survey explores concepts that aren't easily teased out of public banking data. Rather, the survey seeks to more thoroughly understand topics that aren't routinely reported on through existing formal channels. In some cases, the survey simply seeks to "get under the hood" of some of the known data on community banks.

The survey is anonymous, although the survey design utilizes several mechanisms to prevent duplicate responses and to ensure that community banks—defined as institutions with less than \$10 billion in total assets per the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010—are the only entities whose responses are captured.

By design, we repeat many questions each year to develop and maintain a consistent time series. Several other questions, however, are new, ensuring the survey explores emerging topics.

The relevance of the survey is bolstered by this scalability and by its history of identifying issues that may become more prominent in the future. For example, the survey has given its readers a chance to see the evolution of bank and nonbank competition across different products and services categories.

The evolution of fintech firms is a case in point: Community bankers initially viewed these firms as direct competitors, then as complementary and collaborative, and now as they are—fully integrated into all facets of the banking landscape, both as competitors and collaborators.

A different, but arguably more impactful, technological force is once again impacting community banks and is highlighted across responses to the 2026 survey: artificial intelligence (AI).

Unlike the community bank responses to the fintech questions in prior years, more than half of all respondents indicated in this year's survey that they are already actively involved in some form of AI piloting. The speed of AI adoption seems to be accelerating. Understanding how community banks integrate AI into their business models, and the consequences of this integration, will be clear areas of interest in future surveys.

Beyond emerging issues, the survey also reminds readers that issues of the past can, and do, re-emerge. Take liquidity for example. Prior to the COVID-19 pandemic, new fintech entrants, offering higher deposit rates, were seen as a potentially destabilizing force for the deposit franchises of banks, particularly community banks. The 2019 survey revealed significant banker concerns over deposit flight and the repricing of deposits and loans. These concerns even inspired a panel discussion during the 2019 Community Banking Research Conference on "The Future of Funding."

Fast-forward to 2026, and the potential for deposit franchise erosion is once again sounding alarm bells among community banks—but this time due to the emergence of stablecoins. With the passage of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act in July 2025, stablecoins have gained prominence as a competitor for deposits.

With full implementation of the GENIUS Act scheduled to take place in early 2027, the survey results reveal just how much community bankers are thinking about the potential impact of stablecoins as a future payment mechanism and highlight how much bankers are actively planning for a world in which stablecoins and tokenized deposits become mainstream. Some community bankers even indicated they are evaluating the extent to which their banks will actively engage in the issuance of stablecoins.

It is clear in this year's survey that community bankers will be carefully watching key developments around the final market structure framework for payment stablecoins and the rewards that stablecoin issuers are able to offer (and not offer) regarding their usage.

Competition and the impact of emerging technologies are just a few of the areas addressed in the 2026 survey. The survey dives into many other key areas of community banking, including internal and external risks, the mergers and acquisitions landscape, and the impact of inflation.

¹ The annual Community Banking Research Conference is sponsored by the Federal Reserve, the Conference of State Bank Supervisors and the Federal Deposit Insurance Corporation.

Key Findings

- For the second consecutive year, respondents identified net interest margins and core deposit growth as the top two external risks. Technology costs and the cost of funds ranked third and fourth.
- Concerns about regulation as an external risk continued to fall, with 62% of respondents identifying regulation as either an “extremely important” or a “very important” area of concern, compared with 75% in last year’s survey, and 89% in the 2024 survey.
- More than half of respondents indicated that they were unsure as to when inflation would return to the price stability target of the Federal Open Market Committee (FOMC), or that they expect it to occur beyond 2029. This represents a sizable increase from last year’s survey, when 30% of respondents were “unsure” or thought that the 2% target would occur in “2028 or later.”
- Cybersecurity was identified as the top internal risk for the ninth year in a row, followed by technology implementation and costs. Interest rate risk, which was called market risk in last year’s survey, rose from the lowest internal risk to the fifth highest internal risk this year, likely reflecting the shifting interest rate environment.
- More respondents have established relationships with fintech providers this year, with 33% of respondents utilizing fintechs for mobile banking support.
- Community banks continue to compete most intensely with one another for small-business, commercial real estate, and agricultural loans. Meanwhile, they compete most heavily with regional or national banks with a physical market presence for payment and wealth management/retirement services, and with credit unions for small-dollar unsecured loans.
- Banking market competition remained the primary challenge to retaining core deposits, followed by economic uncertainty. Fintech competition was the third cited risk, with 45% of respondents rating it as an “extremely important” or a “very important” challenge to their business, up from 34% last year.
- In response to an open-ended special question regarding regulatory changes and their impact over the past 12 months, bankers revealed a cautiously optimistic outlook. Most noted that overall regulatory relief was having a positive impact, although many expressed concern that such relief may be short-lived.
- In another special question, concerning the impact of stablecoin adoption on their banks, close to 60% of the respondents reported they saw deposit erosion and reduced lending capacity, and uneven regulatory implementation or regulatory arbitrage, as the “most impactful” or “moderately impactful” to their banks.
- When asked about their current use of AI, about 53% of respondents indicated that they were piloting AI technology or engaging in limited use across specific functions. For those community bankers already engaged with AI, 77% said they are using it to assist with fraud detection and security.

Background

Prior to releasing the Annual Survey, CSBS and other key stakeholders identified relevant issues to include in the survey. Between April and July 2026, state banking agencies distributed the survey to community banks. This year, a total of 330 institutions responded.

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, a community bank is distinguished as having less than \$10 billion in total assets. This report uses the Dodd-Frank benchmark to define community banks, with most respondents also being state-chartered institutions.

Limitations of this survey include, but are not limited to:

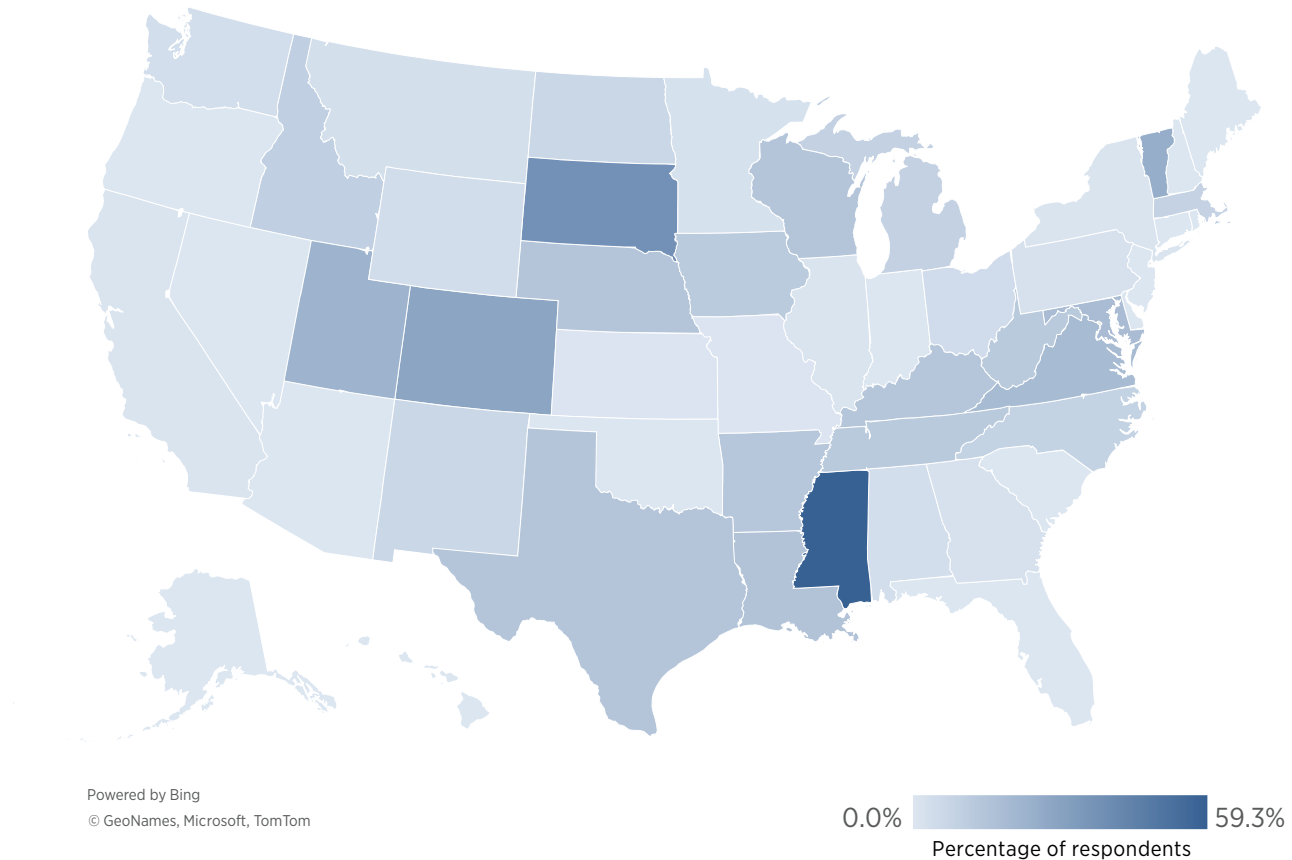
1. Not every U.S. state and territory had a community bank that completed the survey; in that case, that state or territory was not represented.
2. This survey was structured as a convenience sample, meaning respondents participated on a self-selected basis.
3. Respondents did not necessarily respond to every question.
4. Detailed statistical testing to demonstrate the representativeness of the surveyed banks of the overall industry was not performed.

Any conclusions gathered from this year’s survey should include these limitations accordingly.

Since respondents were not required to answer every question, all responses are expressed as a percentage of total respondents to the respective question. Not all percentages will sum exactly to 100% due to rounding.

FIGURE 1

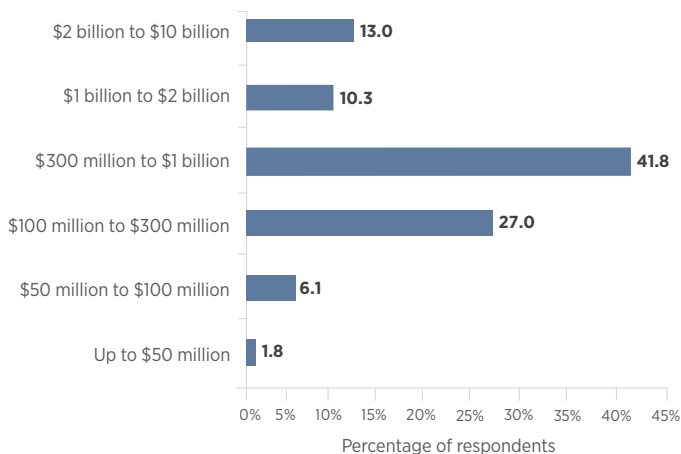
Survey response rate by state



Participants were from 35 states—three more than in 2025. Of the states represented, Mississippi had the highest participation rate, followed by South Dakota and Colorado.

FIGURE 2

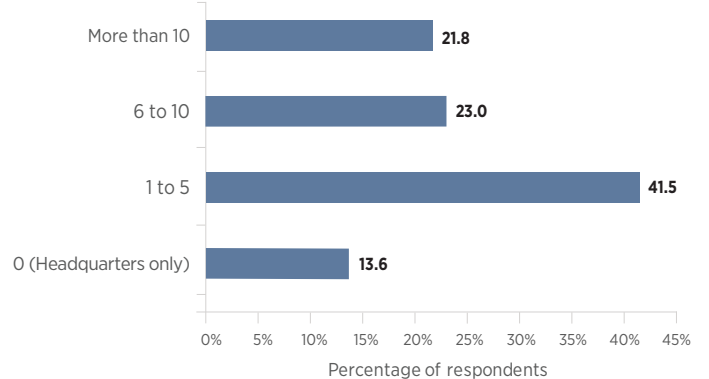
Asset size of surveyed banks



Similar to 2025's survey results, about 69% of respondent banks had total assets between \$100 million and \$1 billion. However, this composition was most concentrated in banks in the \$300 million to \$1 billion range. Just under 8% of banks surveyed had assets below \$100 million, while 23% exceeded \$1 billion.

FIGURE 3

Number of branches of surveyed banks



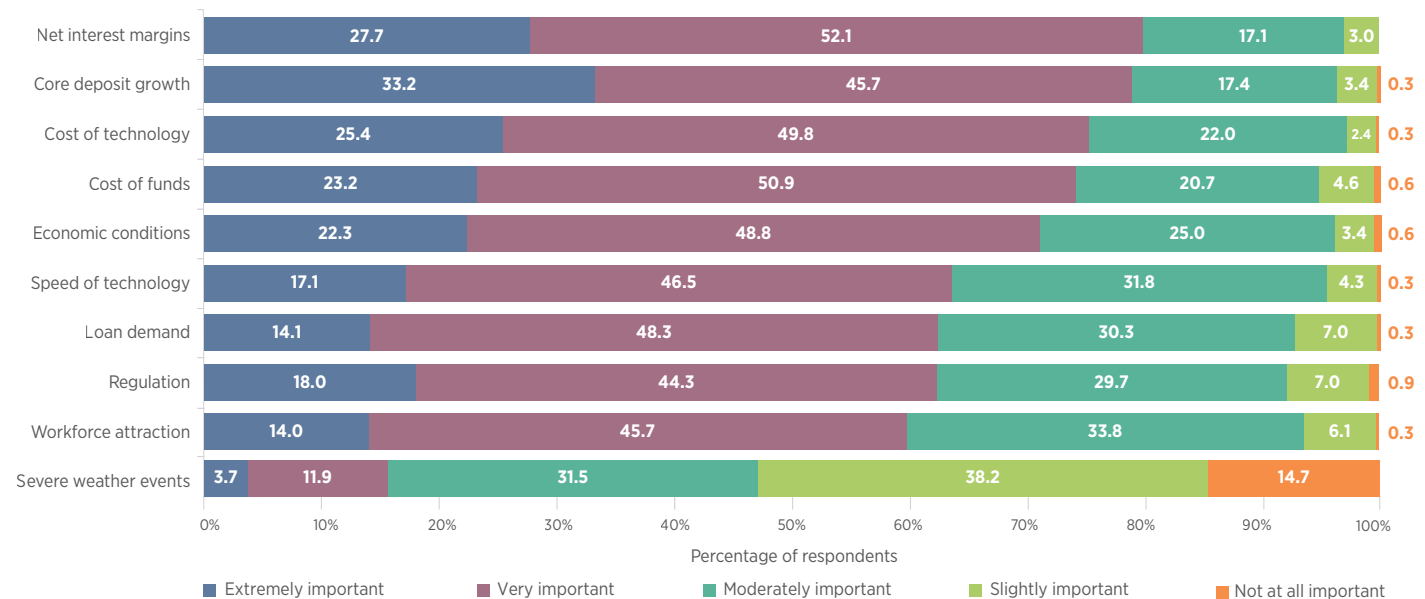
Regarding branch networks, more than 41% of respondent banks had between one and five branches, while 22% had more than 10 branches, and 14% had none.

EXTERNAL RISKS

Similar to last year, net interest margins and core deposit growth ranked as the top two external risks faced by respondents in 2026. These results came as the Federal Reserve eased the federal funds rate by 75 basis points throughout late 2025 to a range of 3.50% to 3.75%. Despite the lower federal funds rate, the net interest margin environment remained largely stable as deposit rates and loan rates fell in tandem. Meanwhile, competition for deposits remained intense. Many bankers said banking market competition, economic uncertainty and fintech competitors posed the greatest challenges to attracting and retaining core deposits. See the “Funding” section on page 21 of this survey for more information.

FIGURE 4

How important are the following external risks to your bank today?



In the 2026 Annual Survey, about 80% of respondents identified net interest margins as either an “extremely important” or a “very important” risk to their business, down from 88% in last year’s survey, though it remains the leading external risk facing community bankers.

Core deposit growth remained the second most important external risk, with nearly 79% of respondents naming it as either “extremely important” or “very important,” which is unchanged from last year. Deposit capture from nonbanks, specifically, was highlighted as a concern in the open responses to this question and others throughout the survey.

Cost of technology and cost of funds rose to the third and fourth rankings, respectively, this year, supplanting economic conditions. Approximately 75% of bankers indicated that costs associated with technology and funding were either “extremely important” or “very important.”

Bankers expressed less concern about regulation, with 62% of respondents identifying regulation as either “extremely important” or “very important,” down from 75% last year, and 89% in 2024.

Banker Perspective

“For a long time, it felt like nobody paid much attention to deposit rates, so, in a way, it’s been refreshing to start having conversations with our customers about this again. There’s a lot more competition and information out there. For example, a lot of our customers are using TreasuryDirect. Our bankers are trained to start proactive conversations on where the market is and what we can offer, and we empower them to negotiate on rates, especially when they’re working with a customer who has been with us for a long time. We’re also taking advantage of some of the new products out there. After the Silicon Valley Bank and Signature Bank failures, deposit insurance became a big topic. We’ve leveraged both ICS [Insured Cash Sweep] and CDARS [Certificate of Deposit Account Registry Service], both of which many of our customers use. It’s helpful to be able to compete with the big money-center banks on some of the products we offer, while giving people the option to keep their deposits local.”

—Scott Mizner
American Bank, Bozeman, Montana

RISK OF INFLATION

The Federal Reserve targets 2% personal consumption expenditures (PCE) inflation as part of its dual mandate and closely monitors “core” PCE inflation, which removes the volatile components of food and energy. As of June 2026, the annual PCE inflation rate was 3.7%, while core PCE inflation was 3.3%, measured on a 12-month basis. These rates are down from highs of 7.2% PCE and 5.6% core PCE in June 2022 and February 2022, respectively.

With inflation still above the FOMC’s 2% price stability target, bankers were asked to rank the effects of inflation on their banks. Once again, community bankers cited costs of deposits as the most impacted, though the share of respondents who cited it as “most impactful” declined to 38% from 46% last year. Personnel expenses were again the second most impacted by inflation, according to 29% of respondents, up slightly from 23% last year.

Close to 81% of respondents thought inflation-related challenges were likely to persist, up 6 percentage points from last year. However, respondents predominantly viewed inflation challenges as manageable—a positive sign for overall bank health. Only 2.7% of community bankers expected core inflation to return to the Federal Reserve’s target by the end of 2026, while 20% anticipated this to occur in 2027, 26% in 2028, and 23% in 2029 or later. About 28% reported they were “unsure.”

FIGURE 5

How would you rank the following effects of inflation on your bank in terms of level of impact?

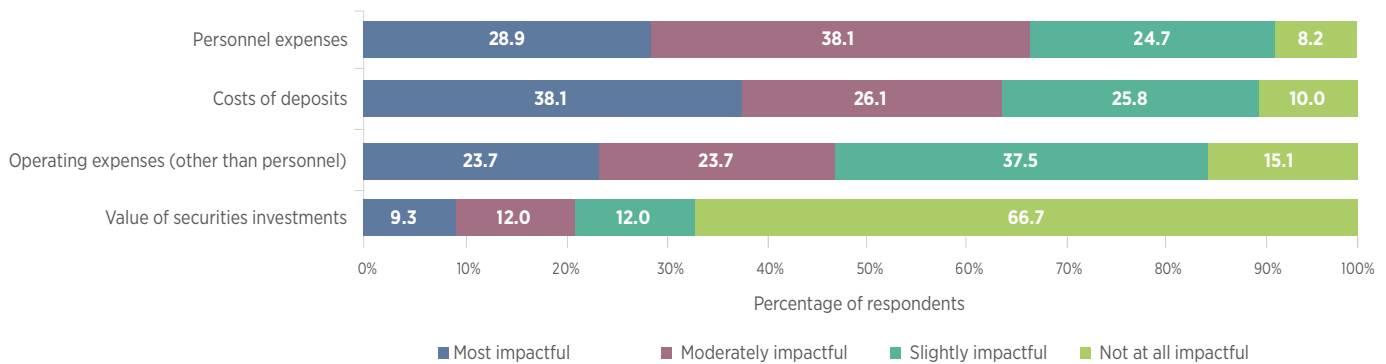
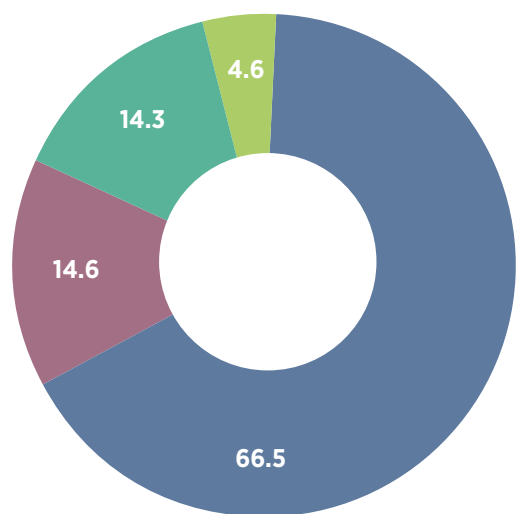


FIGURE 6

How does your bank view inflation challenges?

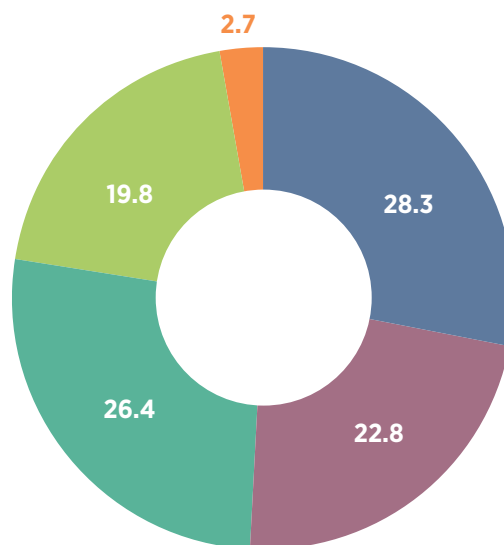


Percentage of respondents

- Likely to persist and manageable
- Temporary and manageable
- Likely to persist and difficult to manage
- Temporary but difficult to manage

FIGURE 7

When do you expect the year-over-year rate of core inflation to decline to the Fed's 2% target?



Percentage of respondents

- Unsure
- 2029 or later
- 2028
- 2027
- By year-end 2026

Banker Perspective

“The average American is still feeling very high inflation. Utility bills are up this summer. Insurance bills are up. Taxes are higher. Grocery and medical costs are up. At some point, consumers may begin to pull back. My concern is that we may be at a peak in spending. The question is: How long can it last? When will we start to see cracks in the economy or credit issues emerge? It doesn't feel like it will happen this year, but it certainly could, especially based on what happens with rates. The good news is that with our strong recent results, our capital positions and balance sheets are stronger than ever. Whenever the next downturn comes, we will be ready.”

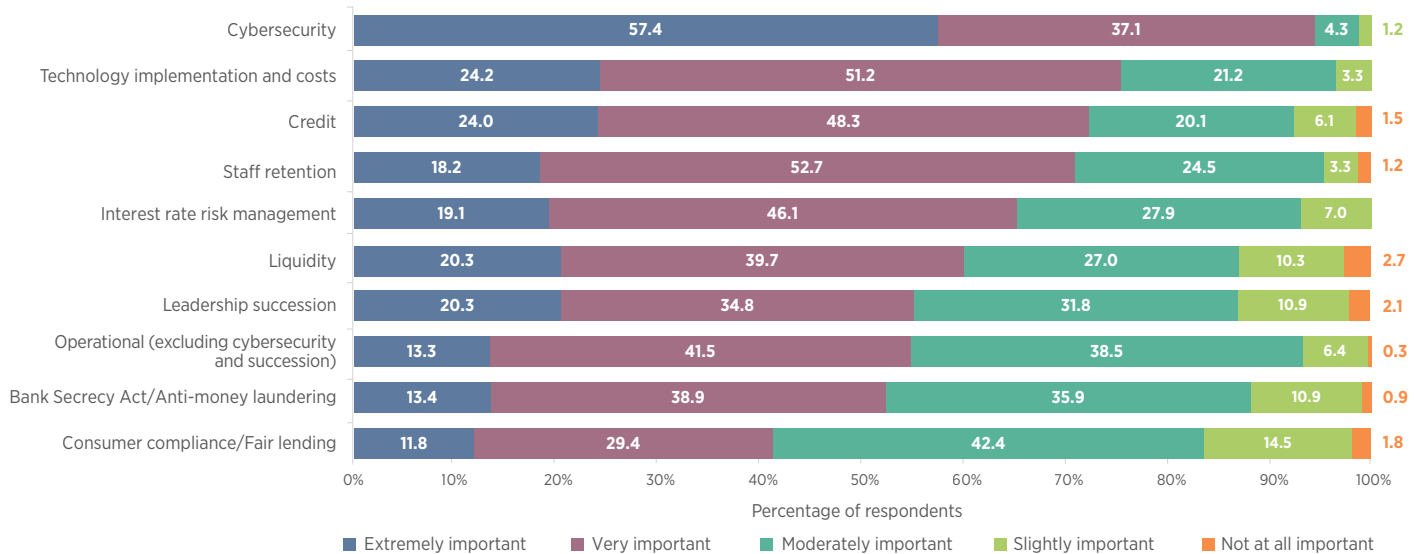
—David Osborn
WestStar Bank, El Paso, Texas

INTERNAL RISKS

While every community bank faces unique risks, some themes carry across the industry and persist from year to year. Survey respondents again named cybersecurity and technology implementation and costs as the most important internal risks facing their institutions. Internal risk stemming from cybersecurity has held the top spot since being introduced in 2018. Credit and liquidity risks remained top of mind to bankers; however, the portion of respondents identifying liquidity risk as “extremely important” fell from 28% last year to 20% this year. Interest rate risk management replaced market risk in this year’s survey and joined other internal risk categories as either “extremely important” or “very important” to the majority of respondents. Staff retention remained a critical internal risk, with more than 70% of respondents indicating it was either “extremely important” or “very important.”

FIGURE 8

How important are the following internal risks facing your bank today?



Cybersecurity was identified as the top internal risk in this year’s survey. Close to 95% of surveyed community bankers cited this risk as either an “extremely important” or a “very important” internal risk. This share was up slightly from last year’s survey and remains well above all other internal and external risks identified in the survey.

Technology implementation and costs came in as the second most important internal risk in this year’s survey, with 75% of respondents citing it as either “extremely important” or “very important.” This share was a bit lower than last year’s, after steadily increasing over the past few years.

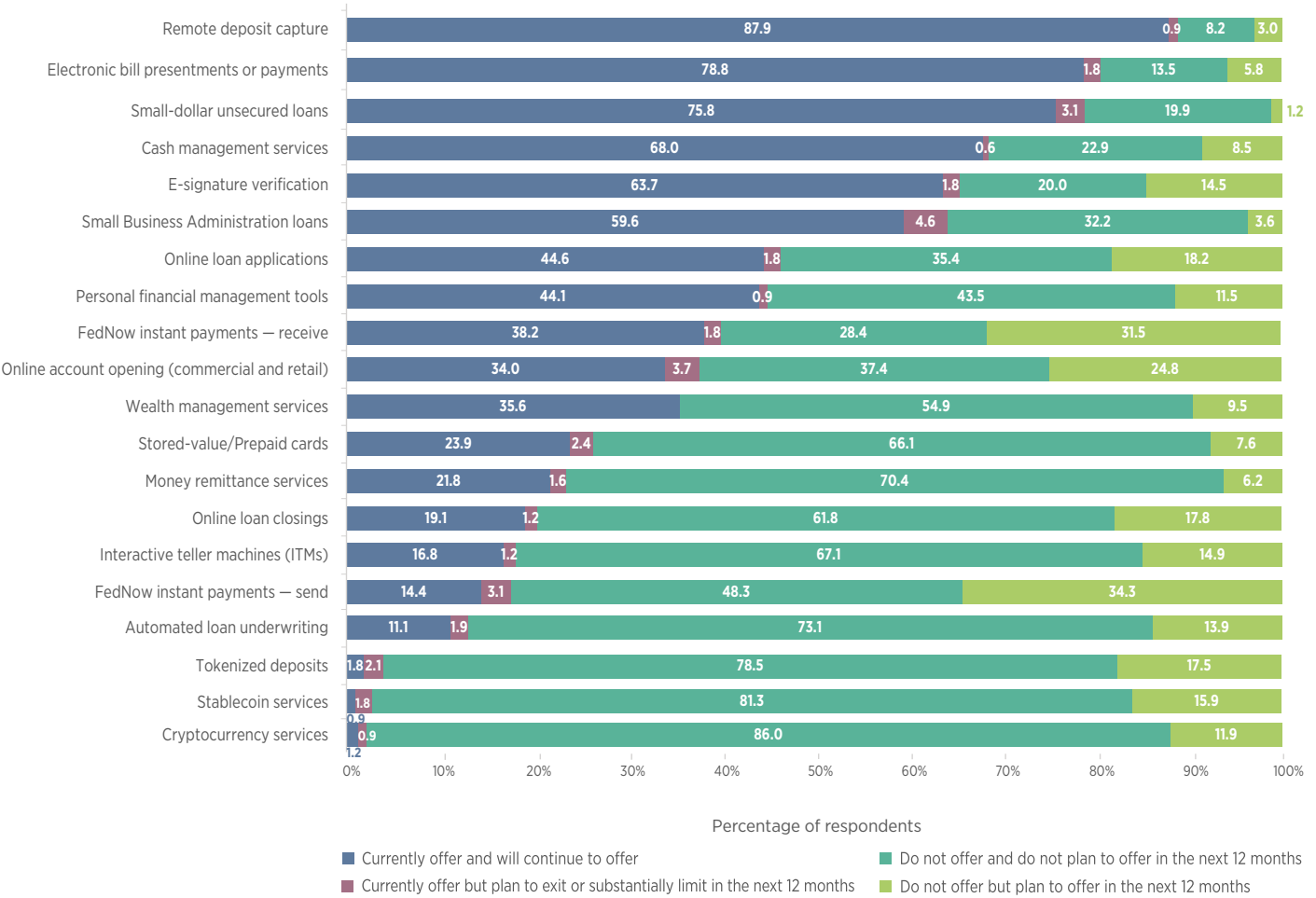
Credit remained in the third position in this year’s ranking of internal risks, with 72% of respondents indicating it was either an “extremely important” or a “very important” risk.

Additional Internal Risks

- **Staff retention** increased to the fourth most prominent internal risk, with 71% of bankers naming it as either an “extremely” or a “very important” risk, up slightly from last year’s 68%.
- **Interest rate risk**, previously identified as market risk, rose from the lowest internal risk to the fifth highest internal risk this year, likely reflecting the shifting interest rate environment.
- **Consumer compliance and fair lending** risk fell to the lowest-ranked internal risk this year, with only 41% of respondents designating it as “extremely important” or “very important,” down from 55% last year and 66% in 2024.
- **Artificial intelligence, fraud, and the ability to retain deposits** were other internal risks bankers cited in their narrative responses to this particular survey question.

PRODUCTS AND SERVICES

FIGURE 9
What are your bank’s intentions regarding the following financial products or services?



Online banking continued to be a key area of focus for respondents. Remote deposit capture and online bill pay (electronic bill payments) were offered by 89% and 81% of respondents, respectively. Additionally, 45% of respondents indicated that they currently offer and will continue to offer online loan applications, similar to last year’s results.

Slightly more bankers than last year are receiving FedNow instant payments. More than 31% of bankers in this year’s survey indicated they don’t currently offer but plan to offer this service in the next 12 months, up from 25% last year. Around the same percentage of respondents indicated that they were sending FedNow instant payments compared to last year, with slightly more respondents planning to offer this service in the next 12 months.

Two new services were added to this survey question for this year: stablecoin services and tokenized deposits. Along with cryptocurrency services, all three had less than 2% of respondents noting that they currently offer and will continue to offer these services. Close to 18% of respondents indicated that they planned to offer tokenized deposits in the future, followed by 16% who plan to offer stablecoin services and 12% who plan to offer cryptocurrency services. There has been a steady, albeit slow, increase in respondents interested in offering cryptocurrency services over the last few years.

Finally, the share of bankers who currently offer and plan to continue to offer Small Business Administration loans declined to 60% from 66%, while those who plan to exit or substantially limit offering them next year rose to 5% from 2% in 2025.

Banker Perspective

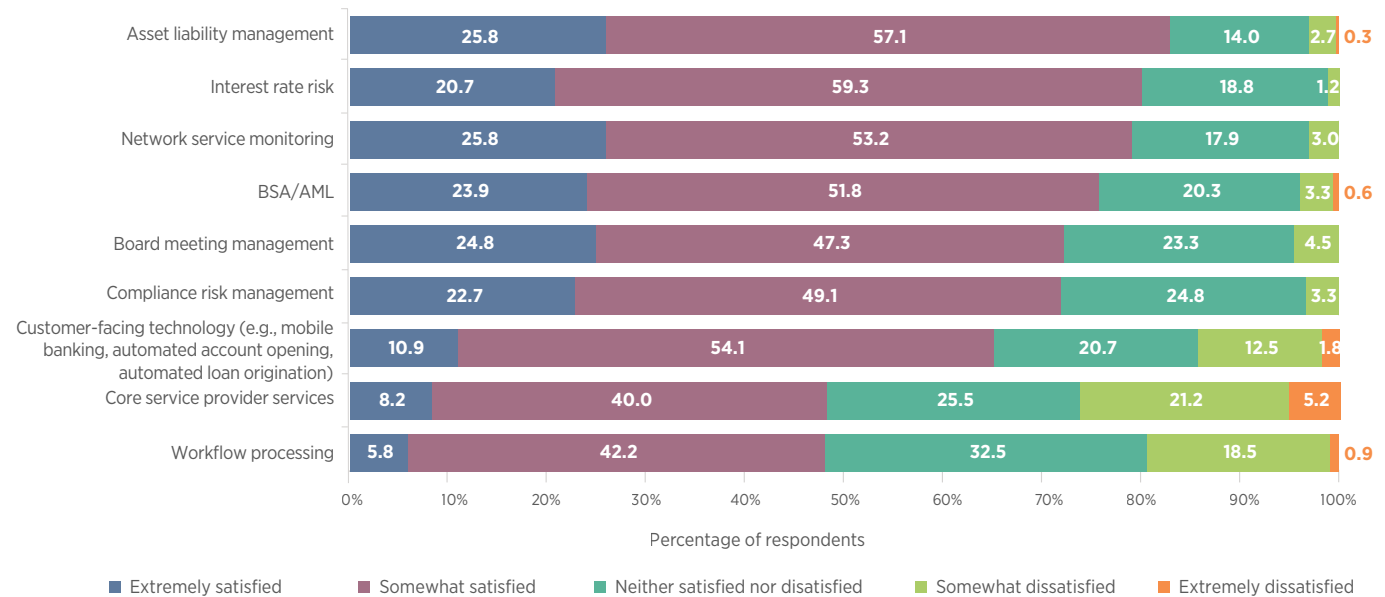
“Passumpsic Bank’s prior participation as a non-transacting member of USDF, an early tokenized deposit network, has given us valuable exposure to the issues surrounding tokenized deposits and programmable payments. We see potential opportunities as the regulatory and market environment develops. The consortium model would be particularly attractive because it could allow community banks to participate in a regulated infrastructure without having to build and operate the technology independently. This can address a community bank’s need to pivot if market demand for programmable rails shifts suddenly.”

—Jim Kisch
Passumpsic Bank, St. Johnsbury, Vermont

TECHNOLOGY AND TECHNOLOGY SERVICES

FIGURE 10

How satisfied are you with the effectiveness of your bank’s technology in the following areas?

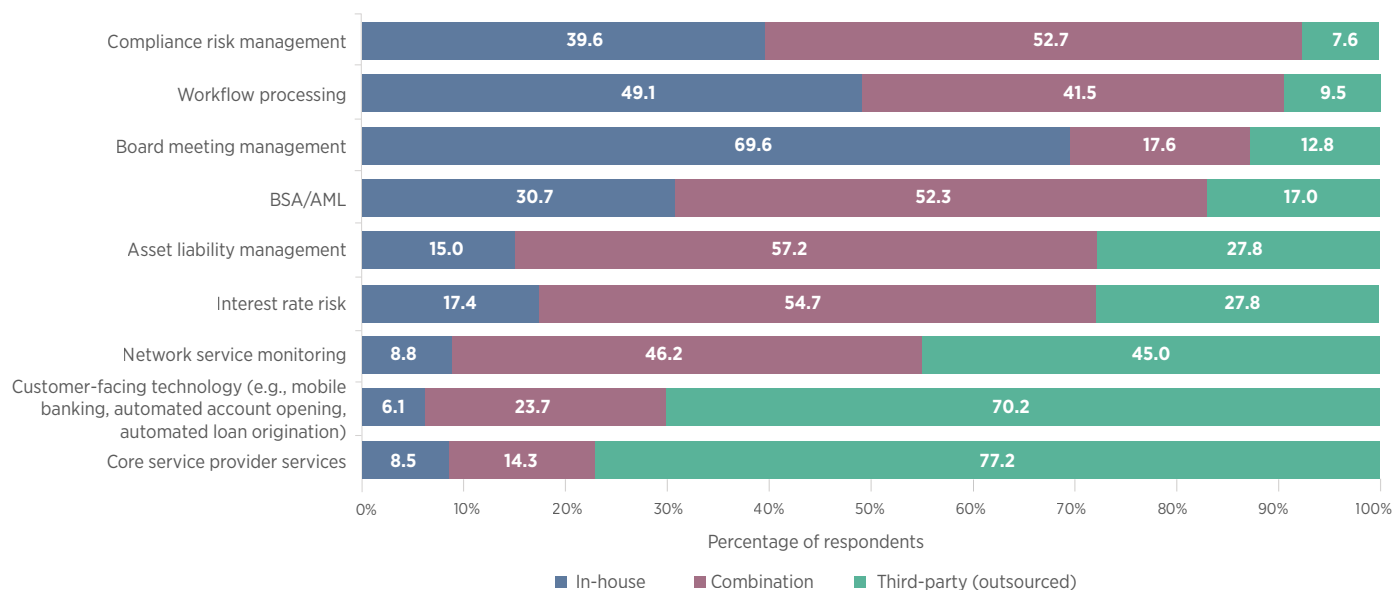


Surveyed bankers were generally satisfied with the effectiveness of technology across all measured areas. More than 75% of respondents indicated that they were either “extremely satisfied” or “somewhat satisfied” with the effectiveness of their banks’ technology regarding asset liability management, interest rate risk, network service monitoring, and Bank Secrecy Act/anti-money laundering (BSA/AML).

Meanwhile, respondents expressed the lowest level of satisfaction in workflow processing and core service providers. For both technologies, more than half of respondents were either neutral or dissatisfied. This growing dissatisfaction with core service providers has been evident across several survey cycles.

FIGURE 11

How are your technology needs for the following services being met?

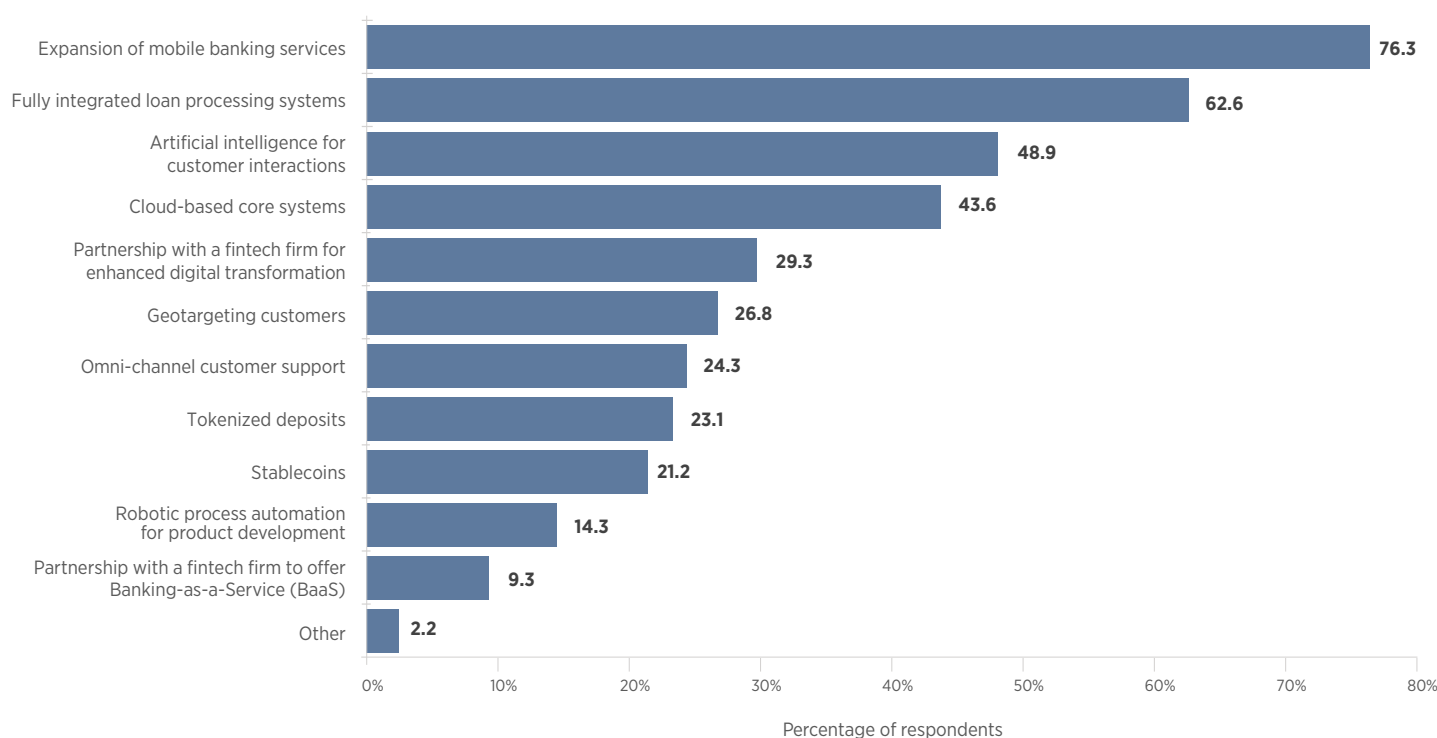


In terms of how community banks meet their technology needs, many respondents noted that compliance risk management, BSA/AML, asset liability management, interest rate risk, and network service monitoring were commonly handled by a combination of third-party vendors and in-house staff.

Core service provider services and customer-facing technology were the most common technologies outsourced to third-party vendors, as reported by 77% and 70% of respondents, respectively. Surveyed bankers identified board meeting management and workflow processing as the most likely to be done in-house.

FIGURE 12

What technological developments will be promising opportunities for your bank over the next five years?



NOTE: Participants were asked to select all that apply.

Looking ahead to the next five years, bankers continued to show the most optimism about the potential benefits of expanded mobile banking services and fully integrated loan processing systems, similar to last year’s results. Fewer bankers were as optimistic about cloud-based core systems, and there was little change in optimism around AI for customer interactions. Roughly the same proportion of respondents was interested in partnering with a fintech firm for enhanced digital transformation, geotargeting customers, and providing omni-channel customer support, while more respondents were interested in using robotic process automation for product development.

Banker Perspective

“For us, while AI will help streamline our workflows and get better information to our decision-makers, it cannot replace human judgment, local knowledge, and accountability. We’re a bank that takes a lot of pride in our credit underwriting, and I don’t ever see us relying solely on AI to make credit decisions. We work with a lot of specialized knowledge about the communities we lend in. There can be substantial differences between two markets that are only 20 miles away from each other. I don’t think AI will be able to replace the knowledge of a banker who has lived in the markets we serve.”

—Scott Mizner
American Bank, Bozeman, Montana

Tokenized deposits and stablecoins were added as response options this year, and 23% and 21% of respondents, respectively, indicated they believe that these technological developments will be promising opportunities for their banks over the next five years.

FIGURE 13

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

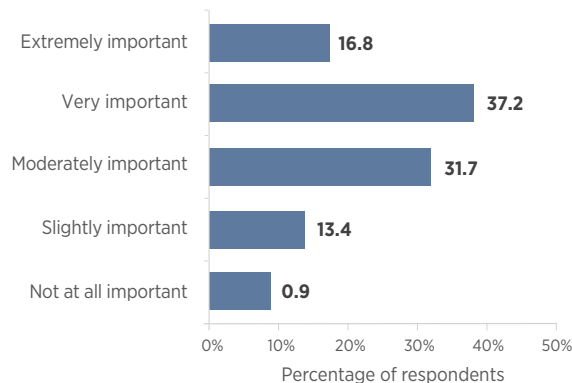
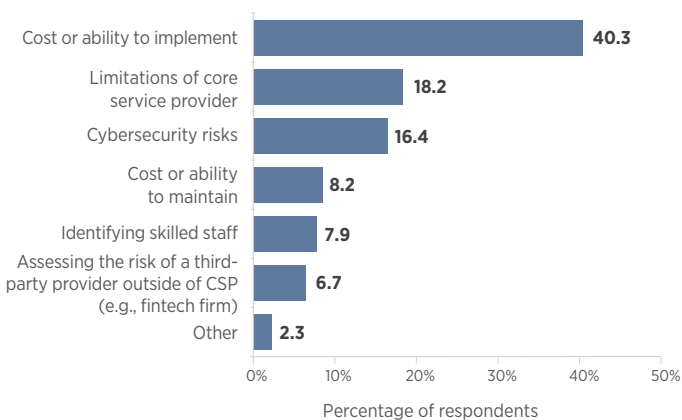


FIGURE 14

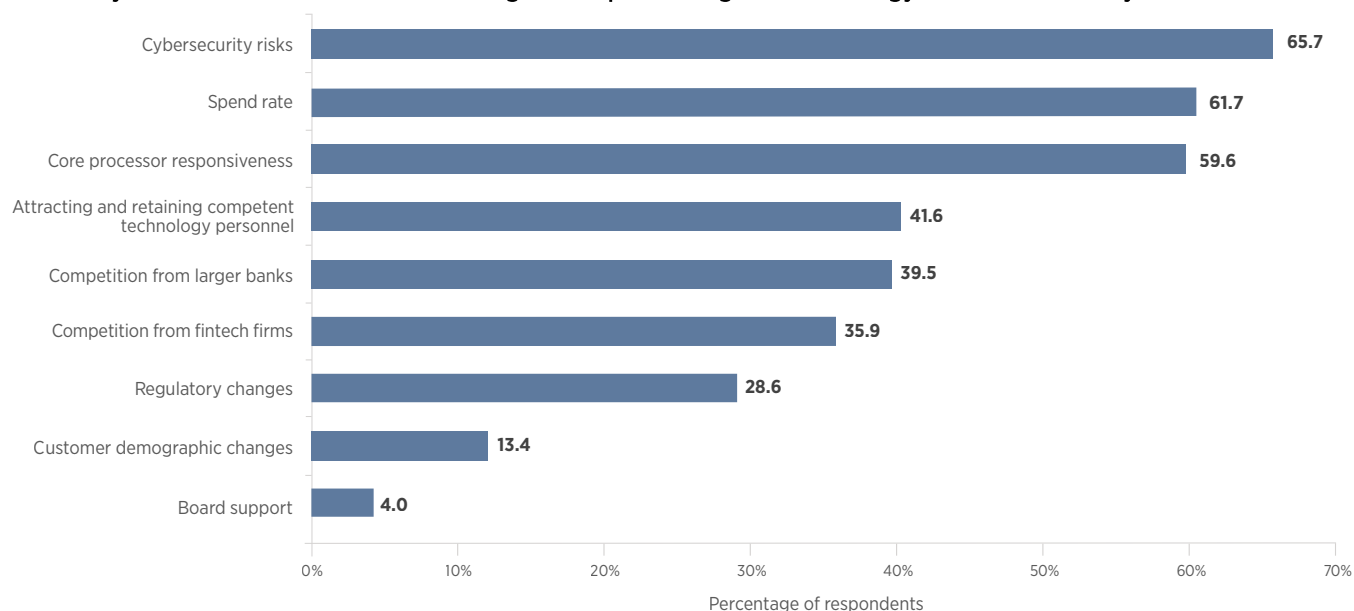
What is the most significant impediment to adopting new technologies over the next 12 months?



Keeping in line with historic trends, less than 1% of surveyed bankers considered the adoption of new or emerging technologies “not at all important,” with the rest deeming it at least “slightly important.” Around 17% of respondents labeled the adoption of new or emerging technologies as “extremely important” in this year’s survey, up from 10% last year. Cost or ability to implement remains the most significant impediment to adopting new technologies over the next 12 months, followed by limitations of core service providers and cybersecurity risks.

FIGURE 15

What do you see as the most difficult challenges to implementing new technology over the next five years?

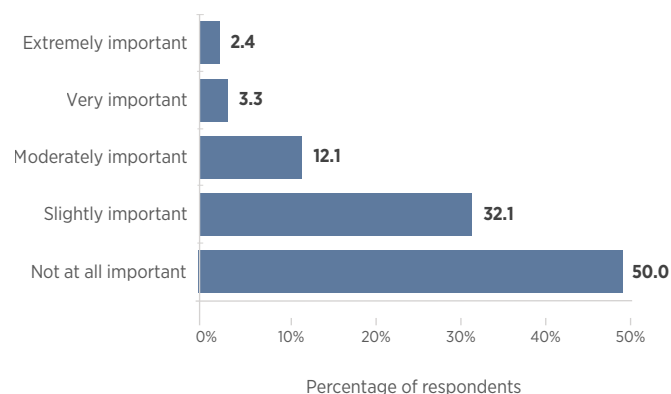


NOTE: Participants were asked to select all that apply.

While respondents said costs present the greatest short-term challenge to implementing new technology, cybersecurity was identified as the greatest challenge in the long term. When asked about various challenges to implementing new technologies over the next five years, close to 66% of community bankers identified cybersecurity risks as the most difficult challenge, in line with last year's figure. Respondents also identified spend rate and core processor responsiveness as challenges to implementing new technology. Compared with last year's results, bankers were slightly more apprehensive about competition from fintech firms in this year's survey but were less concerned about the challenges posed by regulatory changes. Only 29% listed regulatory changes to be a difficult challenge for implementing new technologies, down from 41% last year.

FIGURE 16

How important is meeting the cryptocurrency needs of customers at your bank?

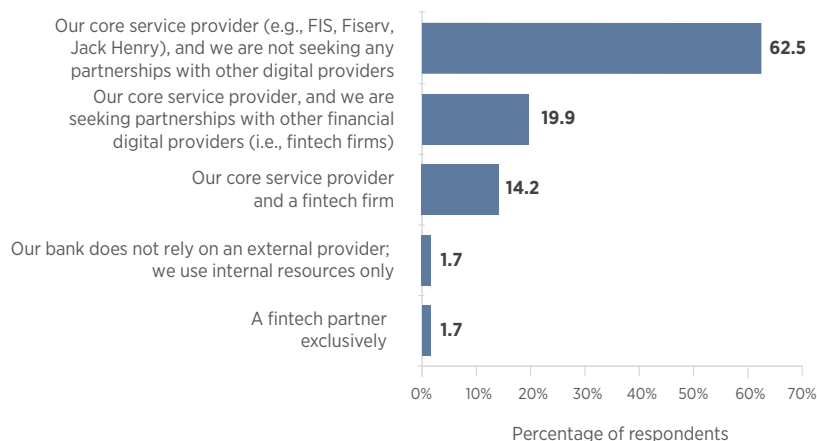


Meanwhile, 50% of survey respondents reported that addressing the cryptocurrency needs of bank customers was not an important aspect of bank business, down from 68% last year. Much of the gain in responses went to the "slightly important" (32%) or "moderately important" (12%) categories, up from 21% and 6% from last year, respectively.

Core service providers remained the primary source of digital banking products and services. About 63% of respondents reported relying on core service providers for digital banking products and services and responded that they were not seeking any partnerships with other digital providers, such as fintech firms. Meanwhile, 20% of bankers identified using core service providers while also seeking partnerships with other financial digital providers, up from 16% in last year's survey. A smaller share, 14%, relied on both core service and fintech providers for their digital products and service offerings.

FIGURE 17

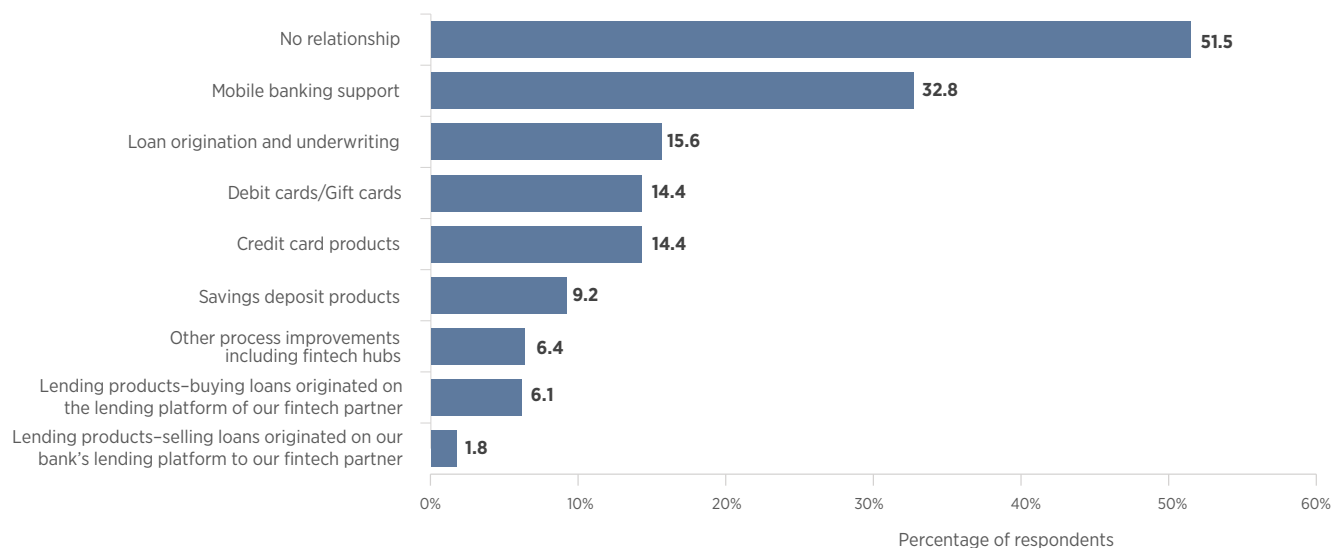
On whom does your digital banking platform rely?



The share of bankers reporting having no relationship with fintech firms fell to 52% from 69% last year. Relationships with fintech firms increased the most for services such as mobile banking support (33% this year and 19% last year), loan origination and underwriting (16% this year and 10% last year), and debit cards/gift cards (14% this year and 12% last year). Less than 2% of respondents reported selling loans to a fintech partner.

FIGURE 18

If you have a relationship with a fintech firm, what is the nature of the relationship?



NOTE: Participants were asked to select all that apply.

Banker Perspective

“We’re in the education phase on tokenization right now. We’re working with our key vendors on potential options for the future; we don’t want to be caught flat-footed if the demand for this technology grows. These things can pick up speed quickly. Before doing anything, we’d want to make sure the deposit insurance treatment is unambiguous, and we’d want to make sure any additional BSA/AML [Bank Secrecy Act/anti-money laundering] burden isn’t unmanageable. In summary, our hope is to be an educated, prepared, fast-follower through a trusted consortium, rather than an isolated early adopter.”

—Jim Edwards
United Bank, Zebulon, Georgia

COMPETITION

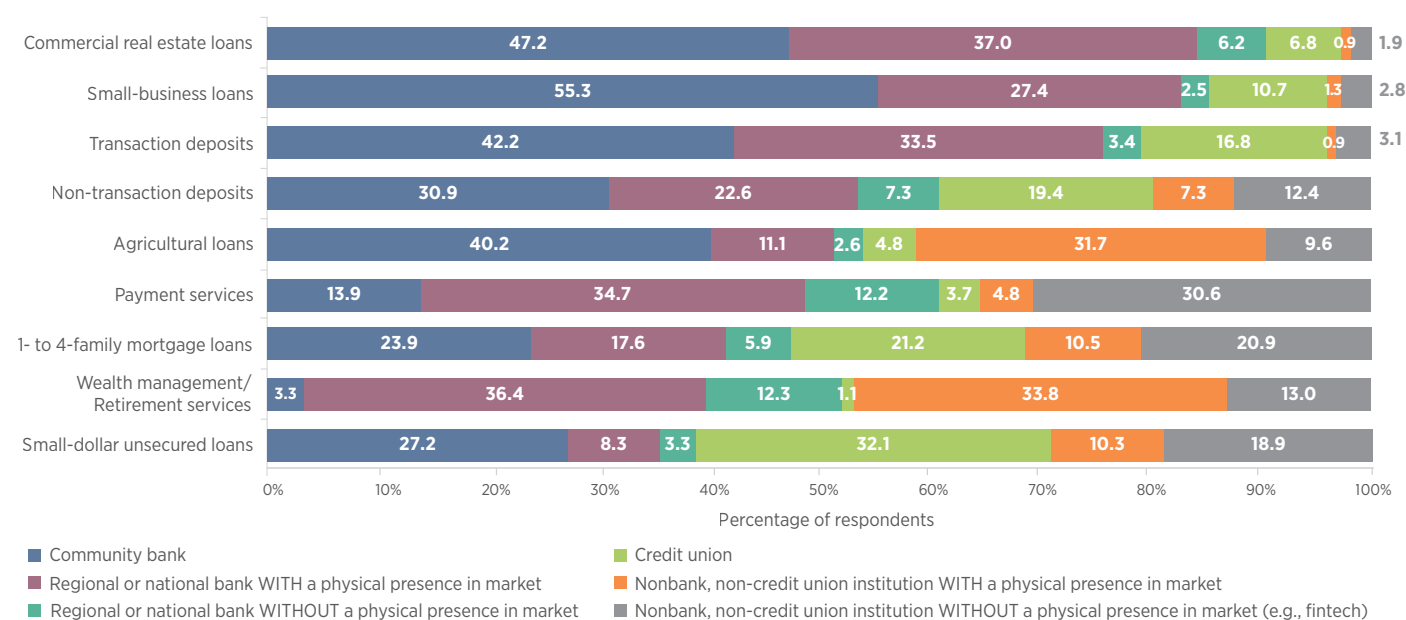
Competition for banking products and services remained high in 2026. While other community banks continued to be the primary competitor in most categories, their prevalence declined in five of the nine measured products and services compared to last year's survey. This indicates increasing competition from other types of financial institutions.

The largest increase since the prior year's survey was in competition for one- to four-family mortgage loans, whereby credit union competition increased 8 percentage points to 21%. This product market is now primarily split among community banks, regional banks with market presence, credit unions, and nonbanks with no community presence. Similarly, more respondents indicated increasing competition from credit unions in small-business lending, with 11% of respondents indicating credit unions to be their primary competitor, up from 7% last year.

For deposit products, the 2026 Annual Survey showed that community banks primarily compete with other community banks and regional banks with a physical presence in their market for both transaction and non-transaction deposits.

FIGURE 19

Who is your primary competitor for the following products and services?



Banker Perspective

“The environment is highly competitive, involving traditional banks, credit unions, and some fintech firms, though fintech presence is less pronounced in our specific regions. Given that our local demographic trends older than the national average, traditional financial products remain in high demand. Nonetheless, modern consumers are increasingly well-informed. Utilizing online resources and artificial intelligence platforms to compare interest rates across institutions, customers frequently bring competing rates to us, which puts continued pressure on pricing.”

—Jim Kisch
Passumpsic Bank, St. Johnsbury, Vermont

A listing of the top community bank competitors across time and the nine product and service lines is shown in Table 1. Community banks continued to compete most intensely with one another for small-business, commercial real estate, and agricultural loans. Regional or national banks with a physical market presence heavily competed for payment services and wealth management/retirement services, while credit unions emerged as the top competitor for small-dollar unsecured loans for the first time.

TABLE 1

Primary competition for community banks

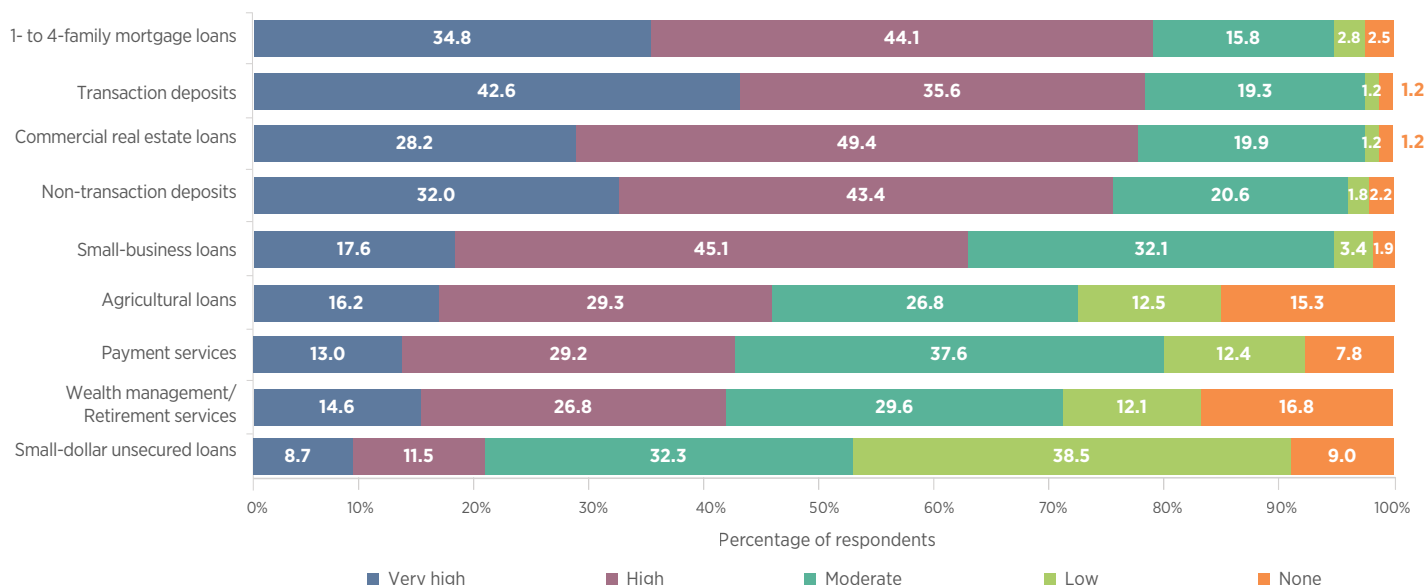
Product or Service Line	Top Competitor 2026		Top Competitor 2025		Top Competitor 2024		Top Competitor 2023	
Small-business loans	Community bank	55.3%	Community bank	58.7%	Community bank	62.5%	Community bank	62.4%
Commercial real estate loans	Community bank	47.2%	Community bank	46.0%	Community bank	51.1%	Community bank	52.0%
Transaction deposits	Community bank	42.2%	Community bank	43.5%	Community bank	41.2%	Community bank	47.5%
Agricultural loans	Community bank	40.2%	Community bank	46.1%	Community bank	45.4%	Community bank	47.6%
Wealth management/ Retirement services	Regional or national bank (in-market)	36.4%	Nonbank (in-market)	36.8%	Regional or national bank (in-market)	34.6%	Nonbank (in-market)	40.5%
Payment services	Regional or national bank (in-market)	34.7%	Regional or national bank (in-market)	34.8%	Regional or national bank (in-market)	39.6%	Regional or national bank (in-market)	37.7%
Small-dollar unsecured loans	Credit Union	32.1%	Community bank	36.0%	Community bank	36.3%	Community bank	40.3%
Non-transaction deposits	Community bank	30.9%	Community bank	30.5%	Community bank	32.6%	Community bank	33.2%
1- to 4-family mortgage loans	Community bank	23.9%	Community bank	22.9%	Regional or national bank (in-market)	25.9%	Community bank	30.4%

The intensity of competition varied significantly across product and service categories. Competition was the most intense for real estate lending (one- to four-family mortgages and commercial real estate loans) and core deposit products (transaction and non-transaction deposits), with more than 75% of respondents rating the competition in these categories as “very high” or “high.”

The only category with a significant percentage of respondents indicating that competition was either “low” or “none” was in small-dollar unsecured loans. With credit unions emerging as the top competitor for this product, this may suggest community bankers are de-emphasizing this market, allowing credit unions to fill the void.

FIGURE 20

What level of competition, if any, do you feel is associated with the following products and services?



FUNDING

From excess deposits during the COVID-19 pandemic to fierce competition for deposits as interest rates rose in 2022 and 2023, the funding landscape has returned to relative stability, even as competition for deposits remains elevated. Respondents indicated that banking market competition remained the primary challenge to retaining core deposits, with 80% of respondents rating it as either an “extremely important” or a “very important” challenge. Meanwhile, fintech competition joined economic uncertainty as the third- and second-highest challenges, respectively, this year. Fintech rose to 45% from 34% last year.

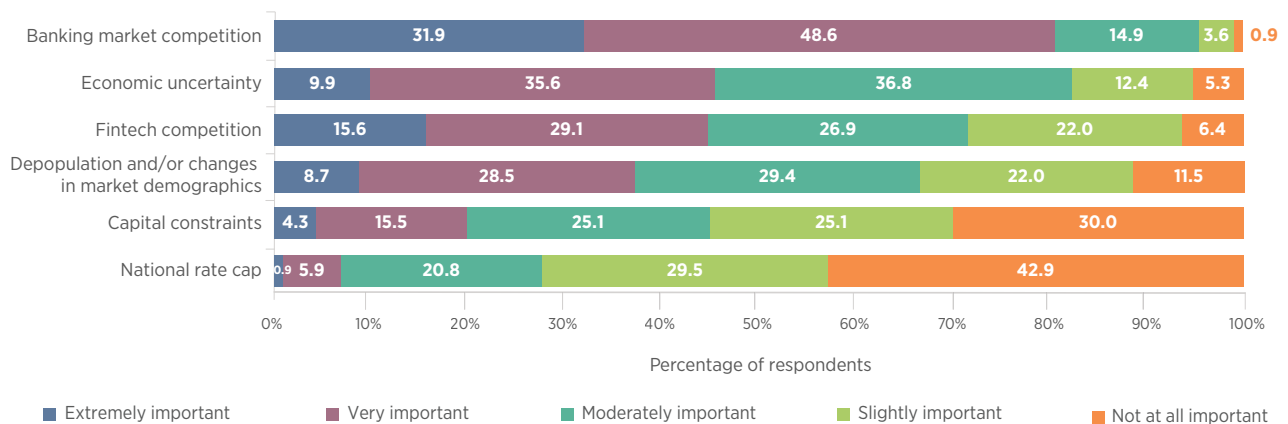
Banker Perspective

“We have a strong core deposit base that’s fueled by a strong payments business. We’re the 25th-largest ACH processor in the country. Our payment clients need to maintain deposits with us to make sure their payments go through, so those two sides of our business—payments and deposits—align well. We started with high-volume money orders and check clearing, and now we’re doing some card processing and immediate payments with our larger customers, which, again, require balances to stay at the bank. We have a network in 44 states of processors that want to do same-day or instant payments. All of this payment activity makes it so that we can afford a higher deposit rate for our best customers, which has served us well. All in all, our deposits business is served by our payments business. We were original members of the Faster Payments Task Force and the U.S. Faster Payments Council, both of which got us deeply involved in immediate payments. That part of our business has grown really fast.”

—Michael Bilski
North American Banking Company, Roseville, Minnesota

FIGURE 21

How important are each of the following potential challenges to attracting and retaining core deposits?



Funding costs also remained a top concern, with 74% of respondents rating them as “extremely” or “very important” [see Figure 4 (external risks) on page 9]. However, this represents a decline from 78% in 2025 and 89% in 2024. This downward trend aligns with the decline in funding costs, which have benefited from rate cuts during 2024 and 2025.

TABLE 2

Cost of deposits and funding

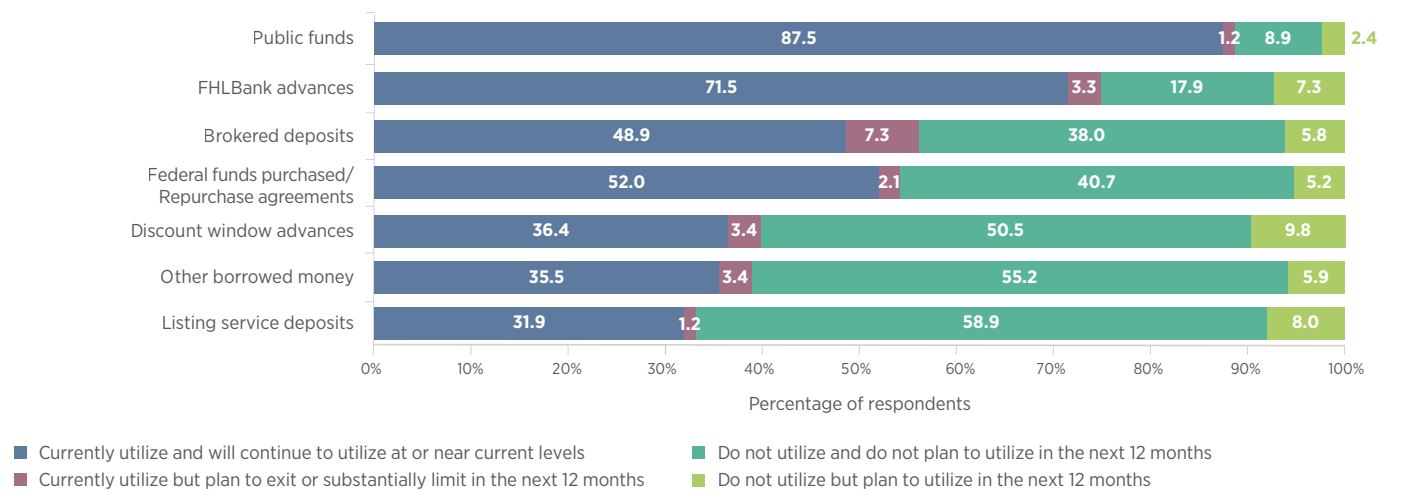
	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024	Dec. 31, 2025	March 31, 2026
Cost of deposits	0.57%	2.34%	2.84%	2.61%	2.38%
Cost of funds	0.63%	2.25%	2.95%	2.68%	2.45%

NOTES: Percents are collected quarterly for community banks. Data are obtained from the *Uniform Bank Performance Report*.

In general, wholesale funding utilization practices, as measured by survey responses, increased slightly compared with those in 2025. Usage of borrowed funds increased, with respondents reporting greater usage of the Federal Reserve’s discount window advances, as well as other borrowed money and federal funds purchased. FHLBank advances remained the largest borrowing source for respondents, with 72% of respondents indicating they planned to continue using it. Discount window advances showed the largest increase in usage, with 36% of respondents indicating they plan to continue using it, compared with 27% in 2025. This shift may reflect a desire to diversify contingent funding sources.

FIGURE 22

What are your bank’s intentions regarding the following wholesale funding sources?



Wholesale funds continued to represent a meaningful portion of total bank funding, though they have declined from the elevated levels reported following the 2023 banking crisis. Reciprocal deposits at community banks continued to rise; these arrangements enable full insurance coverage for large depositors. As shown in Table 3, reciprocal deposits have grown from moderate usage to a significant form of funding for community banks with total reciprocal deposits exceeding \$200 billion, as of March 31, 2026.

TABLE 3

Wholesale funds (in billions \$)

	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024	Dec. 31, 2025	March 31, 2026
Brokered deposits	\$132.7	\$173.8	\$189.0	\$175.1	\$169.8
Federal Home Loan Bank advances	\$118.7	\$134.5	\$134.7	\$120.4	\$113.5
Other borrowed money (total)	\$133.2	\$182.1	\$147.4	\$130.3	\$123.7
Fed funds purchased and repurchase agreements	\$27.6	\$24.9	\$22.3	\$22.2	\$21.1
Listing service deposits	\$16.7	\$16.9	\$16.9	\$18.0	\$18.7
Reciprocal deposits	\$84.8	\$161.3	\$188.8	\$208.5	\$210.6

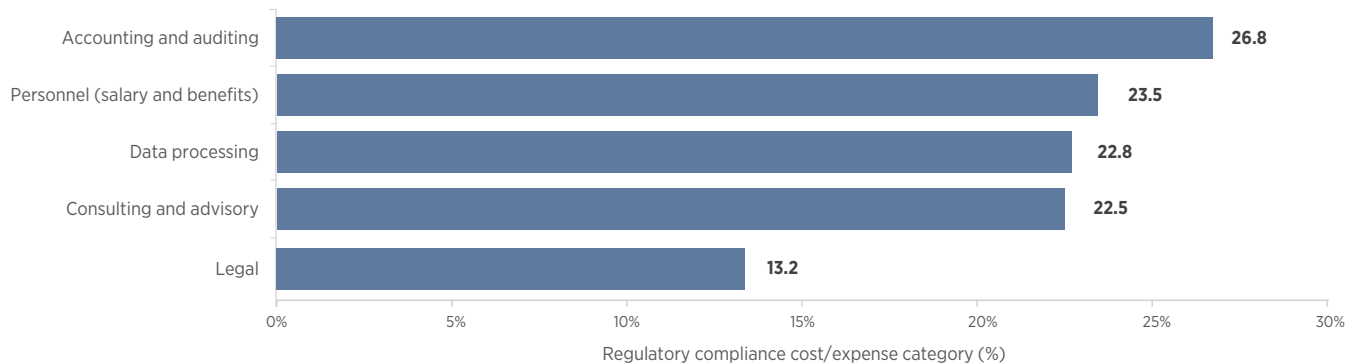
NOTES: Dollar amounts are collected quarterly for community banks and reported in billions of dollars. Data are obtained from *Call Reports* published by the Federal Financial Institutions Examination Council.

REGULATORY COMPLIANCE

This year, bankers were asked to estimate the percentage spent in 2025 on regulatory compliance for each of the following expense categories: personnel (salaries and benefits), data processing, legal services, accounting and auditing, and consulting services. While a similar question has been asked in prior surveys, the wording was revised this year for clarification purposes. Accounting and auditing remained the highest compliance cost expense at 27%. Personnel compliance cost expenses increased significantly to 24% from 13% last year, while costs associated with legal expenses declined to 13% from 24%.

FIGURE 23

What share (%) did your bank spend in 2025 on regulatory compliance within each expense category?



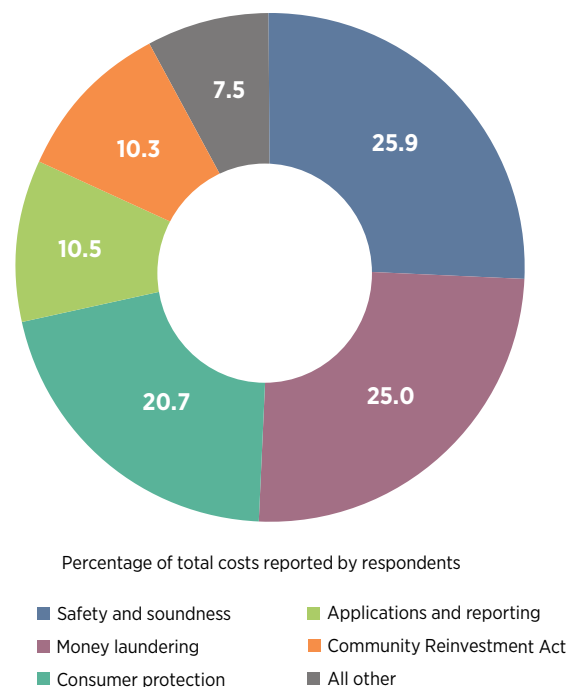
NOTE: Percentages represent a simple average of survey responses.

In the 2026 Annual Survey, bankers reported that, on average, safety and soundness, and consumer protection costs accounted for 26% and 21% of total compliance costs, respectively. This represented a slight decline from the prior year's results, down from 27% and 23%, respectively. Other category results were generally the same as the prior year's results.

For this year's survey, bankers were asked an open-ended special question regarding the impact, or potential impact, of regulatory changes over the past 12 months. Common themes among respondents revealed a cautiously optimistic outlook. Many praised the reduction in regulatory burden, allowing for more focus on the provisioning of banking products and services to their customers. However, many expressed concern that this relief may be short-lived. Additionally, respondents indicated that regulatory requirements and paperwork for real estate lending remain onerous despite broader relief efforts.

FIGURE 24

What percentage of compliance cost is attributable to the following regulations, laws, or reporting standards?



NOTE: Percentages represent a simple average of survey responses.

Banker Perspective

“I think it’s too early to tell how much of this will translate into lasting relief. As a community bank, we make an important distinction between which changes are lasting and which changes can easily swing back if there’s a new administration. We’re cautious about making changes to our compliance management system unless we’re confident that it will be worth the cost. The peers I talk to tend to agree that exams have been smoother, faster, and more collaborative than in the past.

Overall, while I’m encouraged by the regulators reviewing things for redundancy and unnecessary burdens, I think the real test is going to be whether any of this is codified in a durable way. Temporary fixes don’t give banks like ours the confidence to make permanent investments and changes to our compliance infrastructure and programs. Congress and the agencies should work together to make changes stick.”

—Jim Edwards
United Bank, Zebulon, Georgia

MERGER AND ACQUISITION ACTIVITY

FIGURE 25

Annual number of bank mergers



SOURCE: FDIC Merger Decisions 2013-25.

The annual number of bank mergers increased by 38% in 2025, from 71 in 2024 to 98 in 2025. Bank M&A has been increasing since 2023, when only 61 mergers were consummated. This rebound coincided with regulatory policy shifts at the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency. In May 2025, both agencies restored a more accommodative regulatory framework by rescinding policies from September 2024 that had increased the scrutiny of mergers.²

In the 2026 Annual Survey, 6% of respondents reported receiving and seriously considering an acquisition offer in the last 12 months. This number aligns with the results of the 2024 and 2023 surveys but represents a sharp decline from 2025, when 12% of respondents reported receiving or considering an offer. The excessive costs of doing business were cited as the top reason for considering offers this year, with 68% of respondents deeming these costs as “extremely important” or “very important” factors in why they would consider a merger, compared with 52% last year. Meanwhile, the costs of complying with regulations declined in importance, with the percentage of respondents declaring compliance costs either “extremely important” or “very important” falling to 47% from 58%. Succession planning remained the least-cited reason; however, year-over-year, the proportion of respondents that cited this factor as either “extremely important” or “very important” rose from 28% to 42%.

² For more information, see “Statement of Policy on Bank Merger Transactions: Rescission and Reinstatement,” Federal Deposit Insurance Corp. Financial Institution Letters, May 20, 2025, and “OCC Issues Interim Final Rule on Bank Mergers,” Office of the Comptroller of the Currency news release, May 8, 2025.

More than 16% of respondents reported they had considered making an acquisition offer in the last 12 months, up from 14% last year. Achieving economies of scale was cited as the primary rationale in both years, with 80% of respondents considering it either an “extremely important” or a “very important” factor informing their offer in 2026. This factor has remained the most important motivation for making an offer since 2022.

FIGURE 26

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

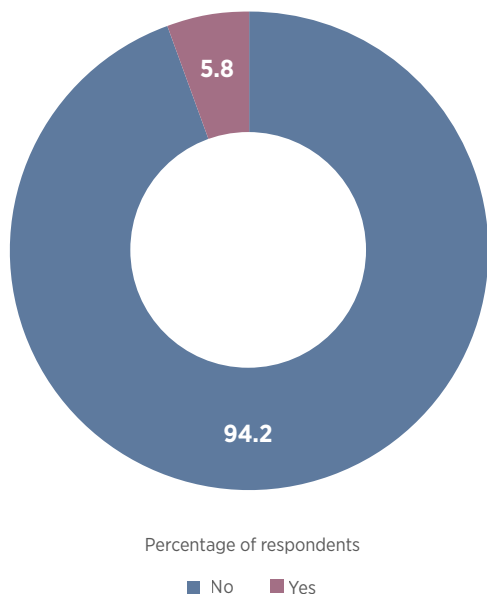


FIGURE 27

Have you made an offer to acquire or merge with a target institution in the last 12 months?

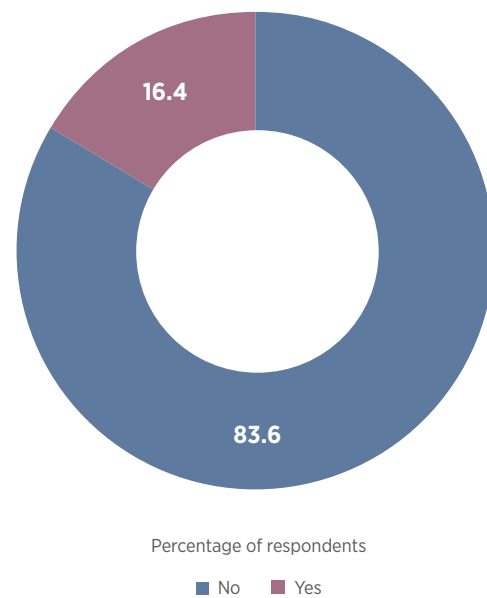


FIGURE 28

How important were the following factors in your decision to seriously consider accepting the acquisition or merger offer?

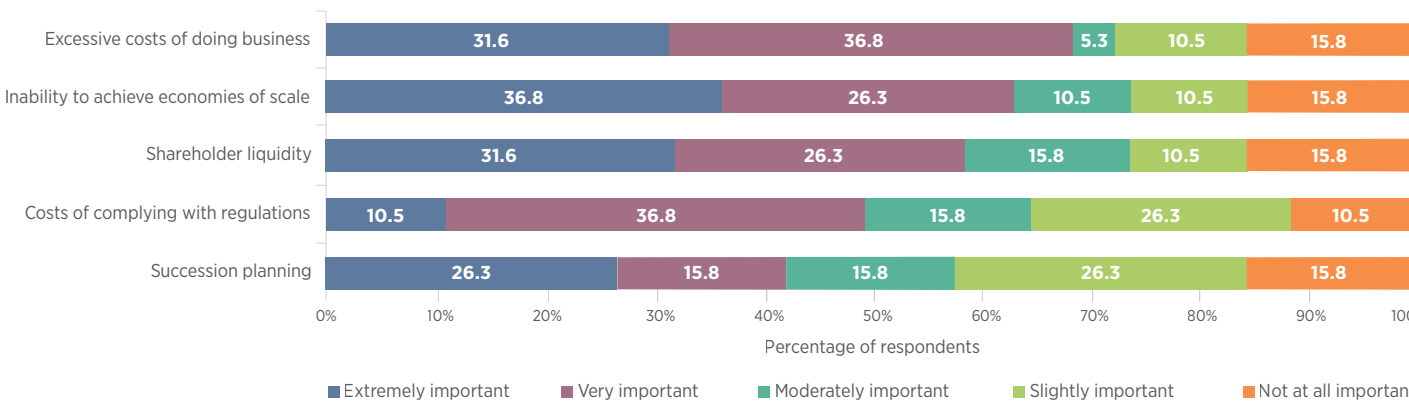
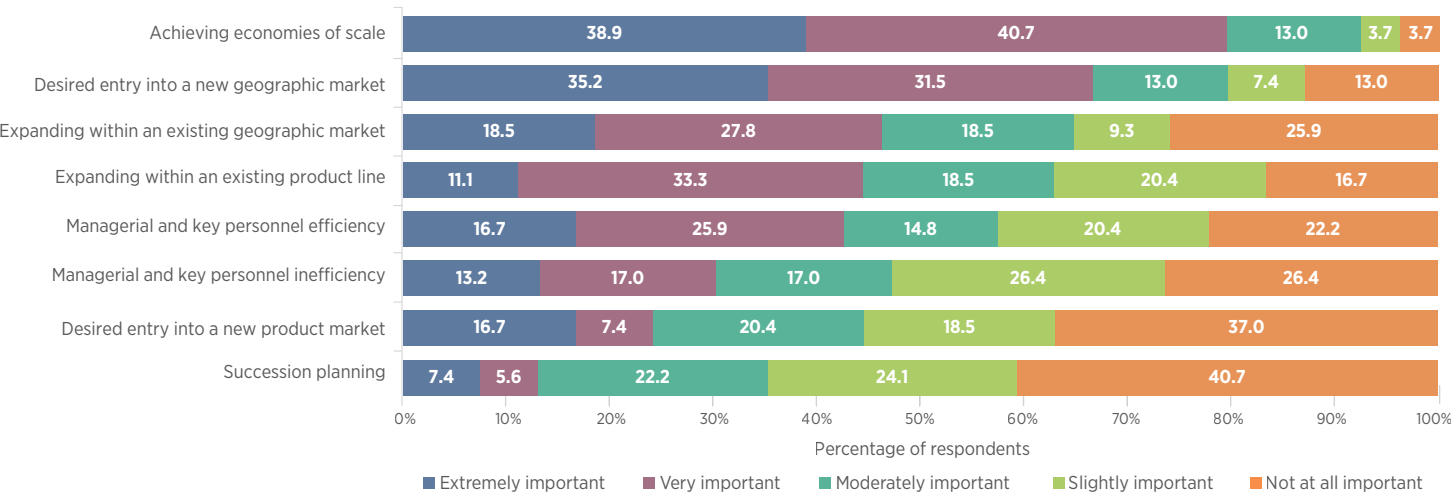


FIGURE 29

How important were the following motivations to make the offer?



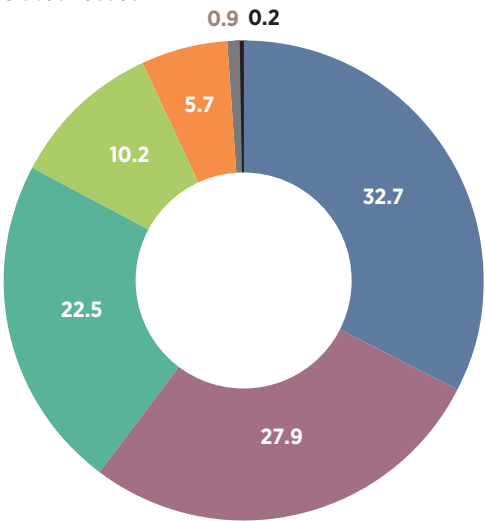
SPECIAL QUESTIONS

Fraud

Community bankers were surveyed on various types of fraud experienced by their institutions in 2025, both in total dollar losses and estimated number of cases. Dollar losses were most associated with check fraud, card fraud, and online banking. Respondents were also asked to identify the number of cases affiliated with selected types of fraud in 2025. Card fraud was clearly the most common type of fraud experienced by respondents, comprising 86% of total cases. All other forms of fraud occurred relatively infrequently, with 25% of respondents reporting no cases of any type of fraud in 2025. Similarly, 29% of respondents reported no dollar losses associated with fraud or did not respond to the question.

FIGURE 30

How prevalent were the following fraud types at your bank in 2025 as a percentage of total dollar amount of fraud-related losses?



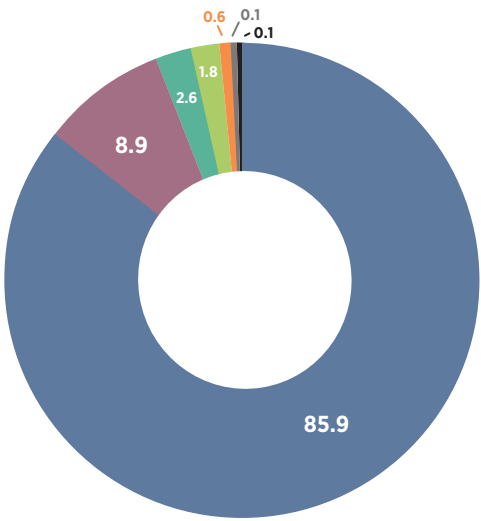
Fraud dollar loss per category/Total fraud dollar loss

- Check fraud
- Card fraud
- Online banking fraud
- Identity theft and account takeover
- Loan fraud, including mortgage fraud
- Cyber fraud
- Insider fraud

NOTE: Adjustments were made to the data to qualify how the results were computed.

FIGURE 31

How prevalent were the following fraud types at your bank in 2025 as a percentage of estimated number of cases of fraud?



Fraud cases per category/Total fraud cases

- Card fraud
- Check fraud
- Identity theft and account takeover
- Online banking fraud
- Cyber fraud
- Loan fraud, including mortgage fraud
- Insider fraud

NOTE: Adjustments were made to the data to qualify how the results were computed.

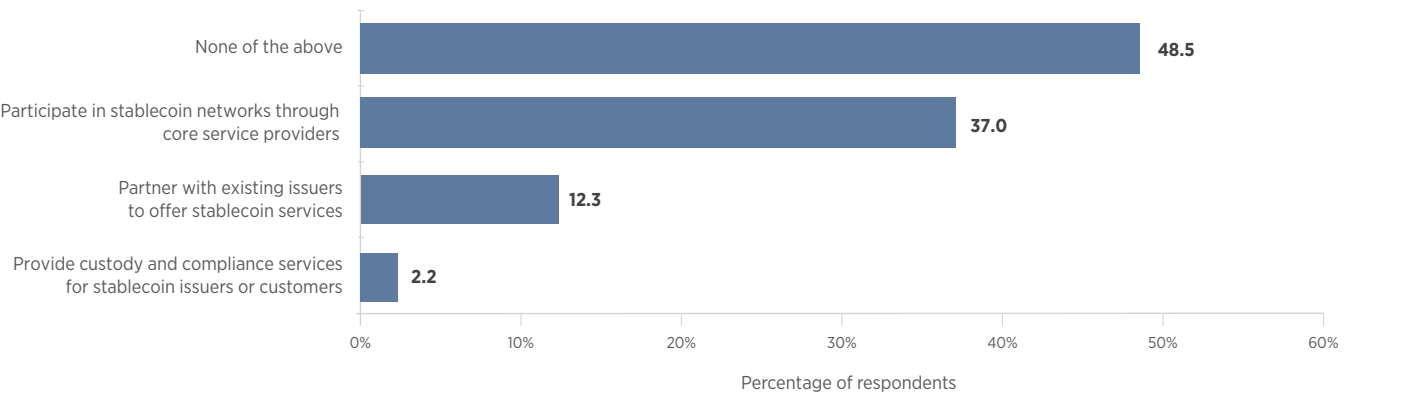
Stablecoin Adoption

With the passage of the GENIUS Act last year, the first comprehensive regulatory framework for U.S. dollar-backed payment stablecoins was established.³ As the GENIUS Act is implemented, banks and other financial services providers will find themselves in a position to offer or support stablecoins and their reserves. As such, two special questions regarding stablecoin adoption were included this year.

When asked about ways in which community banks plan to engage with stablecoins, 49% of survey respondents indicated no plans to participate in stablecoin networks, partner with existing issuers, or to provide custody services. Meanwhile, 37% indicated that they plan to participate in stablecoin networks through core service providers and 12% indicated they would partner with existing issuers to offer stablecoin services. Only 2% of respondents indicated that they would provide custody and compliance services for stablecoin issuers or customers.

FIGURE 32

As regulation is developed, which of the following ways does your bank plan to engage with stablecoins?

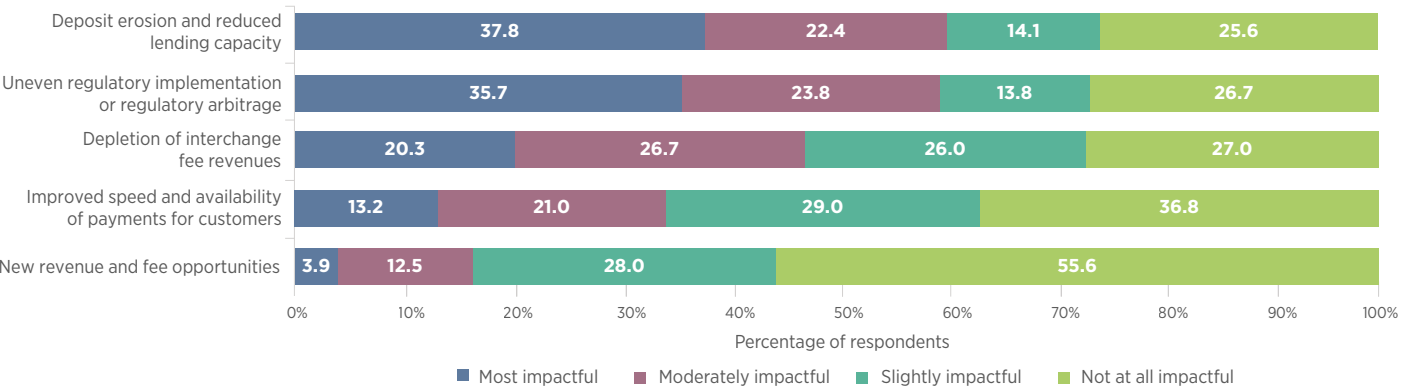


Community bankers view stablecoin adoption as a necessity so as not to get left behind, rather than a means to get ahead of competitors. Indeed, close to 60% of survey respondents noted that they saw deposit erosion and reduced lending capacity, as well as uneven regulatory implementation or regulatory arbitrage, as the “most impactful” or “moderately impactful” effects they will face from overall stablecoin adoption. Meanwhile, 47% of respondents noted that they saw depletion of interchange fee revenues as another effect.

When it comes to improving the speed and availability of payments for customers, only 34% indicated they thought this would be the “most impactful” or “moderately impactful” aspect of stablecoin adoption for their customers, while new revenue and fee opportunities were widely considered to be only “slightly impactful” or “not at all impactful.”

FIGURE 33

How would you rank the following effects of stablecoin adoption on your bank in terms of level of impact?



³ A stablecoin is a type of cryptocurrency designed to maintain a steady value by being pegged to a traditional asset, such as the U.S. dollar.

Banker Perspective

“I recently spent a couple of months working with a fintech that thought they had the market cornered on issuing stablecoins. We wanted to see if we could make it work for them. The problem was that they ran out of money. The hard part about issuing a stablecoin is maintaining the assets to back it. A lot of these fintechs forget about that side of things. You need to find customers to build out an asset base before the stablecoin is actually functional.

There’s no question that immediate payments are growing, but some people are also content with same-day payments. We’re seeing huge increases in ACH activity. Tokenized deposits have an anonymity component that may appeal to some people, but I don’t see that being a huge boon at the end of the day.”

—Michael Bilski
North American Banking Company, Roseville, Minnesota

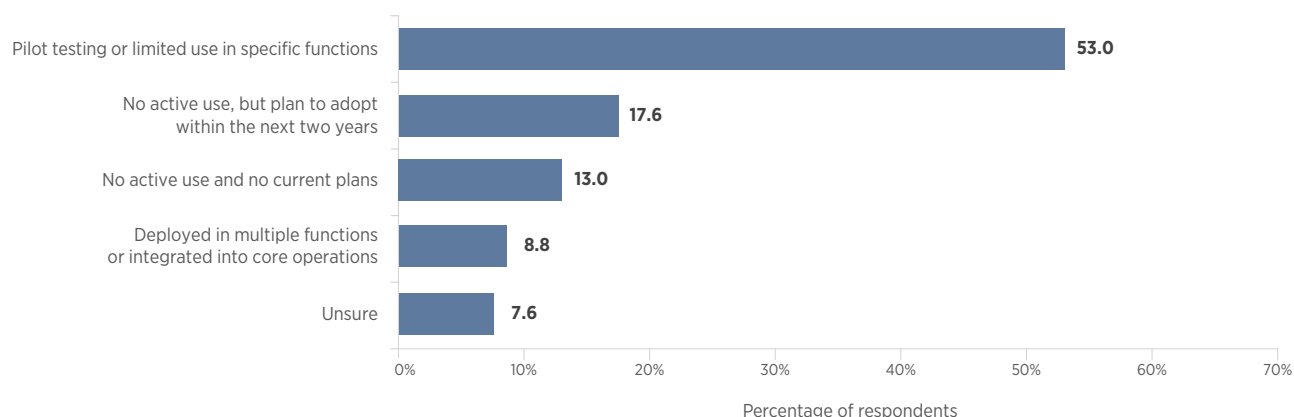
Artificial Intelligence

AI has the potential to rapidly transform both how banks do business and how consumers conduct financial transactions. This year, the survey included five questions related to the current and future use of AI and how it may or may not impact productivity and employment at community banks.

When asked about current AI use, 53% of respondents indicated that they are either piloting the technology or are engaging in limited use across specific functions. Only 9% of respondents indicated that AI has been deployed across multiple functions and/or integrated into core operations. While 18% of respondents reported no active use, they indicated they plan to utilize AI within the next two years. Meanwhile, 13% of respondents reported no active use with no current plan to adopt it.

FIGURE 34

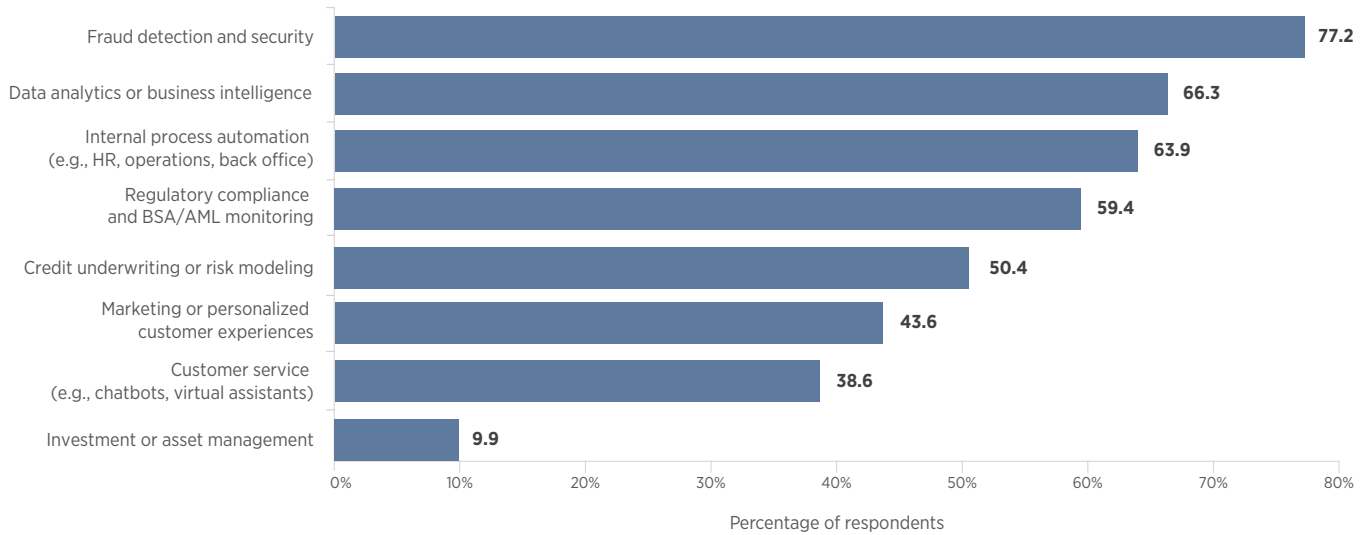
Which best describes your bank’s current use of artificial intelligence (AI), including vendor-provided AI solutions?



For those community bankers already or soon to be engaged with AI, the top area for use was fraud detection and security, followed by data analysis or business intelligence, internal process automation, regulatory compliance and BSA/AML monitoring, and credit underwriting or risk modeling.

FIGURE 35

In which areas does your bank currently use or plan to use AI?

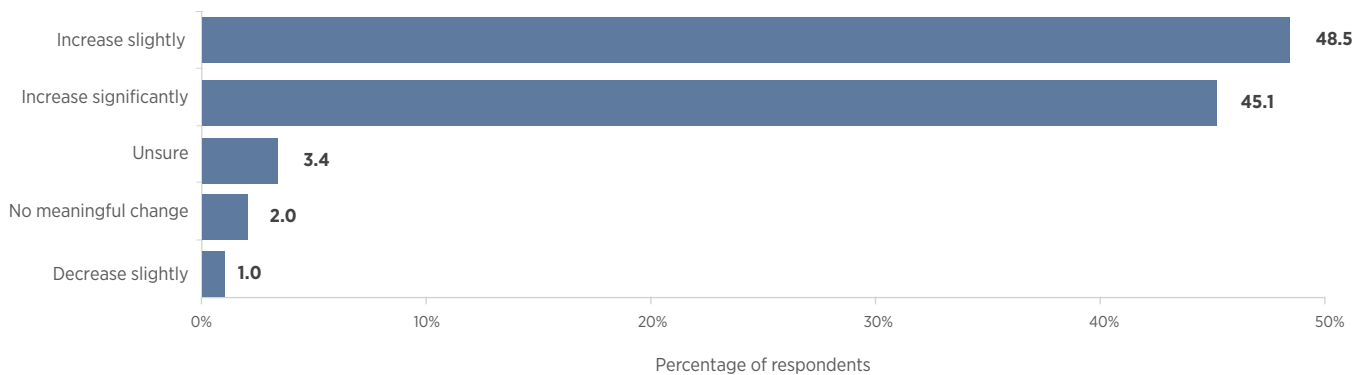


NOTE: Participants were asked to select all that apply.

When asked how they expected AI adoption to impact productivity over the next three to five years, respondents were nearly evenly split between “increase slightly” and “increase significantly.” Few indicated that there would be no meaningful change from AI adoption or that it would slightly decrease productivity.

FIGURE 36

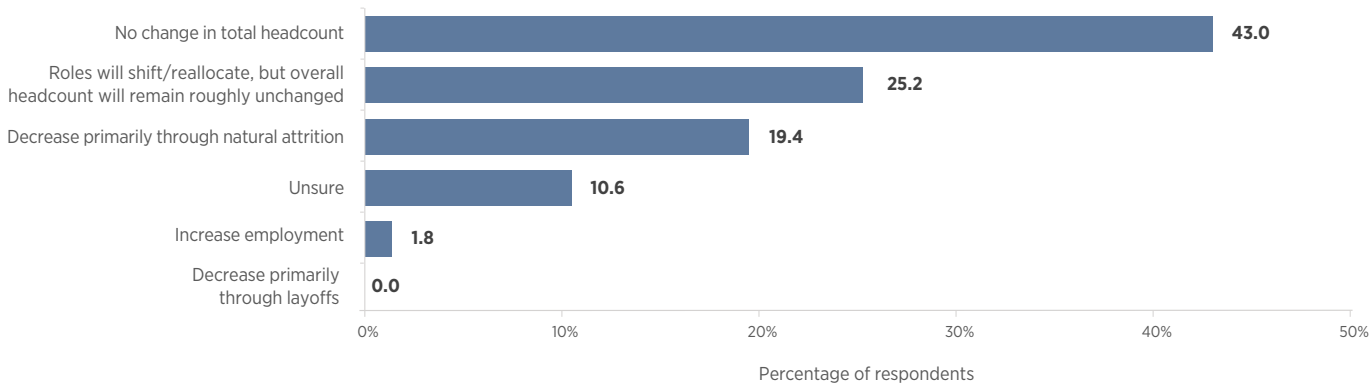
How do you expect AI adoption to affect your bank’s productivity over the next three to five years?



Similarly, respondents were asked how they expect AI adoption to affect bank employment levels over the next three to five years. While 43% of respondents indicated that there would be no net change in total headcounts, 25% indicated that roles would shift, but overall headcount would remain roughly unchanged. Close to 19% indicated that headcounts would decline primarily through natural attrition, while 11% were unsure of the impact on their banks' employment levels. No bankers indicated that AI adoption would lead to a decline in employment through layoffs, and 2% reported that employment would increase through AI adoption.

FIGURE 37

How do you expect AI adoption to affect your bank’s employment levels over the next three to five years?



Banker Perspective

“Any solid banker or institution needs to ask how AI can help, how to study it, and how it should enter the institution.

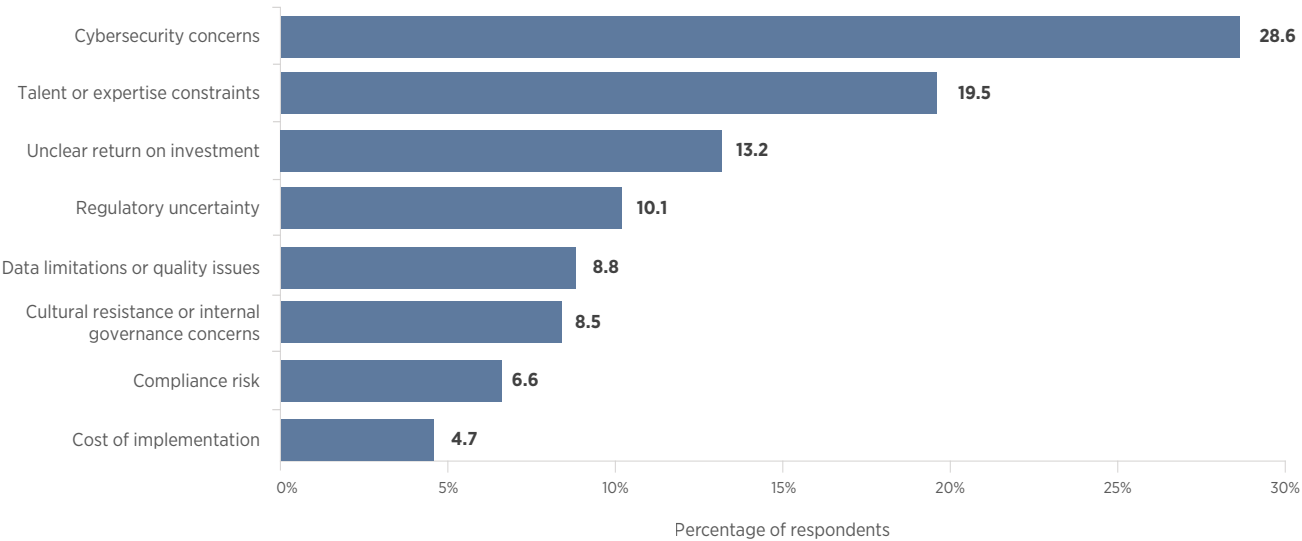
At our annual shareholder meeting, and with our officers, I’ve said that I have about 350 employees, and I am not going to use AI to cut staff. However, I will use AI to become more efficient in certain areas, which allows us to redeploy people. The jobs those 350 employees do today may look different in two, three, five, or 10 years. If I can redeploy human capital into more revenue-driven and relationship-driven areas, that’s what I’m going to do. ... I can grow to a larger size with the same number of employees, not fewer employees. Employees are understandably nervous, so it has been important to signal that no one is going to lose their job because of AI. Some employees will be retrained to do different things.”

—David Osborn
WestStar Bank, El Paso, Texas

Regarding barriers to AI adoption, 29% of respondents labeled cybersecurity concerns as the primary barrier to adoption, with others citing talent or expertise concerns and unclear return on investment. Other barriers included regulatory uncertainty, data limitations or quality issues, cultural resistance or internal governance concerns, compliance risk, and cost of implementation.

FIGURE 38

What is the primary barrier to greater AI adoption at your bank?



CONCLUSION

In this 13th Annual Survey of Community Banks, bankers shared perspectives on opportunities and risks facing their banks at a time of significant technological and regulatory change.

The rapid pace of technological innovation and adoption was discernable throughout the survey responses. Cybersecurity, for the ninth consecutive year, topped the list of internal risks facing community banks, followed by technology implementation and costs. Similar to prior years, cost or ability to implement technology remained the primary hindrance to adopting new technologies in the near term. Respondents again labeled cybersecurity risk as the most difficult challenge to implementing new technologies over the next five years.

Several questions regarding stablecoins, tokenized deposits, and AI were added to this year’s survey. While most respondents indicated that they currently do not offer or plan to offer tokenized deposits or stablecoin services in the next 12 months, a small group of bankers do plan to offer one or both products in the near term. Of those survey respondents that plan to engage with stablecoins, a vast majority plan to participate in stablecoin networks through core service providers. A smaller proportion of respondents is planning to partner with existing issuers to offer stablecoin services.

More than half of respondents are either planning to pilot AI or engage in limited use at their firms, while 18% are expecting to adopt some form of AI within the next two years. Of those bankers currently engaged with AI, the majority indicated they are using it to assist with fraud detection and security. When asked how they expect AI adoption to impact productivity over the next three to five years, respondents were nearly evenly split between “increase slightly” and “increase significantly.” Many bankers anticipate no net change in headcount due to AI adoption, although close to 20% said they expect employment to decline through attrition.

As shown in recent readings of the CSBS Community Bank Sentiment Index, community bankers have become more optimistic about the regulatory climate. This sentiment was noted in both closed- and open-ended responses to this year’s survey questions. Concerns around regulation as an external risk, for instance, continued to fall in the rankings, with 62% of respondents identifying regulation as either an “extremely important” or a “very important” concern, a significant decline from 75% in last year’s survey and 89% in the 2024 survey.

Respondents were offered the opportunity to share comments on how regulatory changes have impacted their institutions over the past 12 months. Many shared that the regulatory relief has been positive and impactful, especially regarding Federal Deposit Insurance Corporation Improvement Act threshold changes, changes to the safety and soundness examination process, and the revised final rule concerning Section 1071 small-business lending. Others cited concerns around the regulation of large banks, cryptocurrencies, and stablecoins. A consistent theme that arose was the fear of the “pendulum swinging from administration changes” over time.

Finally, fraud remained top of mind for community bankers this year, with respondents reporting losses involving check, card, and online banking fraud. While check fraud resulted in higher dollar losses to bankers in 2025, card fraud occurred more frequently.

Findings from the 2026 Annual Survey provide valuable insights into opportunities for community banks and the continued pressure on the community bank business model. Historical survey results can be viewed on the CSBS website at csbs.org/survey. These results continue to demonstrate that community bankers remain resilient despite myriad challenges over the years. Through the 2008-09 financial crisis, changing regulatory landscapes, and the 2019-21 pandemic, community banks have endured, serving their customer bases and remaining relevant in times of rapid change.

TRANSCRIPTS OF INTERVIEWED BANKERS

2026 Five Questions for Five Bankers

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?
2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?
3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?
4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?
5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

Michael A. Bilski

North American Banking Company, Chairman and CEO
Roseville, Minnesota



Michael Bilski is the founder, chairman, and president of N.A. Corporation, a bank holding company, based in Roseville, Minnesota. He is also the chairman and CEO of North American Banking Company, a commercial bank with offices in the Twin Cities. A fourth-generation banker, with 20 years of banking

experience and a desire to create his own company, Bilski formed N.A. Corporation and started the process of chartering North American Banking Company, which opened in July of 1998. Currently, the bank has six offices and approximately \$1.5 billion in assets. It specializes in processing money orders, third-party payments, high-volume automated clearinghouse (ACH) transactions, and credit cards. The bank was the 25th-largest ACH originator in the country in 2025. Bilski is currently a board member of the Upper Midwest Automated Clearing House Association, BankIn Minnesota (formerly the Independent Community Bankers of Minnesota), and SHAZAM, a financial services technology partner. He served as a board member and officer of Nacha, the electronics payment association, from 2005 to 2010, and as a board member and officer of the U.S. Faster Payments Council.

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?

We've tightened underwriting some to look more closely at credit, both commercial and individual. We're seeing more weaknesses with individual credit, whether on mortgages, second mortgages, or installment lending. There have also been some smaller commercial deals where we've pushed the limit on collecting after a guarantor wanted to walk away.

Commercial real estate has remained solid for us. We've also done some leasing. Every now and then, you run into a bad lessee, but that's just part of the business.

2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?

We have a strong core deposit base that's fueled by a strong payments business. We're the 25th-largest ACH processor in the country. Our payment clients need to maintain deposits with us to make sure their payments go through, so those two sides of our business—payments and deposits—align well. We started

with high-volume money orders and check clearing, and now we're doing some card processing and immediate payments with our larger customers, which, again, require balances to stay at the bank. We have a network in 44 states of processors that want to do same-day or instant payments. All of this payment activity makes it so that we can afford a higher deposit rate for our best customers, which has served us well.

All in all, our deposits business is served by our payments business. We were original members of the Faster Payments Task Force and the U.S. Faster Payments Council, both of which got us deeply involved in immediate payments. That part of our business has grown really fast.

3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?

I recently spent a couple of months working with a fintech that thought they had the market cornered on issuing stablecoins. We wanted to see if we could make it work for them. The problem was that they ran out of money. The hard part about issuing a stablecoin is maintaining the assets to back it. A lot of these fintechs forget about that side of things. You need to find customers to build out an asset base before the stablecoin is actually functional.

There's no question that immediate payments are growing, but some people are also content with same-day payments. We're seeing huge increases in ACH activity. Tokenized deposits have an anonymity component that may appeal to some people, but I don't see that being a huge boon at the end of the day.

The existing relationships banks have with their customers are another factor here. We have some clients who have been with us 15, 20, or maybe even 28 years since we started the bank. They've come to trust us with their payment needs and are okay holding large, uninsured deposits for that reason.

4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?

I don't know if I would change much. I think a big factor is who your federal regulator is. As a state member bank, ours is the Federal Reserve. There have certainly been some swings over the past few years, but working with them has generally been smooth. In Minnesota, the state and the Federal Reserve work well together.

I think it's reasonable that the CTR [*Currency Transaction Report*] threshold and the FDIC insurance limit should grow with inflation or GDP over time. Especially for smaller institutions, using older thresholds, even while the rest of the economy grows, can make it hard to maintain price stability.

We do sometimes see politicians imposing banking rules that don't make a lot of sense for institutions like ours. Our state legislature in Minnesota wanted banks over \$1 billion to start reporting on what they're doing about climate change. It's hard to imagine what useful information we could be providing on something as complex as that when we're working on something like a 10-year life cycle with our loans.

5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

I don't think AI is as new as people think, but there are plenty of things it can help us with. It has certainly helped my personal productivity. It can help streamline the application process, though you still need a human to verify the sources and the data it's using. It can help with employee memos. I think you just have to review the end product to make sure it's what you want. I wouldn't embrace it too heavily when it comes to decision-making. Like anything, you have to be careful with it.

Recently, I asked ChatGPT to analyze how our company did in the first half of the year. I asked it to use some of the public data from our *Call Reports* and other sources, and it put together a nice, four-page summary for me. That sort of thing takes out some of the manual work that we had to do in the past.

James J. “Jim” Edwards

United Bank, CEO

Zebulon, Georgia



Jim Edwards is the CEO of United Bank, a closely held community bank serving nine suburban and rural counties in central Georgia. Since becoming CEO in 2002, he has led the bank's growth to more than \$2.2 billion in assets, making United Bank the sixth-largest bank chartered in Georgia and one of the

largest community banks that is 100% employee-owned in the country. He is a past chairman of the American Bankers Association, the largest bank trade association in the U.S., representing banks of all sizes. Currently, he serves as vice chairman of American Bankers Mutual Insurance, Ltd. He previously chaired the ABA's Community Bankers Council and the Georgia Bankers Association, and served on the Federal Deposit Insurance Corp.'s Community Bank Advisory Committee. Actively engaged in community and civic leadership, Edwards currently serves as the vice chairman of Upson Regional Medical Center and has chaired multiple local and regional boards. He is a graduate of Emory University and the University of Virginia Darden School of Business.

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?

For context, we're a roughly \$2.2 billion bank headquartered in Zebulon, Georgia, and operating in 10 contiguous counties. A lot of our customers commute to Atlanta, Columbus, or Macon for work. Georgia is a good state to do business in, and our experience may differ from other parts of the country.

We haven't seen any notable deterioration across our loan portfolio in the last 12 months. Instead, we're seeing good, solid growth and loan demand across borrower types. Take the building trades, for example. Building isn't booming, but it's very solid, which is what I like to see as a banker. (When things start to boom, you start to worry about when they'll bust.) HVAC technicians, electricians, and other trades are holding up very well right now. The only area where we've seen some decline in lending is in trucking and transportation. That business exploded locally during the pandemic and then started to have challenges when freight rates collapsed. The bottom line, though, is that it's been a very positive time.

2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?

We've always believed that a primary driver of the bank's long-term franchise value is our strong relationship with our customers. Strong relationships translate into strong core deposits. We're a high-touch bank, and we compete on service, not just rates. We have a contact center and an interactive teller machine center that's open from 7 in the morning to 8 at night almost every day. That live service makes us competitive with some of the digital-only options. A few years ago, we said we wanted to be the most convenient bank in our part of the state, and that has informed our customer service approach from then on.

Improving our digital offerings has been part of this. Younger customers are less reliant on the physical branch for their banking. We recently upgraded our digital platform and mobile applications with a new software provider. Now, we have digital technology that can compete with some of the online-only or larger banks out there, which is a big deal to many of our customers.

That said, we also want to be competitive on rates where we can. As rates have risen the past few years, we've connected some of our larger customers with our trust and wealth management area, which has close to \$1.7 billion under management. That's helped us get our customers national-level rates on certificates of deposit and larger money market accounts, while keeping our core deposit costs at a reasonable level.

3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?

We're spending a lot of time thinking about this. We've always prided ourselves on punching above our weight for a community bank when it comes to technology. Our customers expect us to keep up with the latest developments in the financial world. We'll probably introduce something with tokenization down the road; we just want to do it the right way.

I don't see a significant disintermediation threat from stablecoins right now, though I do expect their use to grow, especially with cross-border payments. The greater issue, in my mind, is the reality that nonbanks can offer these types of products without being subject to the same regulatory environment that we live every day.

We're in the education phase on tokenization right now. We're working with our key vendors on potential options for the future; we don't want to be caught flat-footed if the demand for this technology grows. These things can pick up speed quickly. Before doing anything, we'd want to make sure the deposit insurance treatment is unambiguous, and we'd want to make sure any additional BSA/AML [Bank Secrecy Act/anti-money laundering] burden isn't unmanageable.

In summary, our hope is to be an educated, prepared, fast-follower through a trusted consortium, rather than an isolated early adopter.

4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?

I think it's too early to tell how much of this will translate into lasting relief. As a community bank, we make an important distinction between which changes are lasting and which changes can easily swing back if there's a new administration. We're cautious about making changes to our compliance management system unless we're confident that it will be worth the cost.

The peers I talk to tend to agree that exams have been smoother, faster, and more collaborative than in the past. That said, we've seen a wave of retirements from the regulators, which means the loss of a lot of experience. There will need to be some patience on both sides as less-tenured examiners get to know our institutions.

In terms of changes I'd like to see, I'd start with the CTR [*Currency Transaction Report*] threshold. On that front, it feels like we're operating a 2026 bank on 1970 rules. Adjusting the thresholds for inflation would allow our BSA/AML staff to focus on the more serious issues.

The CRA [Community Reinvestment Act] still feels up in the air. I think it's an important rule, but it's expensive for us to comply with. Above all, I would encourage the regulators to take a unified approach. A patchwork approach would be worse than the status quo.

I'd also mention that we're pleased with where things landed on 1071 reporting.

Overall, while I'm encouraged by the regulators reviewing things for redundancy and unnecessary burdens, I think the real test is going to be whether any of this is codified in a durable way. Temporary fixes don't give banks like ours the confidence to make permanent investments and changes to our compliance infrastructure and programs. Congress and the agencies should work together to make changes stick.

5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

I spend a lot of my time talking about AI, and I spend even more of my time talking with my staff about preventing fraud.

We're using AI in several ways. We use it for transaction modeling through our core provider. We use it for the call center and for online chat triage. We use it internally for drafting and research work. We're looking at agentic solutions that will help our customer service staff respond more quickly to inquiries. We've invested significantly in AI-powered fraud identification solutions. So, I'd say yes, AI is delivering and will continue to deliver some efficiency for the bank.

On the topic of fraud, I think it's one of the single biggest threats to our industry right now. I worry about what malicious AI can do to our industry. Bad actors can very cheaply generate highly convincing documents, automated phone calls, realistic pictures, you name it. We're constantly reminding our team how to protect the bank. Crooks have to get it right only once to achieve their goal; we have to get it right every time to achieve ours.

All of this said, I think it's important to remember that we've been using AI at the bank for a long time. It was simpler in the past, sure, but we've used algorithms in analyzing our credit decisions and pricing our loan models for years. What will never change is that it's ultimately on us to make the final decisions. I think AI has the potential to take away boring, repetitive work so that our employees can focus on the more challenging problems at hand. Bankers throughout history have always used the new technology available to them. Overall, I'm excited about it.

Jim Kisch

Passumpsic Bank, President and CEO

St. Johnsbury, Vermont



Jim Kisch is a chief executive, visionary, and national banking authority with more than 30 years of experience in financial institution management, strategic leadership, education, technology innovation, lending, risk management, regulatory compliance, and finance. He joined Passumpsic Bank in 2016 as

president and CEO. Prior to joining Passumpsic, he served as the chief strategy officer, chief information officer, and co-founder for Continuity, a New Haven, Connecticut-based cloud-computing software company serving financial institutions. Kisch also serves as a board member for the New Hampshire Bankers Association and is a member of the Federal Reserve Bank of Boston's Community Depository Institutions Advisory Council and the American Bankers Association's (ABA's) Core Platforms Committee, as well as the Community Bankers Council. He was appointed by the governor of New Hampshire to serve as the banking industry representative on the state's Commission to Study Stable Tokens and Tokenized Real-World Assets. He is also chairman of the board of Northeast Home Loan LLC.

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?

Overall, credit quality has remained stable, which tracks with nearly a decade of things being very good. However, minor fluctuations do appear occasionally.

One thing we're following closely is the ongoing strength of consumer spending. After the pandemic, there was a surge in spending that never really dropped, and household budgets continue to absorb higher costs. We're concerned about the long-term impact of this trend.

There are a few specific sectors where we see stress. Recreation-focused enterprises within our local markets are experiencing a tangible downturn influenced by a severe decline in Canadian tourism, driven, in part, by ongoing tariff boycotts. New Hampshire's and Vermont's aging demographics are placing increasing demands on our healthcare institutions. Funding changes at the federal level have increased the needs of some of our nonprofit customers.

Furthermore, our region, similar to many others nationwide, is facing a significant housing affordability and availability challenge. The traditional American dream of owning a home is increasingly

out of reach for young people. We believe a major factor driving this issue is inventory constraints, which has led us to collaborate with developers and agencies to support the construction of more housing units. From a credit and lending perspective, we are focused on preparing first-time buyers. We achieve this by providing training directly or through housing agencies, as well as by leveraging various programs offered by the Federal Home Loan Bank. Through these initiatives, our objective is to help individuals become successful homeowners while building sustainable, high-quality lending relationships.

As a 173-year-old mutual savings bank, we strive daily to enrich the lives of our customers and community members. While our credit risk appetite has traditionally been conservative, we remain open to capitalizing on new opportunities when they align with our goals. For instance, over the past year, we have adjusted our lending mix, including stepping away from indirect lending and selectively expanding into boat lending through portfolio acquisition.

Additionally, we are also evaluating enhanced credit and automated tools that complement traditional credit information through collaboration with FICO. Ultimately, our objective is to find a path to "yes" without allowing ourselves to be unnecessarily constrained by traditional credit scoring, models, or frameworks.

2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?

This represents a significant challenge. The market has shifted dramatically from a period of abundant liquidity and deposits to an active struggle to attract them, particularly certificates of deposit.

The environment is highly competitive, involving traditional banks, credit unions, and some fintech firms, though fintech presence is less pronounced in our specific regions. Given that our local demographic trends older than the national average, traditional financial products remain in high demand. Nonetheless, modern consumers are increasingly well-informed.

Utilizing online resources and artificial intelligence platforms to compare interest rates across institutions, customers frequently bring competing rates to us, which puts continued pressure on pricing.

To effectively compete for core deposits, maintaining incentives through product bundling remains an important part of our strategy. We use competitive checking products to establish the primary relationship and then deepen that relationship through savings and other services. We're evaluating additional services, such as roadside assistance, cell phone protection, pet insurance, and other consumer benefits that can increase the overall value of the checking relationship and strengthen retention.

Additionally, we are looking at ways to use relationship and transaction insights responsibly to better understand customer needs and deliver more timely, relevant products and services.

The goal is to use data to improve the customer experience while engaging consumers directly where they are by recognizing key life cycle indicators. While an increase in a customer's balance can point to various trends, we can combine this observation with additional markers, such as payment streams or how often transactions occur. These combined insights can suggest when customers are planning for major life events like a wedding or a trip, allowing us to ultimately provide them with services and products customized to that specific milestone.

Competition for municipalities and commercial clients has intensified in recent years. Rural markets, which were once relatively passive, have shifted dynamically; business customers in these areas now demand advanced cash management solutions alongside competitive products and rates. To support our business communities, we're investing in digital capabilities, deposit solutions, and personalized service that make it easier for commercial customers to manage their finances with us.

3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?

This is a highly relevant and timely question. Passumpsic Bank's prior participation as a non-transacting member of USDF, an early tokenized deposit network, has given us valuable exposure to the issues surrounding tokenized deposits and programmable payments.

We see potential opportunities as the regulatory and market environment develops. The consortium model would be particularly attractive because it could allow community banks to participate in a regulated infrastructure without having to build and operate the technology independently. This can address a community bank's need to pivot if market demand for programmable rails shifts suddenly.

Could disintermediation occur? We believe disintermediation is a meaningful possibility. The greater uncertainties are the timing and scale. There is a non-zero possibility for market disruption, such as a sophisticated client requiring a cross-border payment capability or a distinct application that perfectly aligns with stablecoins or tokenized deposits. While international transactions represent the most common illustration, fresh applications continue to develop constantly, and our bank must remain fully equipped to respond to those specific instances.

As an institution, we're not going out on a limb. We're looking at this logically. It's not practical for us to go it alone and create a Passumpsic coin, but if we can help build a consortium of like-minded banks that creates something that fits us, that is a worthwhile endeavor.

Driven by advanced concepts, skilled founders, and sharp technologists, stablecoin companies have reached a level of maturity that many fail to recognize. When reviewing deposit

outflow forecasts from organizations like the ABA and ICBA [Independent Community Bankers of America] regarding nonbank competition, the prospect of trillions of dollars migrating out of the traditional banking system is deeply concerning. This reduction in deposits places heavy pressure on credit availability and pricing, triggering a cascading effect across the nation.

Consequently, the primary objective for our industry must be ensuring a level playing field. We must prevent nonbank competitors from exploiting regulatory arbitrage and ensure that rules are enforced uniformly across the board to safeguard our exceptionally strong banking system, which thrives precisely because of our robust regulators and oversight environment.

That said, there is a lot of fixation on yield loopholes. My personal view is that yield is a factor to be concerned about, but with programmable money and smart contracts, the bigger risk is that banking is about to fundamentally change. The ability to build products on-chain could reshape how business is transacted. The real risk is that if a bank is not prepared, it will not be able to meet its customers' needs. Once there is more clarity around tokenized deposits, I expect new product designs will emerge rapidly. A customer may ask for something built on stablecoin or blockchain technology, and a bank that can offer only the traditional banking suite could get left behind.

4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?

Approaching the \$1 billion threshold, the recent asset limit increase for Internal Control over Financial Reporting (ICFR) provided significant relief. Eliminating now-unnecessary ICFR oversight, internal controls, internal audits, and connected processes generates approximately \$150,000 in yearly savings, potentially higher, delivering a real financial savings.

The CTR [*Currency Transaction Report*] threshold is what I'd most like to see reformed. You've heard it before, but I will say it again: The CTR data gathering is time-intensive. You can build a process around it, but it still means stopping the transaction and gathering information for a threshold that is no longer right-sized. In the 1970s, \$10,000 could buy a Cadillac; now it might not buy a riding lawnmower. CTR due diligence can clog a lane in a one-lane branch, which is a big deal for a bank like ours. At the very least, it would help to better understand what FinCEN [Financial Crimes Enforcement Network] is doing with our specific information.

Regarding the 21st Century ROAD to Housing Act, we are closely tracking the implementation of Section 909 and are eager to find ways to take part in the study. Serving rural communities is a long-standing commitment of ours, and one we take great pride in, even though it presents a steeper challenge than operating within

a metropolitan statistical area due to the complexities across all of our rural ZIP codes. We would deeply appreciate the opportunity to engage in the study and the ongoing dialogue surrounding this topic.

5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

We're bullish on artificial intelligence at Passumpsic Bank. For us, having a clear understanding of AI and a strategy for leveraging it are essential. We've hired a VP of AI—a dedicated person focused on artificial intelligence—to help us adopt AI incrementally and programmatically. We've developed a strategy and use policies focused on bettering the customer experience, creating more efficient processes so our people have more time with our customers, and supporting risk management.

At present, we're building around several AI use cases. One branch of use is fraud detection. AI can distill levels of fraud data that no person could process on their own. Today, systems can detect details like whether someone is using a phone in a way that suggests they are left-handed or right-handed. If a right-handed person suddenly uses a left-handed customer's phone, that can be a signal for fraud. This is just one example of how AI can identify behavior inconsistent with a customer's usual habits. AI flags the concerning trends so that our caring and qualified people can respond effectively.

Our AI applications also include summarizing data, aiding in drafting correspondence, and refining emails. For more complex tasks, we leverage AI to build private models capable of resolving specific business inquiries, such as determining the average age of our checking account holders. In the past, addressing these questions involved extracting charts, graphs, and information from disconnected, siloed systems. A query, such as "What is the average age of customers who opened an account in the last decade?" often required too much time to justify the effort. Now, AI provides instant answers to these inquiries, fueling the ideation process required to develop new products and rapidly address customer requirements.

On the risk side, we're making sure models are private and using a lot of deterministic models, so we do not get caught in purely probabilistic outputs. We're paying attention to when we should use a large language model versus when the answer is really just math.

In response to the advanced controls being implemented across our industry, we are observing a notable shift: Fraudsters are reverting to more-traditional tactics. This includes analog strategies such as targeting rural-route mailboxes for mail theft and executing check-whitewashing schemes. While these criminals may

leverage modern technology to facilitate their actions, the core methods are a hybrid of old and new rather than pure romance schemes or cyber fraud. Essentially, tighter security across the sector appears to have pushed illicit behavior back toward these traditional fraud methods.

Scott P. Mizner

American Bank, President

Bozeman, Montana



Scott Mizner is the president of American Bank in Bozeman, Montana. He started his 33-year career in banking as a credit analyst for a large community bank. After nearly two decades in commercial lending in Great Falls and Kalispell, Montana, he moved to Bozeman in 2015 to serve as the chief credit officer of

American Bank. He assumed the role of president in February 2021. Mizner holds a Bachelor of Science in business administration with a minor in information systems from Montana State University and is a graduate of the Pacific Coast Banking School at the University of Washington. He is an active volunteer and member of multiple community and state boards involving banking, housing, economic development, and education.

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?

Overall, credit quality is holding strong. That said, we're seeing some normalization from the period after the pandemic. During the pandemic, Montana remained largely open, which was good for business here and made for plenty of capital and liquidity. Plus, there was the stimulus. Things are returning to normal, and some borrowers who took on additional debt expecting revenues would remain at 2022-23 levels are now managing higher leverage than they anticipated. We've begun to see some modest increases in past dues after several years of exceptionally strong performance.

In general, our borrowers are feeling cautious about the economy and are making sure not to get too far out on a limb. When interest rates started rising after the pandemic, we had proactive conversations with our customers, especially the ones who might be subject to a variable loan rate, about their options. In the current uncertain-rate environment, those conversations are a regular part of how we're doing business.

2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?

For a long time, it felt like nobody paid much attention to deposit rates, so, in a way, it's been refreshing to start having conversations with our customers about this again. There's a lot more competition

and information out there. For example, a lot of our customers are using TreasuryDirect. Our bankers are trained to start proactive conversations on where the market is and what we can offer, and we empower them to negotiate on rates, especially when they're working with a customer who has been with us for a long time.

We're also taking advantage of some of the new products out there. After the Silicon Valley Bank and Signature Bank failures, deposit insurance became a big topic. We've leveraged both ICS [Insured Cash Sweep] and CDARS [Certificate of Deposit Account Registry Service], both of which many of our customers use. It's helpful to be able to compete with the big money-center banks on some of the products we offer, while giving people the option to keep their deposits local.

We've been around for 70 years and have a lot of trust that we can build on. In our Livingston branch, we still have a rate board where customers can walk in, see what the rates are, and have good conversations about where we expect things to go. The key for us is to stay engaged. Customers can open an account at an online bank much more easily than they could in the past. It's on us to stay informed, stay engaged, and stay in front of our customers. The worst thing we could do is get complacent about maintaining strong relationships.

3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?

Initially, yes, I was very concerned about disintermediation, especially with the possibility of nonbanks like Walmart or PayPal or Apple paying rewards or interest on stablecoin holdings. But seeing what is actually showing up in the market has made me less worried. The regulations seem to be maintaining enough of a difference between stablecoins and traditional deposits that I think our customers can make well-informed decisions about what they need. Up to this point, our customers haven't found enough use cases to create significant demand for stablecoin-related services. We will continue to stay informed about emerging industry trends and customer needs. One use case that may emerge is for international payments. Our customers who do business internationally are certainly going to be curious about any ways they can move money faster and with lower transaction costs.

As I've learned more about tokenized deposits, I think they could potentially provide a competitive advantage for community banks. We're keeping abreast of what's out there, especially what's being offered by our core provider, but we're not making any significant changes to our offerings right now. The reason is simple: Our customers haven't been asking for them. We want to be ready to adapt if our customers start demanding tokenization, but we aren't going to act until we actually hear that it's something they want. Ultimately, our customers need to feel a sense of safety, security, and trust with their money. We'll roll out new technology

only when we know we can do it while preserving a trusting relationship with our customers.

4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?

There's been a lot of change, that's for sure. We're now exempt under the new FDICIA [FDIC Improvement Act] audit threshold, though we've decided to continue doing the audit for now. (It's become an important process for us internally.) The Community Bank Leverage Ratio going down could potentially benefit us in the future, but we're keeping with the risk-weighted-assets approach for now since we're already collecting all of the information we need for it.

The new rules around mortgage lending are very complex, and right now we don't think changing what we're doing on that front is worth it. We got some relief from the 1071 reporting thresholds increasing, which we're grateful for. Subjecting our customers to the number of questions they were going to have to respond to would have been very disruptive, especially in a lot of our small-market communities.

If I could wave a magic wand, I would index the HMDA [Home Mortgage Disclosure Act] reporting thresholds for inflation and market growth. Bozeman, the location of our biggest office, was recently designated a metropolitan statistical area, so we're now potentially subject to HMDA reporting rules. Having to start HMDA reporting would take a lot of time and effort for us, plus it would require new staff.

As far as our relationships with our regulators go, things have been good for a long time. There have been a lot more communication and collaboration with our federal and state supervisors over the last five or 10 years. That said, some of the turnover and early retirements with the Federal Reserve and the FDIC have made examinations a little more challenging. We get a lot of new examiners that may not be familiar with our markets. Examinations can be a little more time-consuming for our staff than they used to be. Thankfully, there are some senior examiners still around that we have great relationships with.

All in all, we're still trying to figure out what the impact is going to be from all of the change, but generally there have been more positives than negatives from our perspective.

5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

It ebbs and flows for me whether I'm optimistic or pessimistic, but I try to be optimistic. There are exciting opportunities with AI, but it's concerning when you see things like the Treasury secretary warning big banks about Claude Mythos [a new-frontier AI model]. I think the challenge for community banks is adopting innovation while maintaining our customers' trust and security. Anything we do, we're going to primarily be thinking about trust and security.

We're using AI in a few ways. Our staff can access Copilot within our Microsoft 365 environment for exclusively internal information. For several years, we've been using AI in our fraud detection software through our core provider. It helps us sift through a lot of information more efficiently and helps us spot unusual behaviors. Customers appreciate it when we reach out to them after seeing something irregular. It shows them that we're using the best technology we have to keep their money safe.

For us, while AI will help streamline our workflows and get better information to our decision-makers, it cannot replace human judgment, local knowledge, and accountability. We're a bank that takes a lot of pride in our credit underwriting, and I don't ever see us relying solely on AI to make credit decisions. There is value in maintaining thoughtful human review, even as technology helps us be more efficient.

We work with a lot of specialized knowledge about the communities we lend in. There can be substantial differences between two markets that are only 20 miles away from each other. I don't think AI will be able to replace the knowledge of a banker who has lived in the markets we serve.

David Osborn

WestStar Bank, President and CEO

El Paso, Texas



David Osborn is the president and CEO of El Paso, Texas-headquartered WestStar Bank and has completed 43 years in the banking industry in Texas. He currently serves on the board of directors of the American Bankers Association and as a member of the Finance Commission of Texas. He also serves as a member of

the Texas Tech University Excellence in Banking Advisory Council. Osborn is a past chairman of the Texas Bankers Association and a past chairman and current member of the Las Palmas Del Sol Healthcare board of directors. He is a former member of the board of trustees for McMurry University, from which he received his Bachelor of Business Administration degree and a recent Distinguished Alumnus Award. He is a graduate of the SW Graduate School of Banking at SMU Cox School of Business. He is the former chairman of the El Paso Chamber of Commerce and the Paso del Norte Health Foundation. He was elected to the El Paso Business Hall of Fame in 2022.

1. The economic picture remains mixed, with resilient consumer spending set against pockets of stress, especially in rate-sensitive areas. What are you seeing in terms of credit quality across your book? Are particular sectors, areas, or borrower types notably strong or weak? And where have you tightened or stepped back, if at all?

I'd say the economy across Texas, including El Paso and the Borderplex region in far west Texas, remains very strong. We're not seeing credit issues in banking right now. Bankers in general had their best year ever in 2025, and the first six months of 2026 have been the best six months we've ever had.

If we aren't careful, though, we could fall into the trap of thinking nothing can go wrong. The average American is still feeling very high inflation. Utility bills are up this summer. Insurance bills are up. Taxes are higher. Grocery and medical costs are up. At some point, consumers may begin to pull back. My concern is that we may be at a peak in spending. The question is: How long can it last? When will we start to see cracks in the economy or credit issues emerge? It doesn't feel like it will happen this year, but it certainly could, especially based on what happens with rates.

The good news is that with our strong recent results, our capital positions and balance sheets are stronger than ever. Whenever the next downturn comes, we will be ready.

2. Core deposit growth and funding costs consistently rank among the top risks we hear from bankers. How is your bank competing for and retaining core deposits today? Where are you feeling pressure on pricing? What is working best? And are you worried about defending your deposit franchise?

I've been in commercial banking for 43 years since I graduated from college in 1983. For most of my career, we told commercial bankers that their focus should be loan growth. Commissions, bonuses, and performance measurements were tied to growing loans, while deposits seemed to grow without much attention. That changed after the liquidity crisis, especially in 2023 with Silicon Valley Bank and the other failures. At WestStar today, our bonus structure for commercial bankers is essentially 50% based on loans and 50% based on deposits. For the first time in my bank's history, we now have a deposit pipeline in addition to a loan pipeline.

The good news is that we're focused on deposits. The bad news for us is that our competitors are too. In the past, we didn't have the same level of competition from credit unions, private lenders, and others. While our rates need to be competitive, I do think community banks have an advantage because we know our borrowers and our communities. It helps to remind customers that if they keep deposits locally, those deposits can support job growth and economic growth in the community. If deposits leave for a national mutual fund company or national financial institution, that local impact is reduced. I respect those other institutions, but the more deposits we keep local, the more our towns can grow.

Community banking needs a story, and we need to stay close to depositors. When certificates of deposit mature, we need to call customers ahead of time because they know they can shop around. Deposit customers are much more educated than ever before. Whether they are small depositors, senior citizens, or businesses, they want to know what we will pay on deposits.

Deposits are now a central part of our internal conversations, and I do not see that changing anytime soon. If you don't focus on deposits, you will run out of fuel.

3. Digital ledgering is receiving significant attention in Washington. Agencies have moved from frameworks to rulemaking, including proposed stablecoin rules and discussion of tokenized deposits. Do you see stablecoins and tokenized deposits as a genuine threat to your deposit base, or a distant concern? If the capability arrived through a core provider, banker's bank, or consortium model, would your bank be interested?

I do not expect every community bank to offer its own stablecoin, but we need to understand the space and determine who we can partner with, whether that is a larger regional bank, a national bank, or a large fintech that can help a community bank like mine move into this area. It would be a major mistake to assume this is going away.

Because we are on the border, cross-border payments are a particularly relevant use case. At banking conferences, trucking conferences, and car dealer conferences, people are talking about future payment systems. Businesses will ask what is better, cheaper, and faster.

A \$3.3 billion community bank in El Paso cannot develop all of this on its own. We are operating on all cylinders, with record profits and strong capital, but if we celebrate that too much, we could be left behind on new technology. You've got to find

out what works. Even if only 10% of customers want to use stablecoins, losing 10% of deposits would be very hard to replace. It would take years and years to go find other customers to replace them. This is where trade associations such as the Texas Bankers Association and the American Bankers Association can help members understand how to compete and learn the product. Successful banks will work with other banks.

If most of us eventually offer a solid product, then the competition returns to relationships. I can win in my community on relationships. But if we do not offer stablecoin access through some partnership, customers will have an opportunity to leave my bank.

4. The regulatory and supervisory environment has shifted over the past year and a half. Agencies are rescinding policies and reopening long-standing rules, but many thresholds that weigh heavily on community banks were set decades ago. Are recent changes translating into real relief at your size, or are they more like window dressing? If you had a magic wand, which rules or thresholds would you target? And are you seeing any change in supervisory tone or experience?

I think we're at an exciting point. We've had a lot of regulatory relief, and it's making a difference every day.

It's important that bankers talk with our members of Congress about the value we provide. I've spent a lot of time with my congresswoman, Veronica Escobar. She's been very good about asking questions about what works and what doesn't, and I've been honest about my perspective as a banker.

Regulation is important. I've got a 90-year-old customer with \$1 million in the bank, and she wants that money available whenever she needs it. She trusts FDIC insurance and she trusts my bank. That trust is why we're regulated. Even though things swung too far in the last administration, as bankers we don't want to overcorrect with deregulation. We need to use common sense. Commissioner Charles Cooper and the Texas Department of Banking have been at the forefront of taking a measured approach to what works in our state. We want our industry to be safe.

As far as what I might change at the regulatory level, I'm most worried about crypto companies offering interest on funds held on their platforms. That could mislead consumers into thinking their funds are insured or protected in the same way bank deposits are. I don't mind competing with crypto companies; they have an important role. But they do not lend money to small companies in our communities. The more deposits that move into that space, the less money that community banks have to lend back into local economies and support business growth and strong communities.

There has also been a lot of fraud in parts of the crypto space, including crypto ATMs where fraudsters convince customers to withdraw cash and deposit it into a machine. Once the money is gone, customers often cannot recover it. Regulators require banks to do what's right and treat people fairly. Consumers may not understand that some crypto companies aren't held to the same standard.

5. Artificial intelligence (AI) is a major topic, especially as it relates to fraud. Bankers are optimistic about AI-driven efficiency but nervous about AI-enabled fraud, including synthetic voice fraud. One banker we spoke with last year had experienced a call center attack involving artificial calls. How are you using AI today, if at all? Has it delivered value for your institution? Is there potential for AI to help more than hurt? How has the fraud landscape changed? And are you worried about keeping pace?

Any solid banker or institution needs to ask how AI can help, how to study it, and how it should enter the institution.

AI helps with fraud detection through both software systems and people. At the same time, fraudsters are using AI too, so it is helping both sides. It's not stopping fraud, but it is helping us identify it. Fraudsters are also getting smarter and using AI tools they did not have before. When a customer gets a call that appears to come from the bank and shows our phone number, they may not know whether it is truly the bank. For the last 200 years, if the bank called, it was the bank. That is no longer always true.

At our annual shareholder meeting, and with our officers, I've said that I have about 350 employees, and I am not going to use AI to cut staff. However, I will use AI to become more efficient in certain areas, which allows us to redeploy people. The jobs those 350 employees do today may look different in two, three, five, or 10 years. If I can redeploy human capital into more revenue-driven and relationship-driven areas, that's what I'm going to do. That will make the bank more efficient. I can grow to a larger size with the same number of employees, not fewer employees. Employees are understandably nervous, so it has been important to signal that no one is going to lose their job because of AI. Some employees will be retrained to do different things.

We already use AI in loan approval software and in some Salesforce CRM tools. Our vendors have been helpful and ahead of the banking space in bringing community banks into AI. It would be very difficult for each community bank to develop its own AI tools. The largest banks can do that efficiently, but we will need to work with fintechs and vendors.

When I talk about technology now, I emphasize that people are more important than technology. We will all get access to technology, though some will get there faster than others. If you do not adopt it, you will not survive. But in the end, if many institutions have similar AI tools, the differentiator will be people. The best banks will be the ones with the best people. AI will not cure everything. Bad people using AI can create an even bigger mess than bad people without AI.

We also need to be very careful about protecting private customer information. Community banks are studying how to use AI without exposing customer information on the web or in the cloud. We want to use AI for prospecting, deposits, measurement, and analysis, but we need restrictions that prevent private information from being exposed. My biggest fear is that a bank will have a breach and need to notify regulators within about 48 hours. That's not good for your customers or anybody else,

even though breaches are more common than people realize. People expect the bank to be safe, and it is one of the last places they want to see a breach. In an AI-related breach, more detailed information may be exposed, which can be very damaging to a bank's reputation.

We are still in the early stages. AI can help society, and every industry needs to examine it, but it is not a cure-all. Banks need to adopt it thoughtfully and determine what is best for each institution.

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Alabama State Banking Department

Arkansas

Susannah Marshall, Bank Commissioner
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