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**Fed/CSBS Community Banking Research Conference  
Reveals New Data and Insights for Future**

WASHINGTON, D.C. — Several key takeaways and common themes emerged from the second annual Community Banking Research and Policy Conference, hosted by the Federal Reserve System and the Conference of State Bank Supervisors (CSBS). The conference, *Community Banking in the 21<sup>st</sup> Century*, was held Sept. 23-24, 2014, at the Federal Reserve Bank of St. Louis. It drew together academics, community bankers, and federal and state policymakers from across the country to discuss the latest research and trends in the community banking space.

The research and discussions centered around three main focal points: new banks and emerging technologies; the effect of government policy on bank lending and risk taking; and the effect of government policy on community bank viability. A highlight of this year's conference was the participation of community bankers as discussants on the panels of academic researchers whose papers were selected for the conference.

*New Banks and Emerging Technologies*

- While de novo banks play a vital role in increasing competition and reaching new markets, there have been almost no new bank charters since 2008. While the cause is the subject of much debate, there is agreement that both new market entrants through de novo bank charters and established community banks are essential to U.S. economy.
- Looking at historical trends and controlling for external circumstances, research suggests that low net interest margins at community banks today are in-line with expectations after a recession. Research suggests that net interest margins at community banks should rebound once monetary policy normalizes.
- Technologies such as mobile banking are more likely to be adopted by community banks if there are rivals with similar offerings in the local market. Community bankers increasingly see emerging technology as a new opportunity for competitive advantage.

### *The Effect of Government Policy on Bank Lending and Risk-Taking*

- The use of guidance as a macro-prudential tool, a practice more heavily implemented since the Dodd-Frank Act was implemented as law, can have meaningful impact on bank behavior, but may also cause unintended consequences. The 2006 Commercial Real Estate (CRE) guidance is such an example: the guidance curbed CRE concentrations ahead of the crisis, but also caused a reduction in commercial and industrial (C&I) lending. The reduced concentration in CRE lending may have dampened the impact of the financial crisis, but reduction in C&I lending may have hastened the economic recession.
- From both a theoretical and practical standpoint, the federal agencies' appeals processes are inconsistent with one another and seldom used by bankers. The lack of appeals by community banks may be from the low number of successful appeals or may source from fear of retribution by examiners.

### *The Effect of Government Policy on Community Bank Viability*

- Survey data suggest that compliance costs are rising. Some community banks are considering narrowing their products or services offered in response to regulatory burden, while others are considering consolidation or expect mergers or acquisition offers within the next year. Limiting service offerings could negatively impact the communities that rely on these banking products.
- The legislative and rulemaking process, by and large, has been driven by responses to activities within the nation's largest financial institutions, while community banks are oftentimes forced to comply with regulations that do not fit their relationship-based lending models.
- Reducing certain regulatory burdens can have a positive impact on community banks. The JOB Act's change in the SEC registration and deregistration cut-offs for banks substantially reduced pretax expenses and increased net income at community banks affected by the change.

### *Feedback from Bankers*

- The mergers and acquisitions trend will likely accelerate as bankers face new challenges in their institutions. According to Joshua Siegel, managing partner and CEO of New York City-based StoneCastle Partners LLC, community bankers are "TIRED" (facing Transition, Interest rates, Regulation, Expenses, and Dependence on technology).
- Survey data from bankers echo what regulators have heard anecdotally: compliance costs are going up and are reflected in the allocation of staff and staff time required to meet compliance needs.
- Survey data also show nearly two-thirds of community bankers indicate they do not plan to make non-QM loans.
- Regulators should seek out ways to keep regulation "proportionate." This term was coined by keynote speaker Rebeca Romero Rainey, Chair and CEO of Centinel Bank in Taos, N.M. Regulations should fit to the size of the bank and the types of risks the banks take.

More information about the conference, including the research papers that were presented and keynote speaker remarks, is available at <http://www.stlouisfed.org/CBRC2014>. Videos of the presentations and remarks are also available for viewing.

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Headquartered in St. Louis, with branches in Little Rock, Louisville and Memphis, the Federal Reserve Bank of St. Louis serves the states that comprise the Federal Reserve's Eighth District, which includes all of Arkansas, eastern Missouri, southern Indiana, southern Illinois, western Kentucky, western Tennessee and northern Mississippi. The St. Louis Fed is one of 12 regional Reserve banks that, along with the Board of Governors in Washington, D.C., comprise the Federal Reserve System. As the nation's central bank, the Federal Reserve System formulates U.S. monetary policy, regulates state-chartered member banks and bank holding companies, provides payment services to financial institutions and the U.S. government, and promotes financial literacy, economic education, and community development.

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. State banking regulators supervise nearly 5,200 state-chartered financial institutions. Further, most state banking departments also regulate a variety of non-bank financial services providers, including mortgage providers. For more than a century, CSBS has given state supervisors a national forum to coordinate supervision of their regulated entities and to develop regulatory policy. CSBS also provides training to state banking and financial regulators and represents its members before Congress and the federal financial regulatory agencies.