Success in Community Banking

BRIAN SULLIVAN: Welcome to the FDIC Podcast. I'm Brian Sullivan with the Federal Deposit Insurance Corporation. Each year, the FDIC joins the Federal Reserve System and the Conference of State Bank Supervisors to host a conference that attracts bankers, bank regulators, academics and researchers, both in and out of government, to discuss the latest research involving community banking in this country…and at the latest conference this past fall, we asked…how will community banks continue to succeed?

A bit of housekeeping…the views and opinions expressed by our guests are theirs alone, and may not reflect those of the FDIC or its Board members.

As we all know, community banks have a reputation for being successful based upon their physical presence and their deep roots in the communities and with the customers they serve. But let's face it, this past year has reminded us that success is by no means a guarantee. The bank failures of March and April of 2023 laid bare some of the risks facing *all* bank, including community banks.

In the latest conference, we sat down with very diverse group of community bankers with very different stories to tell and different approaches to 'succeeding' as a community banker:

- **Andy Anderson**, president and chief executive of Bank of Anguilla in Anguilla, Mississippi;
- **Brenda Foster** leads First Western Bank and Trust in Minot, North Dakota
- **Skip Hegboeck**, president and CEO of City National Bank and City Holding Company out of South Charleston, West Virginia; and finally
- **Kiah Haslett**, banking and fintech editor of *Bank Director*, a journalist who offer some color commentary as we go along.

Here now is that conversation from the 2023 Community Banking Research Conference from the Federal Reserve Bank of Saint Louis where we explored what this word 'success' even looks like for community banks in 2024 and beyond…

…Andy, to begin with you. Tell us about Bank of Anguilla and how you define success over the years?

ANDY ANDERSON: Sure. And good morning. I apologize. I usually don't sound like a frog but pollen will do tell you sometimes (laughter). We're a $195 million bank in the south delta of Mississippi. We're very rural population, less than 5,000 in our two counties that we serve, and we're only in those two counties. I've been blessed. I've worked there. I'm going on my 41st year right now. We have a board of directors, we're not family-owned, we have a board of directors that is committed to our bank, very smart, and committed to our community. And that's we are a mission focused bank because we serve two persistent poverty counties and that's what we do most of our business and our directors are committed to that. And so, my definition of success is keeping our community alive…and our bank life, of course…but keeping our community alive because without us, it would not be there. It would not be there. And I can guarantee you that it wouldn't. And we 27% of our loans are for regional balances of $5,000 or less. 12% or $2500 or less and we don't charge closing fees for those. And so the people of our county need us and it can be hard. I often think how wonderful would be to wake up in the mornings and be serving in a bank, you know, metropolitan area with the Wal-Mart or clothing stores, the movie theaters. And I wouldn't have to worry about keeping our rural hospital alive or keeping our school alive but that's what we do and that's my definition of success.

BRIAN SULLIVAN: That's a good one. Let's head up north. Brenda, your First Western Bank and Trust got its start in the 1960s and you've grown to, what is it now, 18 branch locations in three states? What's worked well for you and do you expect this success model that you've embarked upon to continue?

BRENDA FOSTER: Yes. What has worked well, and I spoke to this earlier today, is being a partner with the communities that we're in. Not only financially, but through volunteer hours as well. We work side-by-side with each community that we're in. In fact, this week, every one of our employees has the opportunity to volunteer in either a soup kitchen or cleaning up the parks…we have a laundry list of opportunities for our employees to participate in. So I'll be doing that tomorrow when I get back. And so success really is being that partner, making sure our communities are thriving and have what they need, listening to their concerns and working side-by-side, not only in successful times, but in challenging times as well. You know, if somebody is having a challenge, we want to be there to help them out. If they're having success, we want to be there to celebrate that. And I think over our almost 60 years we have done that. And it's been recognized. Now, some of the communities that we're in now are fairly new to us but the employees that work there are community members and they have that same thought process. And as we have acquired or merged, that has been a very important component to the sellers of those particular banks, is that we are good to their employees, good to the communities and that's really is what we're about.

BRIAN SULLIVAN: Skip, now to you. Your bank is located, as I understand it, smack dab in the middle Appalachia. And unlike Andy's Bank of Anguilla, you have very nearly 100 branches and spread across four states, total assets of about $6 billion. How do you define success?

SKIP HEGBOECK: We've always defined success on three pillars—one's financial, and we're not embarrassed to be financially successful. The core reasons are drivers of profitability are going to be growing. And when we think about growth, we think about households. So if I walk into a branch, I don't say, "What are your deposits today?" I say, "How many households bank here?" We have about 200,000 households, over about 100 branches. So about 2000 households per branch. That's about 60, 70% more than the average bank in America. So that just makes you profitable. Then we focus on loan growth. The other two pillars would be a customer service. We're really proud to be really good at customer service. J.D. Power has four times in the last six years, called us the highest performing bank in the north central region. And when we're not the highest, we're right below them. So we know we do a great job for our customers. And then community involvement throughout each of the communities in a very decentralized way is a third pillar that we that we survive on.

BRIAN SULLIVAN: And now to you, Kiah…as a reporter yourself, I imagine that bank directors either want to talk to you or don't want to talk to you both at the same time! Whether on-the-record or off-the-record, what's your sense of the bank directors that you speak to? Is their mood positive in the wake of everything that we've been through?

KIAH HASLETT: Yeah. So Bank Director is a pretty interesting publication. I don't know if I confused anyone with the title of it. I work for a publication called Bank Director, so our primary audience are bank directors and bank executives. While those two groups often work together on boards, they have different understandings of banking. And so I like to think about how can I bring bank directors up to speed, both with understanding the mechanics of banking, and then also some of the macroeconomic trends that impact their banks. Now, we have a variety of banks up here. I try to speak to bankers broadly without getting too specific about any one type of bank or one type of business model. I think right now many bank directors maybe have lived through the Savings and Loan crisis but weren't in charge of a bank during the Savings and Loan crisis and are kind of exploring some of their options for ongoing decision-making. So, you know, from a financial perspective, what should I do about our earnings outlook? But then also from an investment perspective, where should we be putting our dollars both in technology or physical branches or in different skill sets within the bank so that we're set up for the next decade of success?

BRIAN SULLIVAN: Let me ask each of you, do you feel like what happened to those three banks, did it tell you anything about your own bank? Skip, we'll begin with you. Did you see any of yourself in any of that or no?

SKIP HAGEBOECK: No, i was glad *not* to see myself in that (laughter). It reinforced what makes City a really strong, unique bank, which is that tremendous household concentration that we have. I've always told our regulators, look, we don't need asset-side liquidity, we'll just borrow the money. We don't borrow from the Home Loan at all. So we can do that. Now, they've been saying, no, no, you need to have some asset-side liquidity, and I'm with them now! And that's a change I think that the new environment has brought.

BRIAN SULLIVAN: Brenda, were there any lessons that you learned that you might apply to your own bank?

BRENDA FOSTER: Well, I think we had some positive lessons that many of the things that we're already doing are the right things to do. And we don't bank the wrong types of industries, but similar to you, Skip, we had 15% uninsured deposits. And sometimes you forget about those things, and that's really important. It presented an opportunity for us to make sure we were calling our larger depositors and answering any questions. So first thing you think of, okay, what how is this going to impact you? And so we did have a very robust reach-out to our deposit base. And some of them said, "Why are you calling me?" And so it just reinforced the things that we've been doing are the right things to do. But we also took it as an opportunity to have further discussions with our customers.

BRIAN SULLIVAN: Right. So let me ask you a variation of this same question, Andy, because yours is a small bank serving a really poor area of the Mississippi delta region. We've been talking about climate-related financial risks. And so the events that have happened to your hometown and to your customers since the epic flood of 2019 that you told us about, and then that monster tornado that took every small business off of your main street. How have you positioned yourself for success? What does success look like in an environment like that?

ANDY ANDERSON: We faced a lot of disasters through the years, as I said yesterday. So we're not we're no stranger to that. We have worked through several floods. And of course, one thing that we didn't bring out, we had a tornado in Anguilla in December of this past year, and I was in D.C. at an American Bankers Association meeting and had to leave early, but, you know, went right by the bank and the bank had damage. We lost some lives in Anguilla and three months later, four miles up the road where I live, we had another major tornado. So we're no stranger to that and as I said yesterday, when you're a small community bank, you have to have not just a bank disaster plan, but a community disaster plan.

Our county is a very poor, extremely poor, and over 60% are renters. They have no place to come back to. All landlords will not rebuild. There were some government housing which I don't think it will be rebuilt because they're still sitting there destroyed. So seven of us formed a 501(c)(3), which anybody in this room is welcome to donate to by the way (laughter), and we're bringing renters back into our community as homeowners. It's a complicated process, but it is one that we hope will work and we actually had two people from DC come down from FEMA last week and they would like to see this as a model for other places to see. They say it sounds too good to be true, but we're bringing them in as homeowners. We're purchasing vacant lots where there used to be houses for people that aren't going back. We purchased enough lots now to build 60 homes. These renters that have never owned a home before, they're all poor will come back…we're building them the homes. They all have a 20-year, 0% mortgage are paying about $500 a month. And the house will be theirs completely in 20 years.

BRIAN SULLIVAN: Kiah, again, you talk to a lot of bank directors and board members. The survey that came out of this conference, you know, among a lot of community bankers, they point to the traditional sort of risk areas that they focus on… net interest margins and higher cost of deposits and the adoption of very expensive technology. What are they telling you? Are they talking at all about climate-related financial risks or where's their heart?

KIAH HASLETT: Bank Director also runs…we do about four surveys a year. So last night, I just quickly refreshed myself on those surveys. ESG, environmental, social and governance risks rate very, very low for most of our community banks. ESG initiatives are seen as being a driver for the public banks, maybe because some of the investors that are in those banks or they are SEC registrants.

Where I think about ESG…I think it's actually a real opportunity for a bank to really think about the role they play in the in the community, right? The sustainability doesn't just have to be from an environmental point of view; it can be about having a really great workforce. It can be about supporting really healthy communities and investing in those communities for long-term success. And then environmental. I've always the way that's looking in community banks is a lot of like environmental initiatives that help save money.

But it also looks like in funding and being involved in like solar and wind projects from an investment perspective. So I actually do think that there are some banks that are really curious and interested in how they can be involved in some of maybe the climate transition opportunities. While, you know, when we think about climate risk, something that I've been thinking about, and we've been talking about that Bank Director, is the role that property and casualty insurance is playing in potentially shielding some of the banks from the credit, from the climate-related credit risk. And so as California and Florida see insurers leave the market and maybe alter some of the new home purchases and the losses on those, that will be something that we're pretty interested in.

The other thing I wanted to say is that, you know, innovation is a really big focus for banks. I think that, you know, banking that has been branch-based has been really successful for years. But as you know, the digitization post-financial crisis happened. You know, consumers, our phones are getting smarter. And banks were really focused on compliance and maybe weren't able to add innovation as quickly as Amazon has done. The core vendors are a big a big impediment for that.

So now think about many community banks are wondering, you know, well, if we have digital retail account opening, what's kind of the next thing we need to add? And I think that for many community banks, they really need to figure out what kind of bank are they, what kind of customers do they really excel at servicing, and then what kind of technology do those customers need to have?

BRIAN SULLIVAN: Well, then let's play off that a little bit. Brenda, where are you on the technology front? Do you feel you need to be somewhere where you're not or do you feel like being more technologically adoptive makes you a different bank altogether?

BRENDA FOSTER: It's a question we struggle with every day. And so to your point, I mean, your customers are demanding…we have a wide demographic so we've got those that maybe don't have computers, some that are not very tech savvy at all, and some that don't want to ever walk in your bank. So we have a wide range and we know we have to keep conversations going in all of those venues because as time goes forward, if we want to remain relevant, we have to pay attention to that because your customers that are already so tech savvy that they don't want to come in your bank, you want to retain them, because what will we look like in ten years down the road, even five years down the road? Technology is very expensive to your point, but you have to be able to meet your customer where they are. So we can't forget about the people that really don't utilize technology, and they're a very important part of our customer base but that will change over the next several years.

BRIAN SULLIVAN: Leave no customer behind it, right?

BRENDA FOSTER: Right.

BRIAN SULLIVAN: Skip, how about you? I'm sure yours was a different bank ten years ago. Will it be a different bank ten years from now?

SKIP HAGEBOECK: I don't think it was a different bank even when I got there in 2001. At that time it had a very strong retail distribution network, strong household penetration in all of our core markets. And our core markets, we have 40%, 40% 50% and 70% of all the people in those markets bank with us. I think that's powerful. We've continued to grow that. We live in markets where the population isn't growing, but our customer count is growing. So we're taking share from big banks who no longer care much about.

The smallest community banks who I think are challenged by, to your question, the technology…of keeping up. Because the customers are very clear when surveyed that they value two things. They value the relationship they have with their banker. And by relationship what they value is advice, information, knowledge and help. It's not friendliness. Friendliness is required…it's service and helpful advice. And then they value technology. And every year the surveys say that the customers are more and more weighted on that technology. The surveys also tell us that customers pick a bank based on the branch. So in those markets I mentioned, our core markets, we have more branches than anyone. That's why they're coming from there to us. The branch distribution still matters. Customers no longer need to come in as often because the technology they have in their pocket will do many, many great things but they still value that location. So I don't I don't see banking for us changing much.

BRIAN SULLIVAN: And Andy, yours is a bank where if not for your bank, there wouldn't be a bank. All this talk of technology and scale and all of this, this probably doesn't concern you or does it?

ANDY ANDERSON: Well, of course, going forward, technology is important and technology is expensive. And we've come a long way since I've been there. A lot of us are being forced to adopt technology, but it's amazing, even in our poor areas, most of the people have an iPhone. Yeah, you know, you see him walking down the street with an iPhone and so even though we're tremendously relationship banking, they use their iPhones to conduct business…it's still amazing how many phone calls we get or how much our telephone banking is used because we thought that was going out a long time ago, but it hasn't. But technology is important to us, but we operate on such thin margins. One bad decision in technology could ruin our bank so we have to be very careful what we do.

BRIAN SULLIVAN: Skip for you, is success in the future mean being bigger.

SKIP HAGEBOECK: We've grown through acquisition I think seven times since 2005. Our stock trades for three times book value. So if somebody is for sale, I usually hear about it because we can pay more than anybody else. We talk to a lot of people and we walk away from a lot of things because I have been at a big bank. I didn't like some things about that bank. I've been a much smaller bank. I liked some things about it a whole lot better. I don't think bigger is better. And we say that routinely. I think better is better.

BRIAN SULLIVAN: Well, Brenda, how about you? Do you feel like you're in a good place in terms of size?

BRENDA FOSTER: And I guess I probably didn't share this, but we're $2.1 billion bank and I think we're in a good place. We're open to more if it makes sense, but we're going to be cautious and conservative.

BRIAN SULLIVAN: Well, you know, nobody has ever accused your bank, Andy, of being too big to fail. So where are you on the footprint of your bank?

ANDY ANDERSON: Sure. Right now we're actually over $200 million. And that's because of the influx of deposits related to public deposits from our tornado disaster but normally, we're around $190 (million), which is just a couple of years ago we were $157 million. So we've shown some small growth but we discuss at our board meetings every year, do we want to move outside of our two counties? The only way we can really grow is to move outside our counties and the board doesn't want to do that right now. And so we will stay about where we are.

BRIAN SULLIVAN: But success to you in the future sounds like being there for your counties.

ANDY ANDERSON: Exactly. From 2017 to 2021, our bank originated over $477 million in loans. In 94% of that was in persistent poverty counties. If we weren't there and we had a larger, much larger institution that had a home base a long ways away, they would make some loans, but they wouldn't make $477 million worth over four years.

I grew up relatively poor and my mother and I…our house got foreclosed on when I was young. We moving to my grandmother's house and the bank foreclosed on us was the Bank of Anguila. And now I'm running that bank (laughter). So, you know, it's the mission. I understand what people go through when they're on the other side of not having money and struggling. And so I try and push that out to all of my employees that, you know, look at each person and see what they're going through and see how we can help. And that's success to me and hopefully we'll still be doing that in ten years.

BRIAN SULLIVAN: Brenda, how about you if you look out ten years?

BRENDA FOSTER: It's interesting because when I started at this bank, 42 years ago, there was no technology. And so I had the first RadioShack computer in the bank, you know, and then I moved to a PC and so I have seen that change and I would say a relatively quick period of time. So when I think ten years down the road, I am interested to see where we'll be at. And I do venture to say there will be more technology, but I still, you know, as long as I'm with the organization, want to encourage that let's make sure we're taking care of those that need to be taking care that maybe don't have the technology because they are a very important part of our community and of our customer base. But I need to encourage that we're moving forward to be able to be ready to help the customer of the future. And so I'm anxious to see what the next ten years bring because from where I was to where we are today to where we'll be in ten years is just very interesting.

BRIAN SULLIVAN: Yeah. You mentioned, you know, you look back ten years and you think that that's a long time ago, but it really was just a blink of an eye and Skip, ten years from now, it's going to be another blink. And whether you're at the bank or not, City National…where's that bank going to be ten years from now?

SKIP HAGEBOECK: Well, I suspect I won't be there in ten years. Probably the leadership will change a lot. And often that happens in a lot of banks. I think the bank will probably have grown into some new markets. I hope that in each of those markets we have more customers than we do today. And I hope that City…certainly this is a community banking conference…still looks like community banking in the way I think of a community bank.

I was at a conference with a CEO of a bank about twice our size a couple of weeks ago, and he said, you know, I don't even know the lenders anymore. And I thought, well, that to my definition of community banking is people know each other. And in rural Appalachia, the joy at City (National) is people don't move around much. So we do all know each other. I know all the lenders, all the trust people, all the mortgage originators, all the leaders in operations and anybody who supervises…most of the branch managers. I hope that City is *that* community bank that still knows each other. That's what I know our employees value, they feel like family. And when I was at the big bank that I was at, it didn't feel like family. It was a great place to work, but it did not feel like family.

BRIAN SULLIVAN: Kiah, Bank Director…does it forecast out ten years based upon any survey?

KIAH HASLETT: I mean, I wouldn't want to do that if that someone does. I also I should have said that these views are my own opinions. They're not even Bank Directors. And I guess if going to make a forecast, I definitely need to say that. So like if you can tell by my title in technology, I'm really focused on how technology is changing banking. So I am actually really interested to see how technology allows community banks to keep their customers when they go to college, when they get married, when they move to big cities. That was felt like a time traditionally where community banks would lose customers because it was so geographically based. And so I think, you know, technology is a cost and it's a risk but I think there's also an opportunity to kind of deepen and continue these customer relationships. And I'd actually like to see, you know, members of my generation or maybe even younger than me, to seek banking as a value.

BRIAN SULLIVAN: Well, I'd like to thank our panel today for joining us. It has been a really wonderful conversation. Andy Anderson of Bank of Anguilla, Brenda Foster, First Western Bank and Trust, Skip Hageboeck of City National, and of course, Kiah Haslett of Bank Director. I'm Brian Sullivan with the FDIC and thank you. (applause fade)