
Community Banking by the Numbers



The FDIC Community Banking Research Project

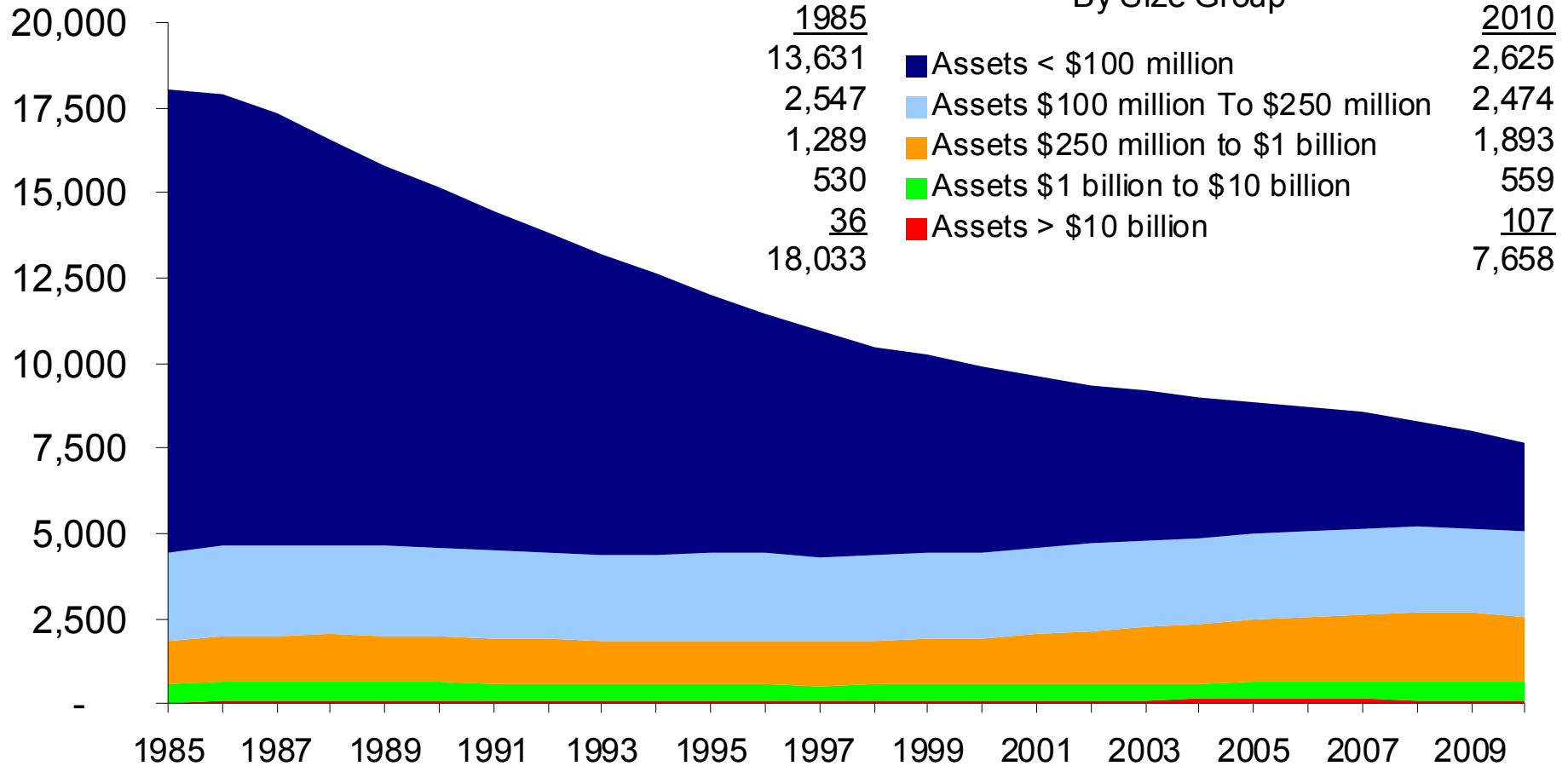
FDIC Future of Community Banking Conference
February 16, 2012

Outline

- Bank size and long-term industry consolidation
- Defining the community bank for research purposes
- A snapshot of U.S. community banks
- Structural changes over time
- Performance comparisons over time
- Directions for future research

All of the net decline in FDIC-insured institutions since 1985 has come from banks under \$100 million.

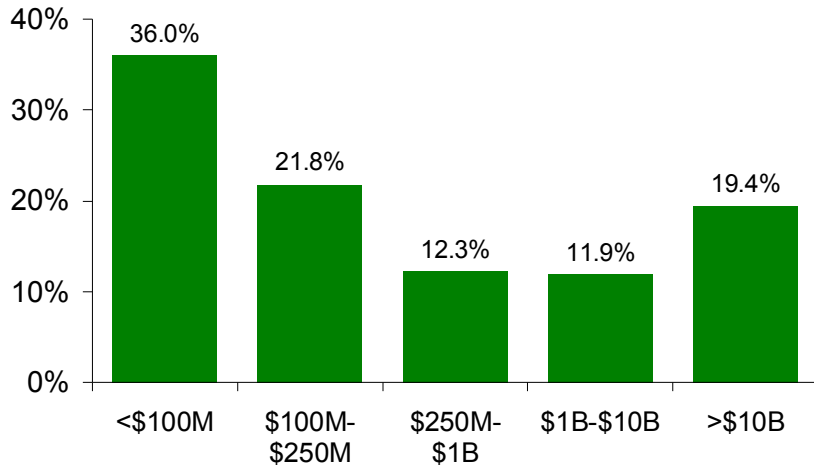
Number of Institutions



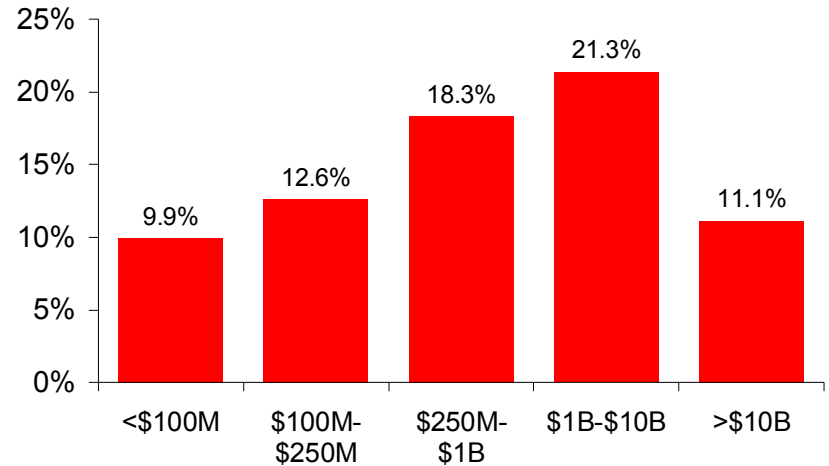
Source: FDIC

What happened to the 18,033 federally-insured banks and thrifts that operated at year-end 1985? (By 1985 asset size group)

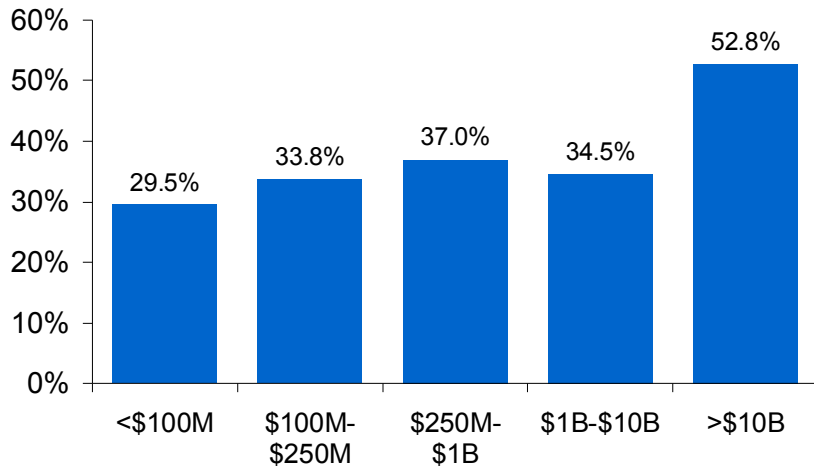
Still Operating



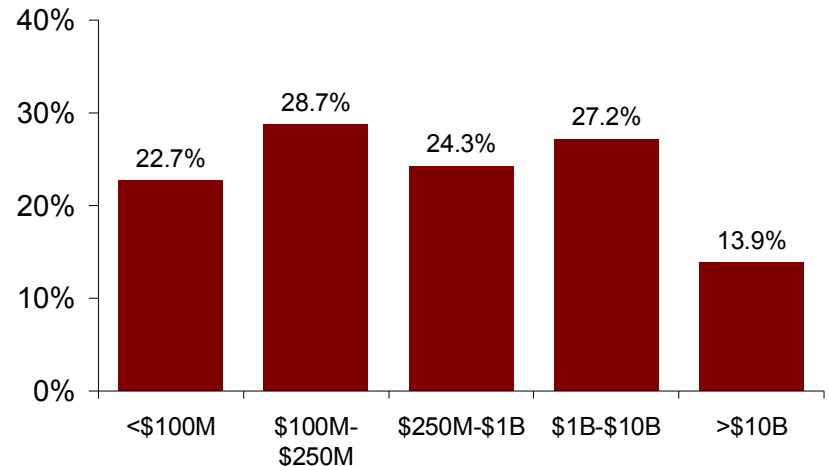
Failed



Merged



Consolidated Within Company



What Is a Community Bank?

- Common definition: Total assets < \$1 billion
 - Size threshold needs to be indexed over time
 - Shortcomings:
 - Includes some non-community banks
 - Excludes some banks that look like community banks
- Needed: A better conceptual definition
 - Not purely a function of size
 - Associated with basic banking functions of deposit gathering and lending
 - Business within a fairly circumscribed geographic area
 - Emphasis on “relationship banking” vs. “transactional banking”

FDIC Research Definition

Designate community banks at the level of the banking organization – the decision-making unit.

Exclude:

- Any organization with:
 - No loans or no core deposits
 - Foreign assets > 10% of total assets
 - More than 50% of assets in certain specialty banks, including:
 - credit card specialists
 - consumer nonbank banks
 - ILCs
 - trust companies
 - bankers banks

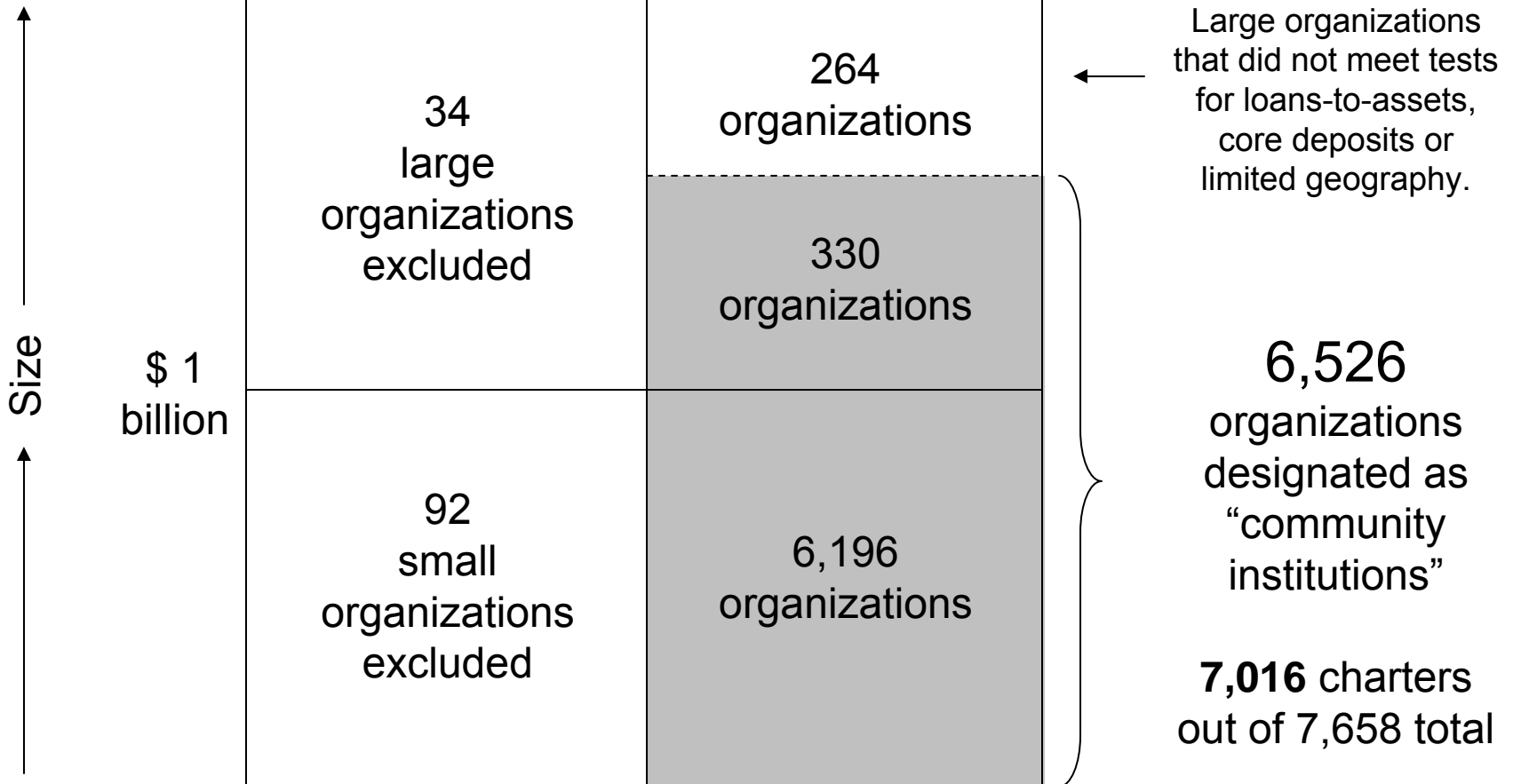
Include:

- All remaining banking organizations with:
 - Total assets < \$1 billion (indexed over time)
 - Total assets > \$1 billion where:
 - Loan to assets > 33%
 - Core deposits to assets > 50%
 - $1 < \text{Offices} \leq 75$
 - Number of large MSAs with offices < 3
 - Number of states with offices < 4
 - No single office with deposits > \$5 billion

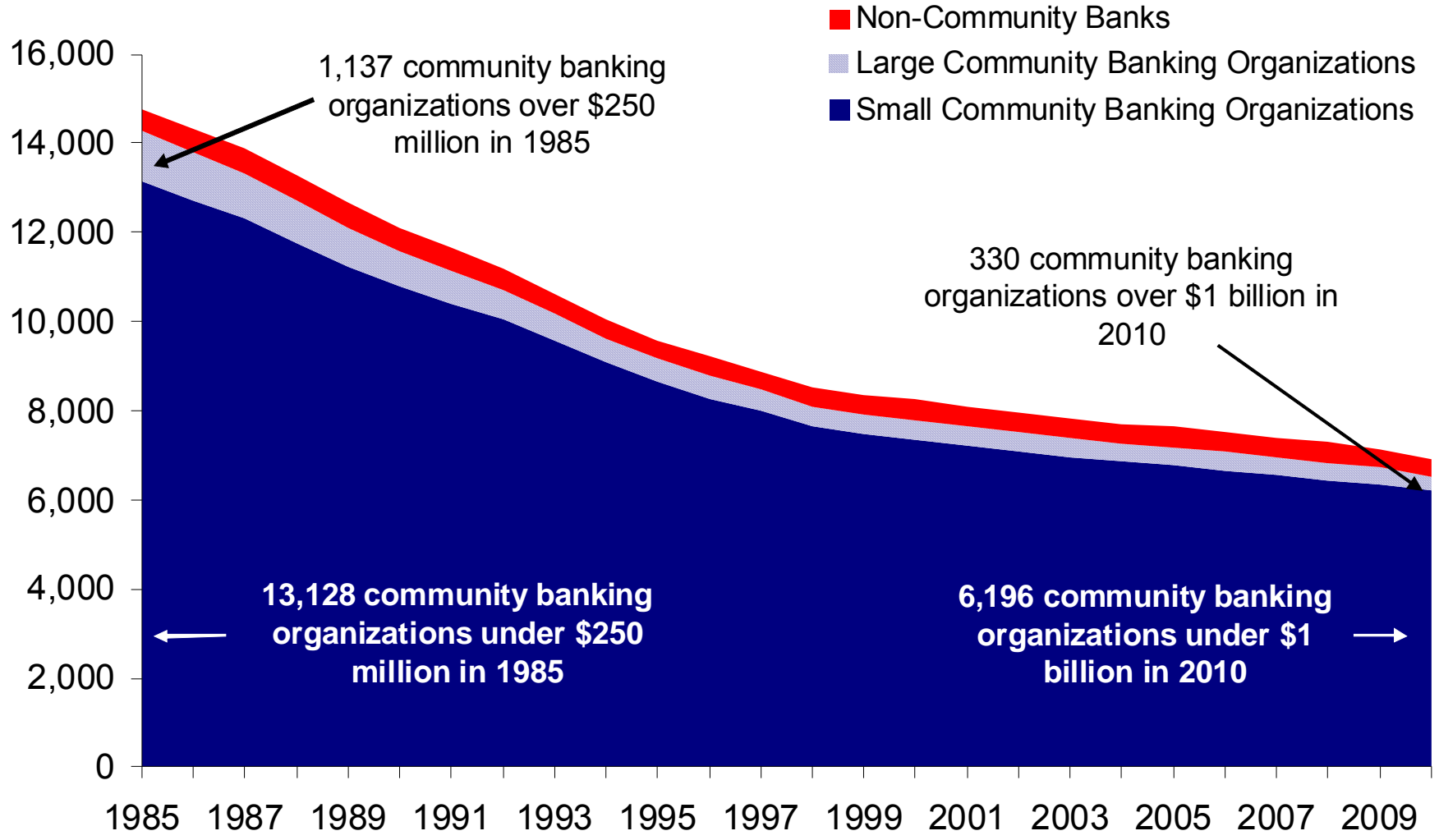
Where Do These Criteria Take Us?

Year-end 2010

Excluded:
no loans, or no core deposits,
or certain spec. group



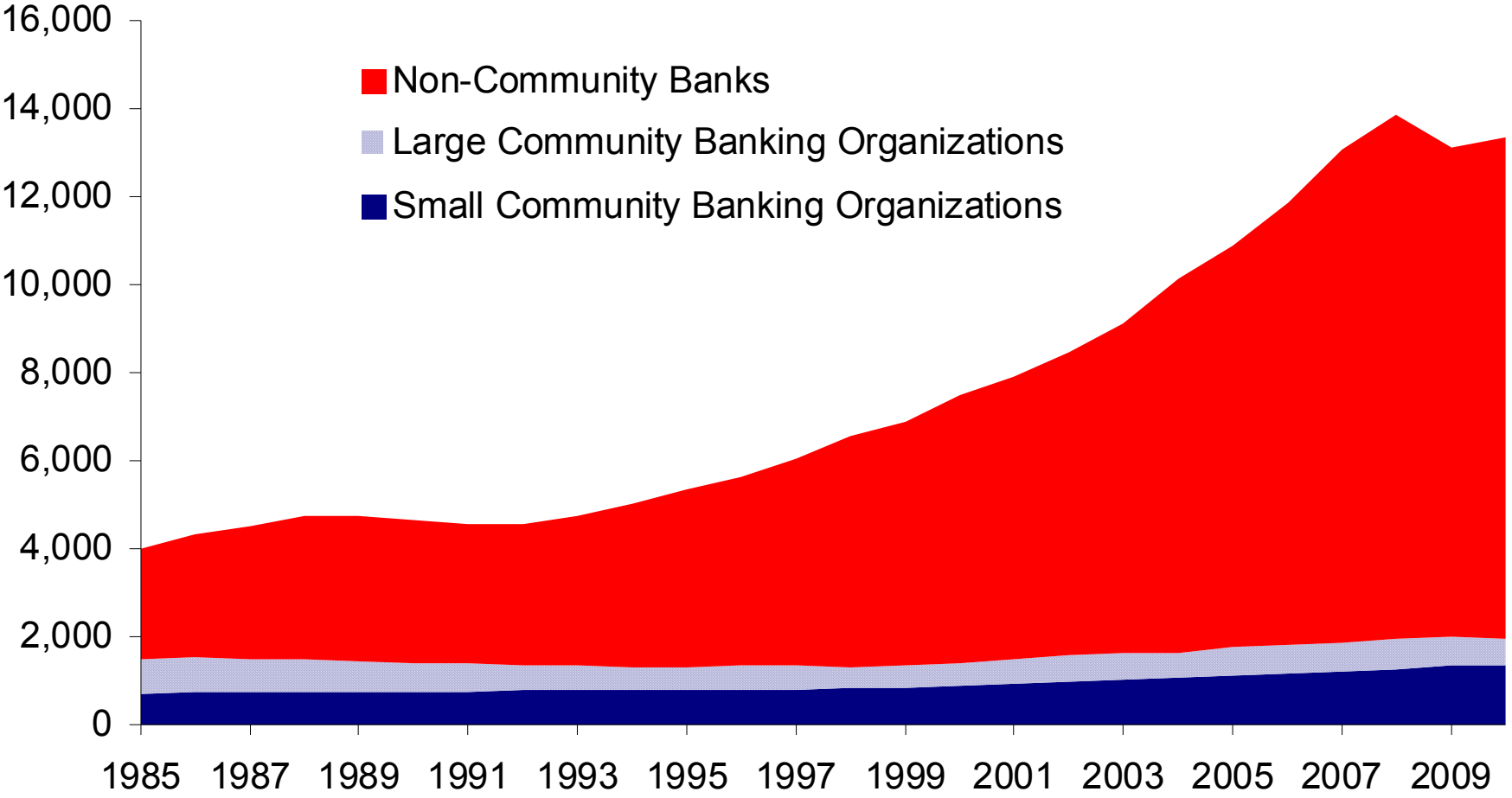
Community banks have declined just slightly since 1985 as a percent of all banking organizations, from 97 to 94 percent.



Source: FDIC Community Banking Research Project

The total assets of non-community banks have grown much faster than those of community banks since the early 1990s.

Total Assets, Dollars in Billions



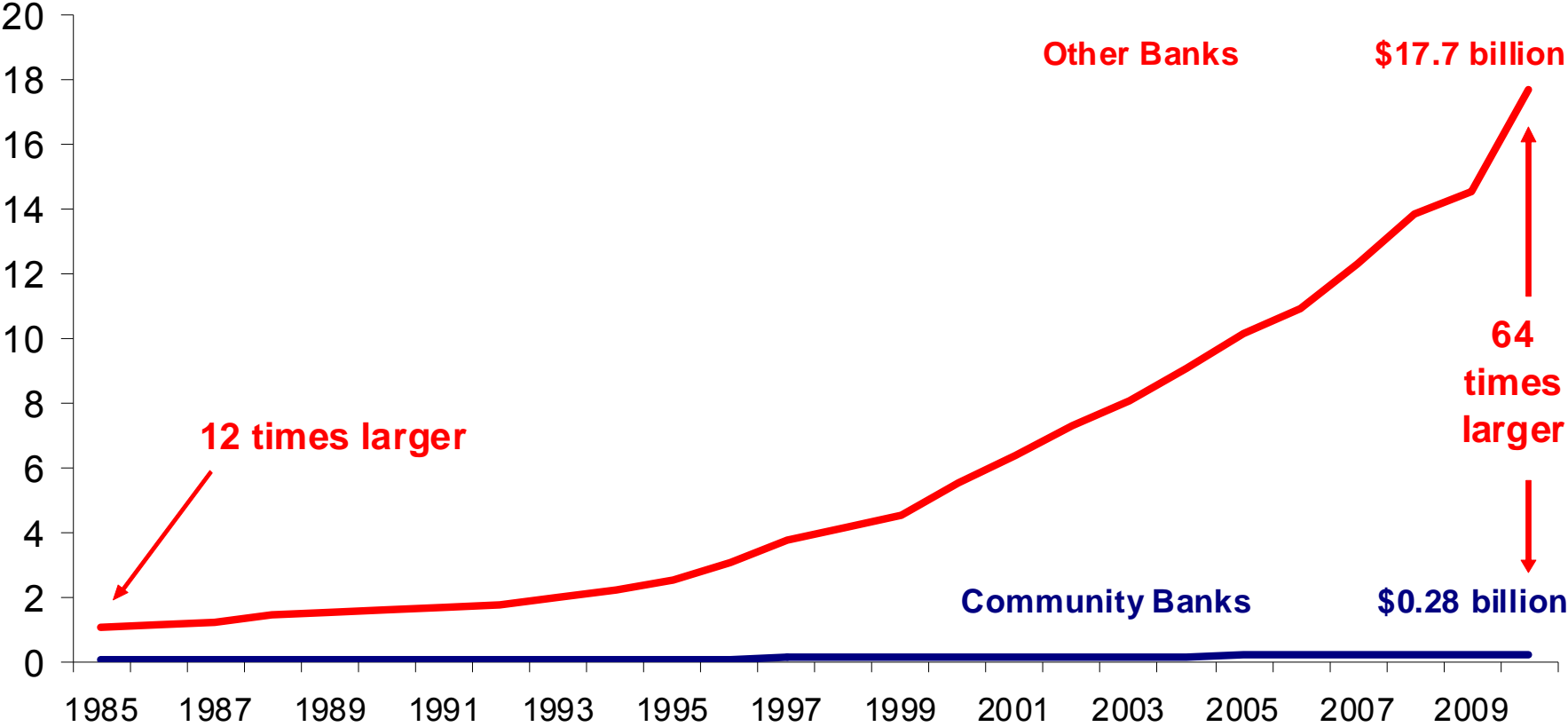
Source: FDIC Community Bank Research Project

Snapshot of U.S. Community Banks

- How big are they?
- Where do they operate?
- What do their balance sheets look like?
- What business lines do they specialize in?
- How often do they fail?
- How has industry structure changed since 1985?

Community banks tend to be small, and the size disparity with other banks is growing.

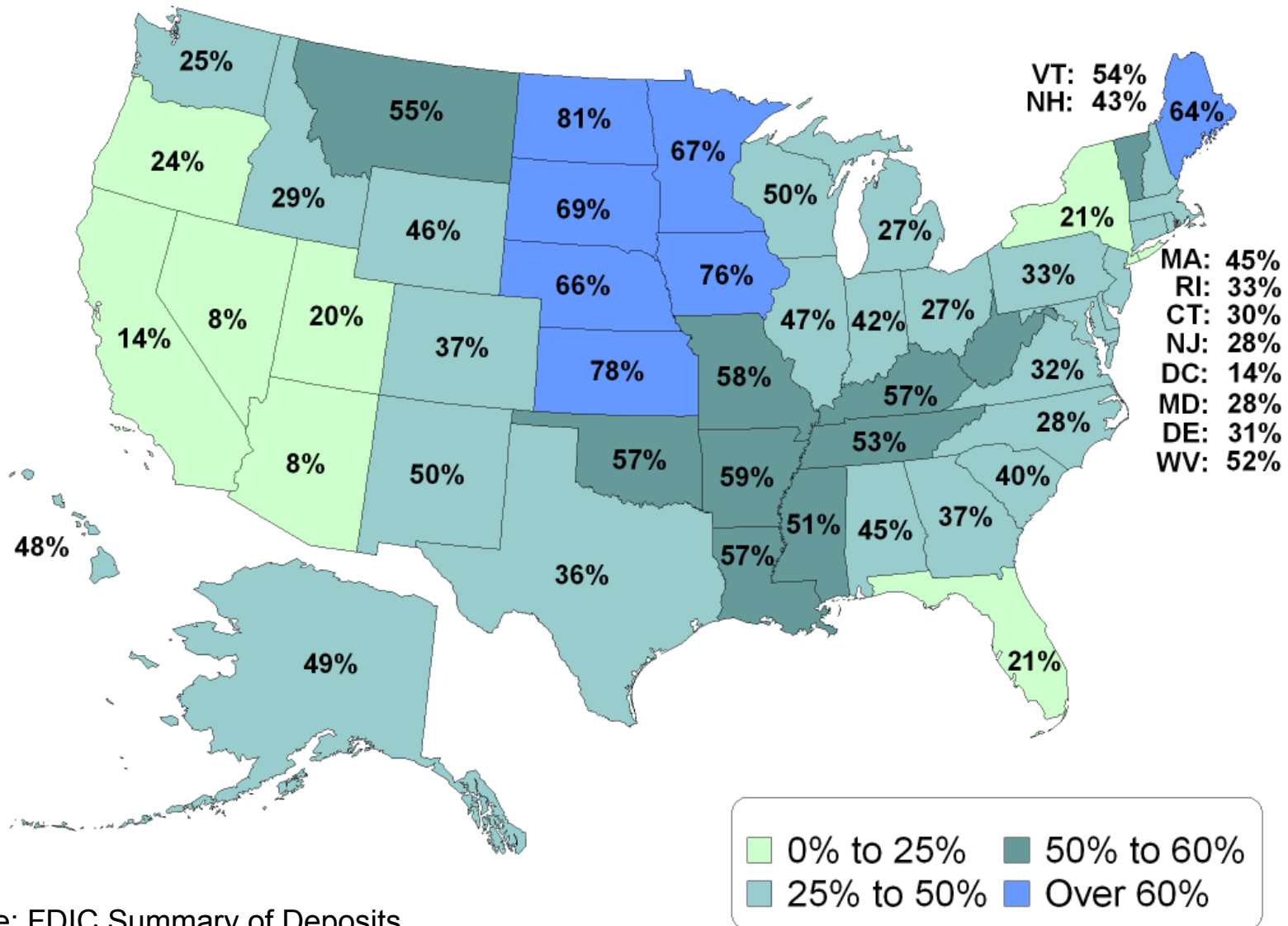
Average Asset Size (Dollars in Billions)



Source: FDIC Community Banking Research Project

Where Do Community Banks Operate?

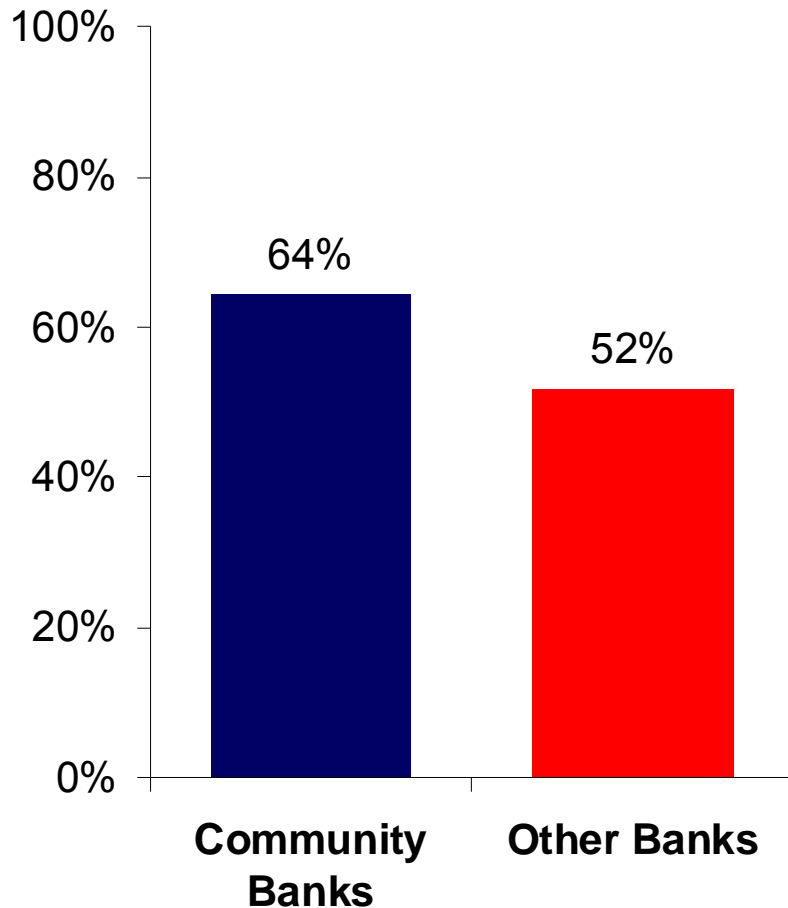
Community Bank Share of All Branches Operating Within State as of 2Q 2010.



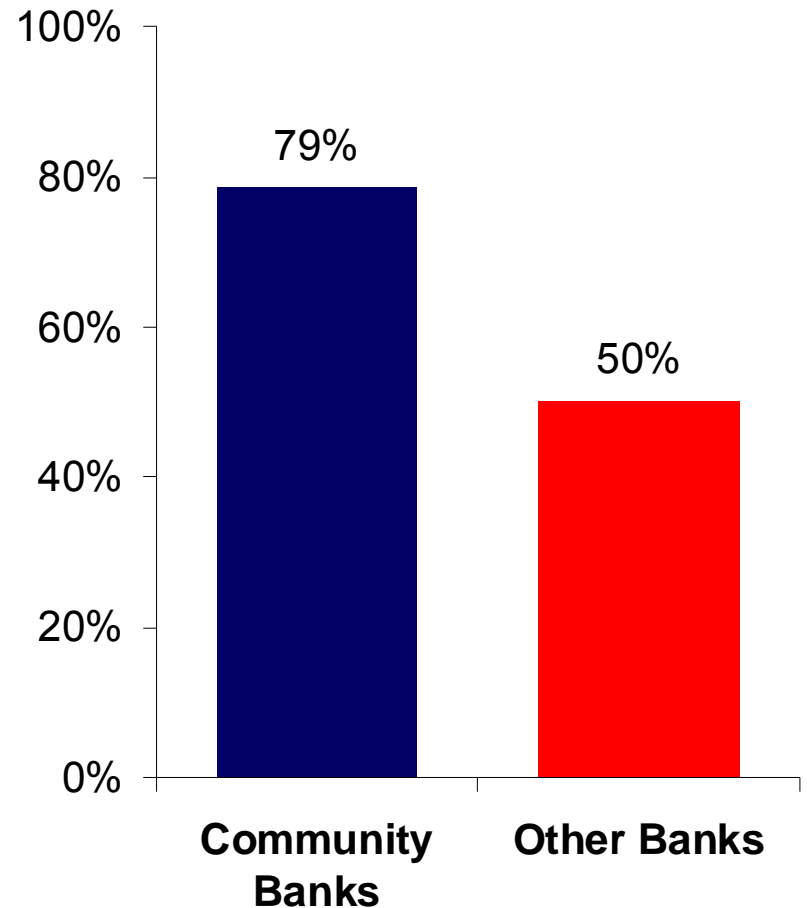
Comparing Balance Sheet Structure

Weighted Averages, Year-End 2010

Average Loans to Assets

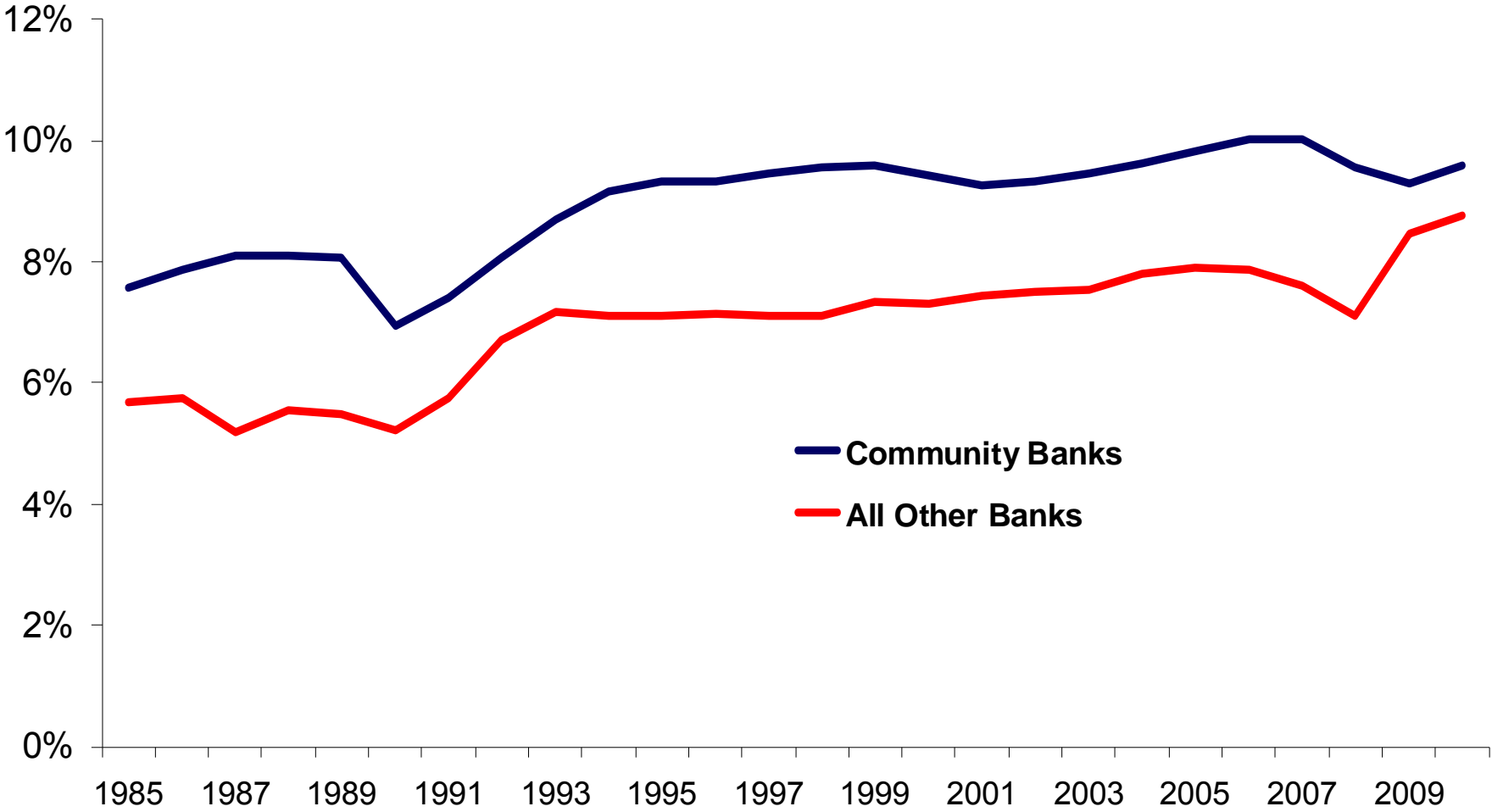


Average Core Deposits to Assets



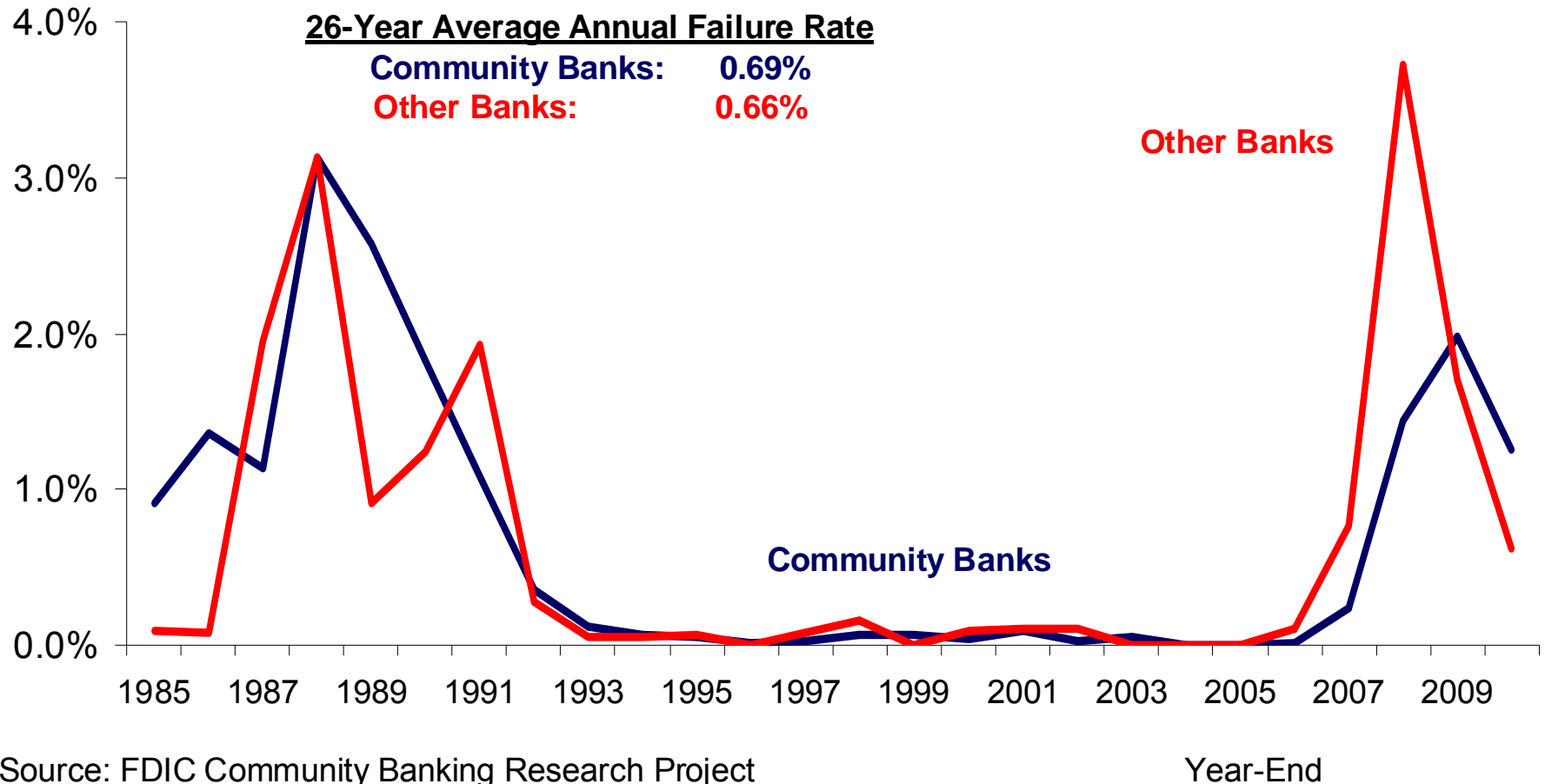
Community banks have traditionally held more capital, on average, than other banks.

Core Capital (Leverage) Ratio, Percent



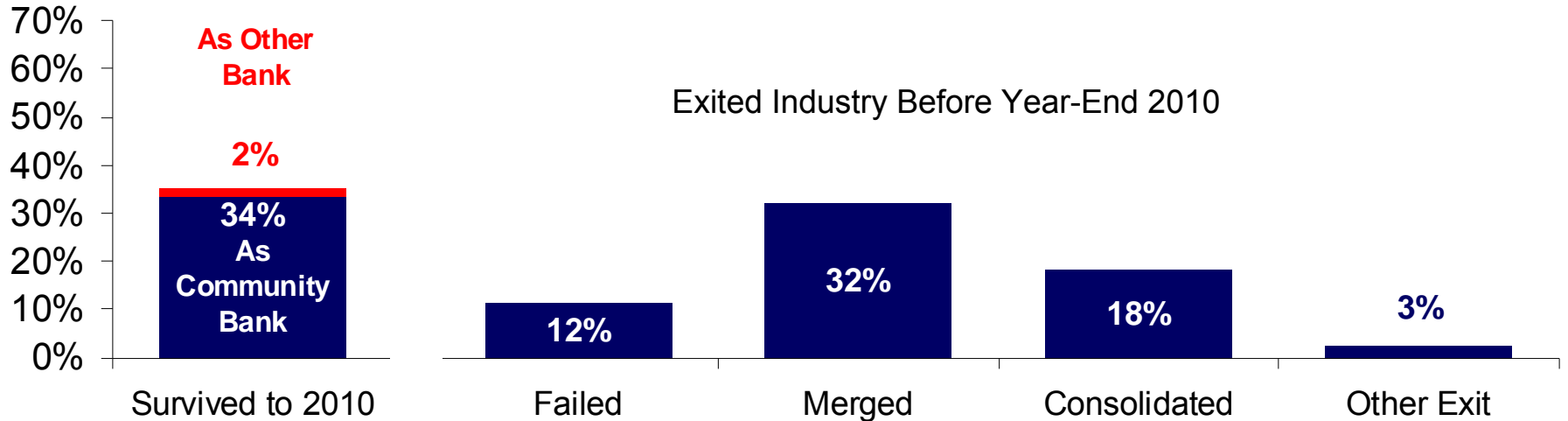
The long-term failure rate for community banks is comparable to that of other banks.

Failures During the Succeeding Year as a Percent of Institutions at Year-End

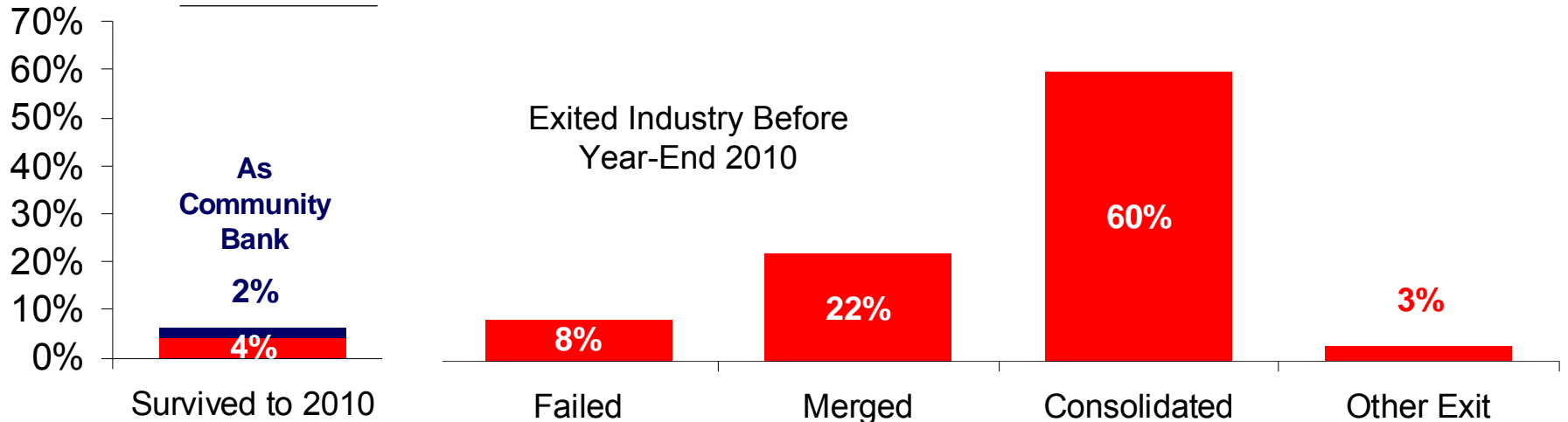


What Happened to Community Banks and Other Banks that Reported at Year-End 1985?

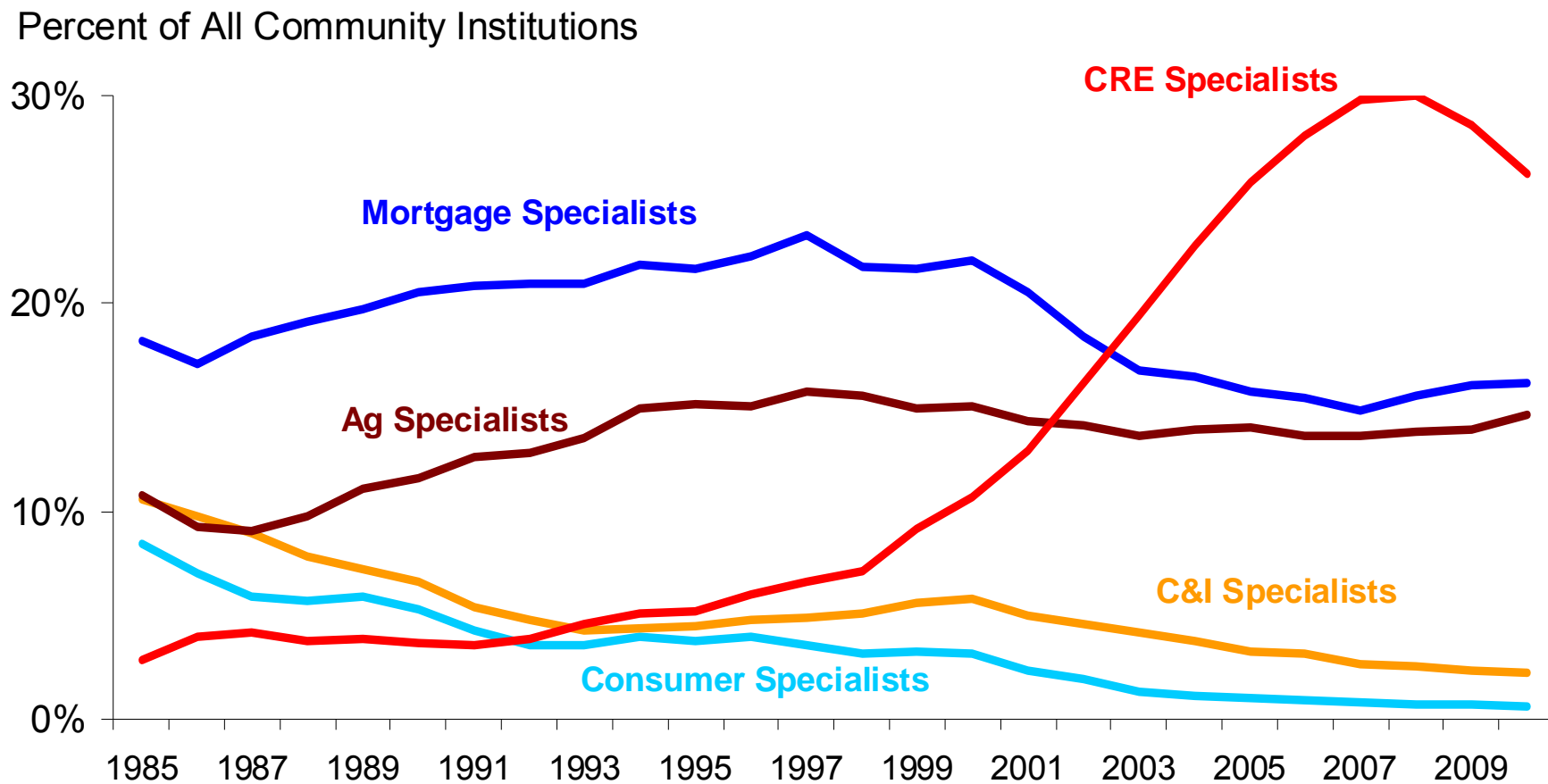
Percent of Community Banks Reporting at Year-End 1985



Percent of Other Banks Reporting at Year-End 1985



Change in percent share among main community bank specialty groups, 1985-2010

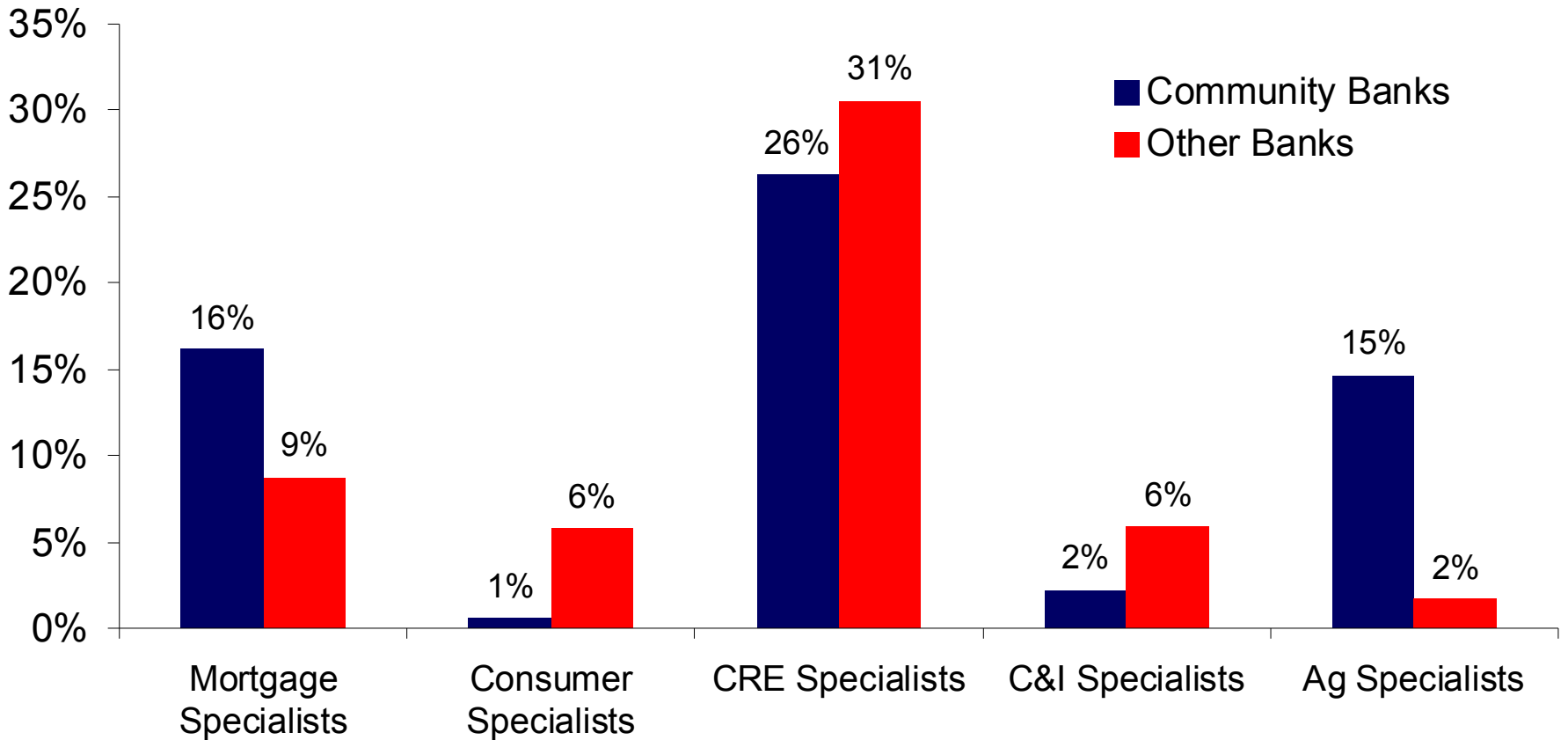


Source: FDIC Community Banking Research Project

Comparing Community Banks and Other Banks by Business Specialty Breakdown

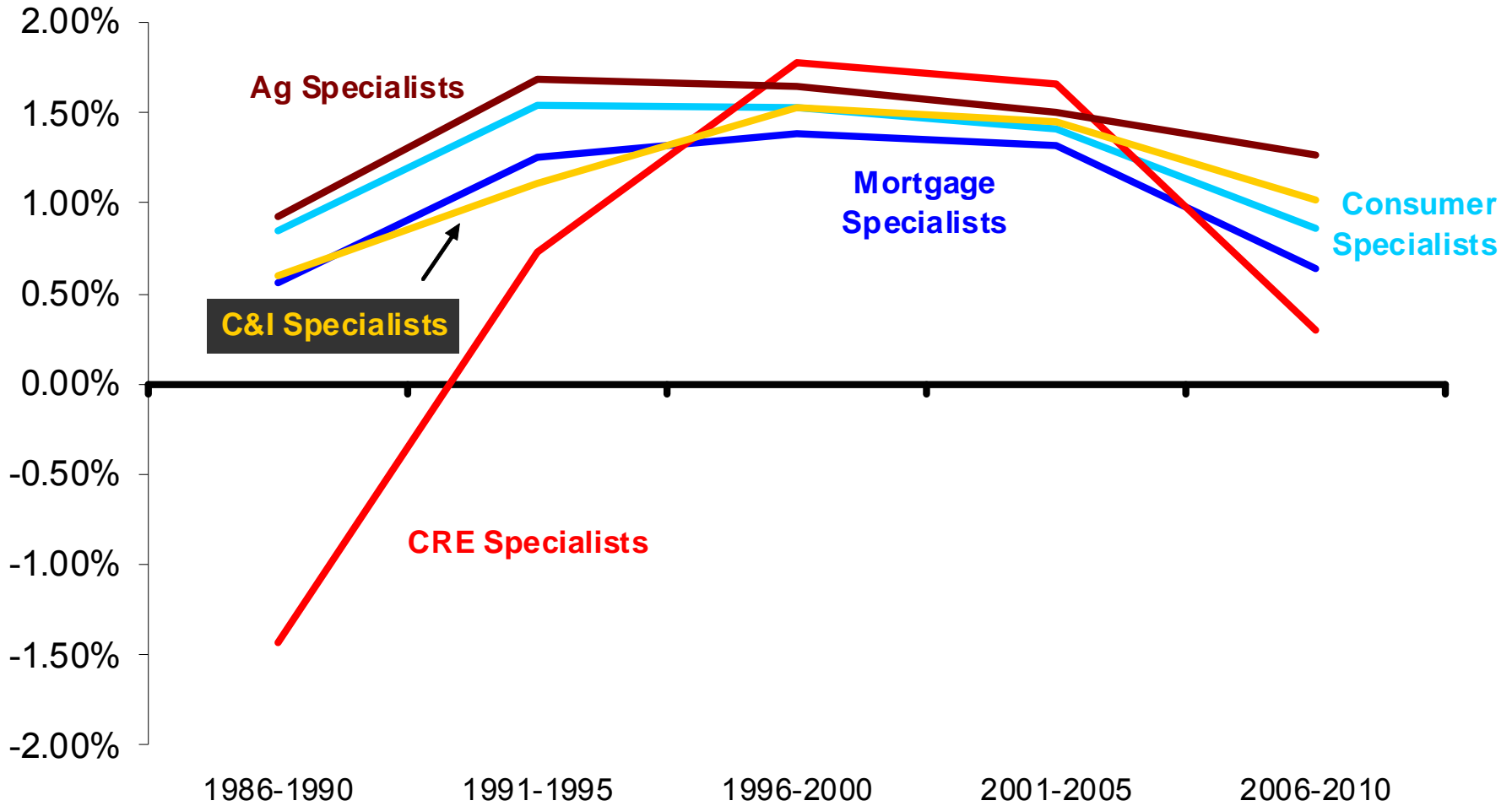
Percent of Institutions in Each Business Specialty Group

Year-End 2010



Source: FDIC Community Banking Research Project

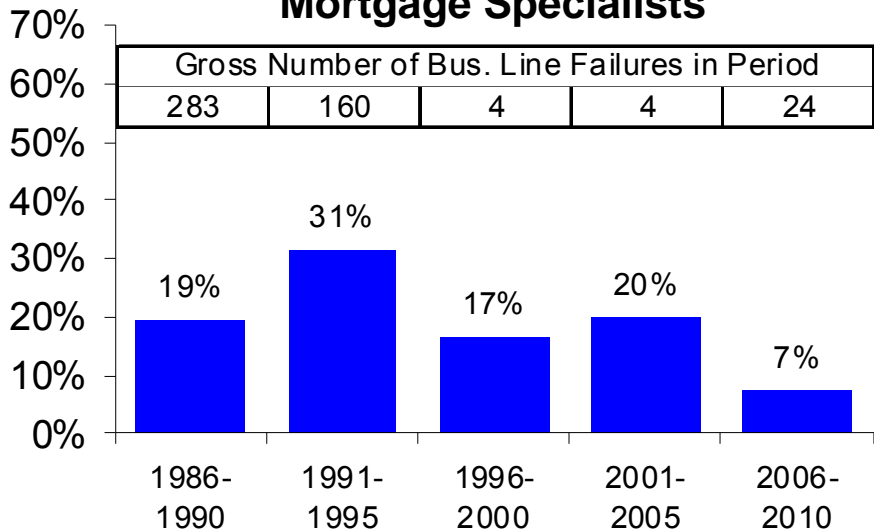
Five Year Averages for Pre-tax ROA, By Community Bank Single-Specialty Groups



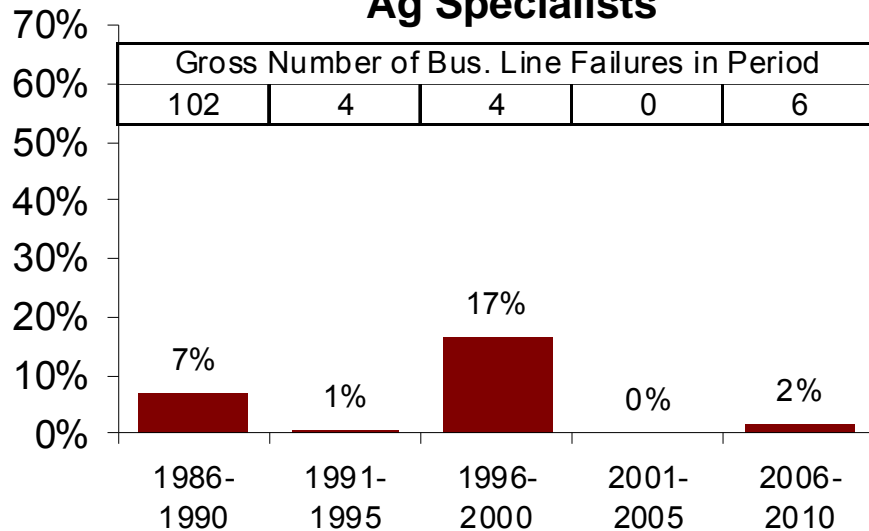
Source: FDIC Community Banking Research Project

Percent of Failures Accounted for by All Single-Business Line Specialists, by Five-Year Period

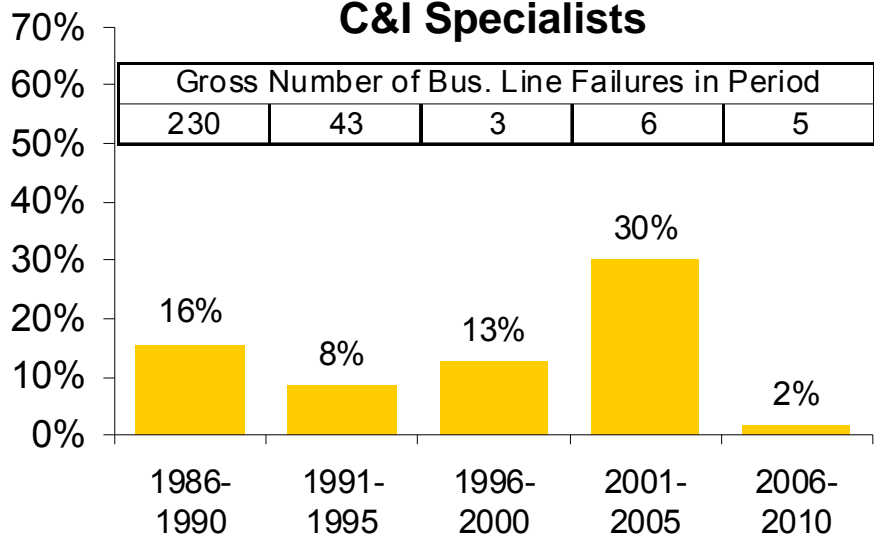
Mortgage Specialists



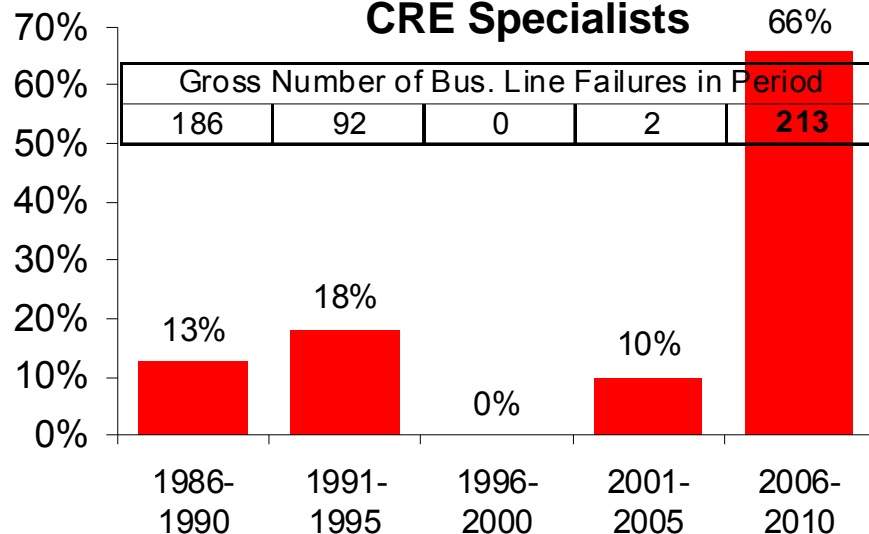
Ag Specialists



C&I Specialists

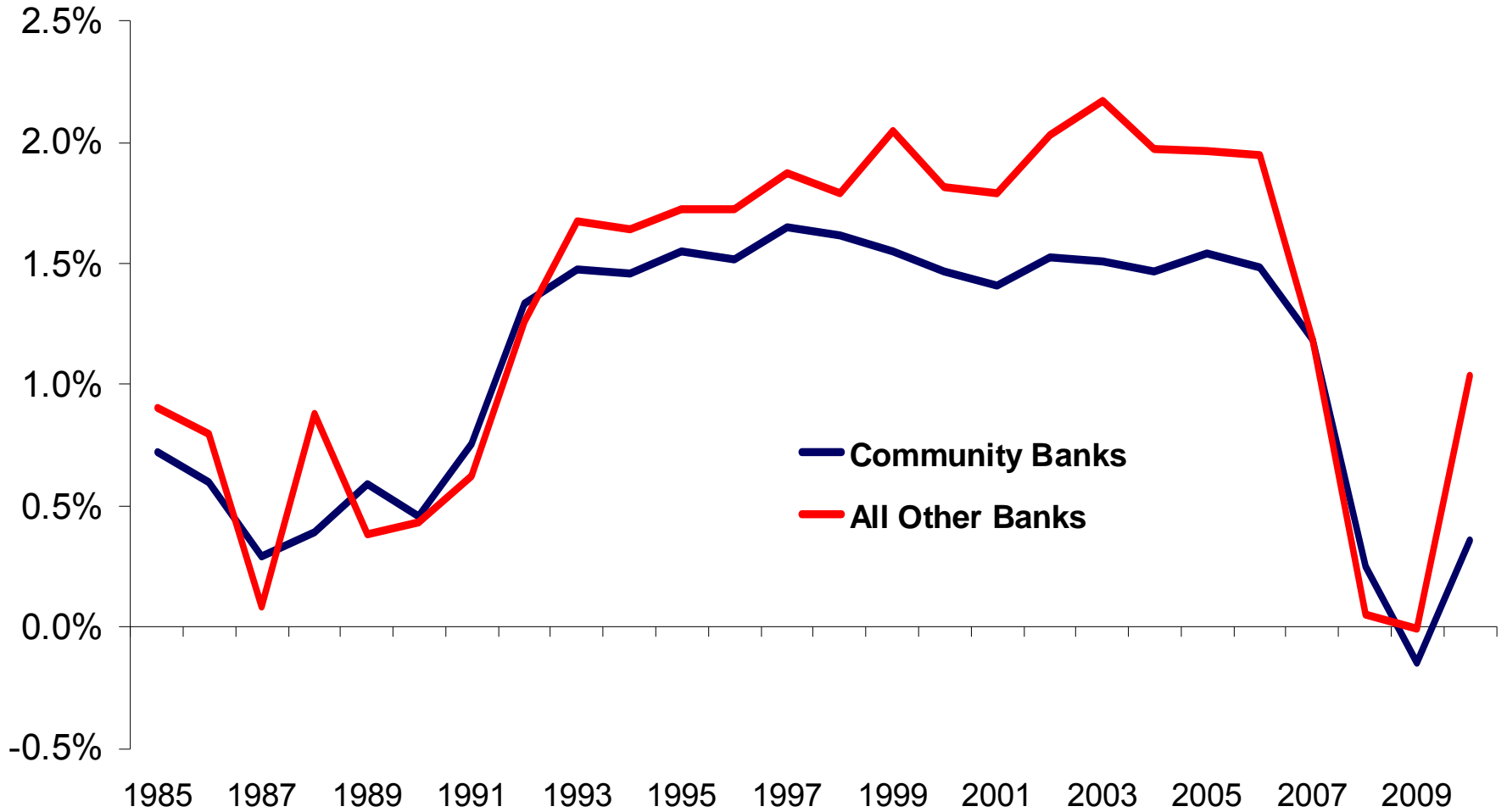


CRE Specialists



Source: FDIC Community Banking Research Project

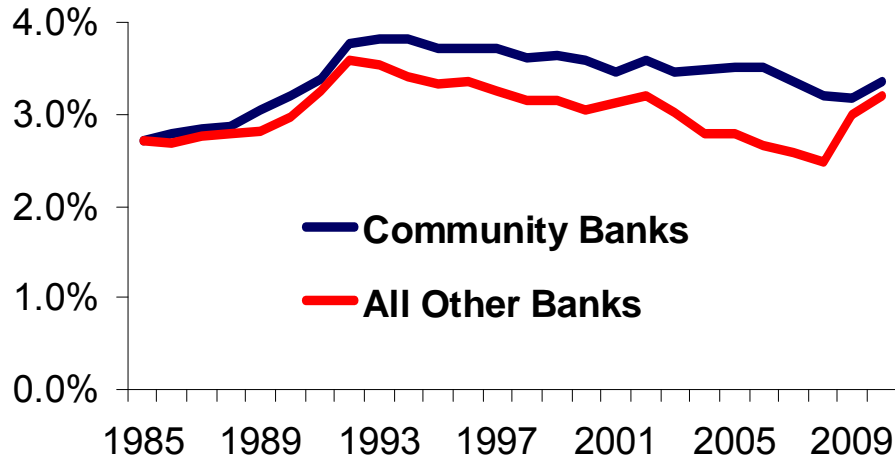
Pre-Tax Return on Assets, 1985 - 2010



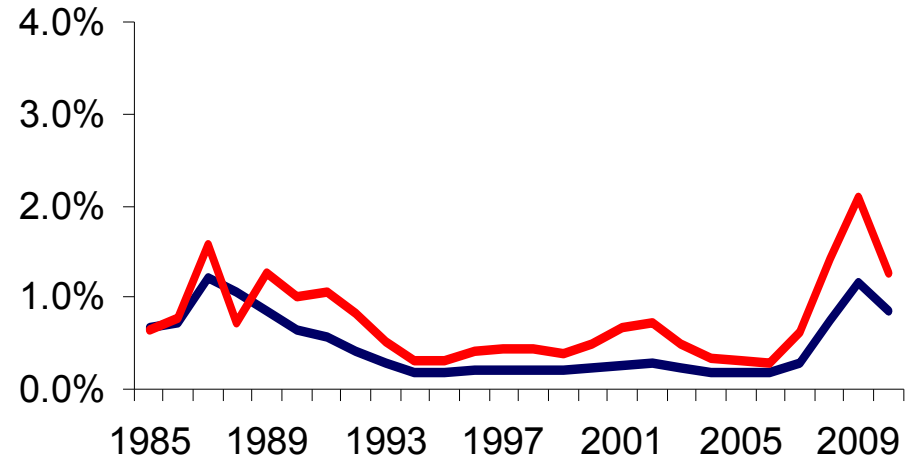
Source: FDIC Community Banking Research Project

Community Bank Earnings Performance vs. All Other Banks, 1985 - 2010

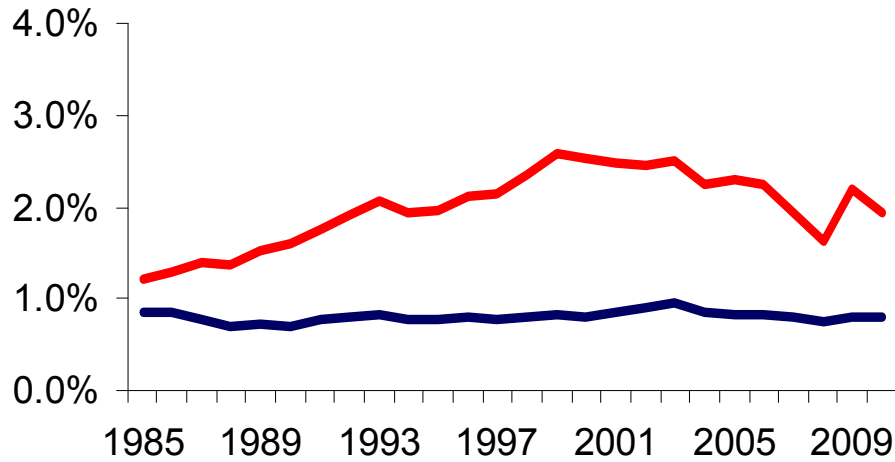
Net Interest Income to Assets



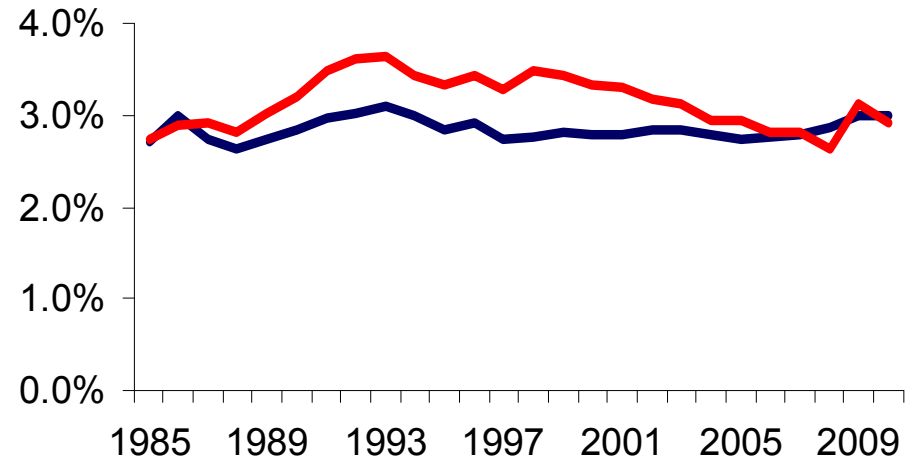
Provision Expense to Assets



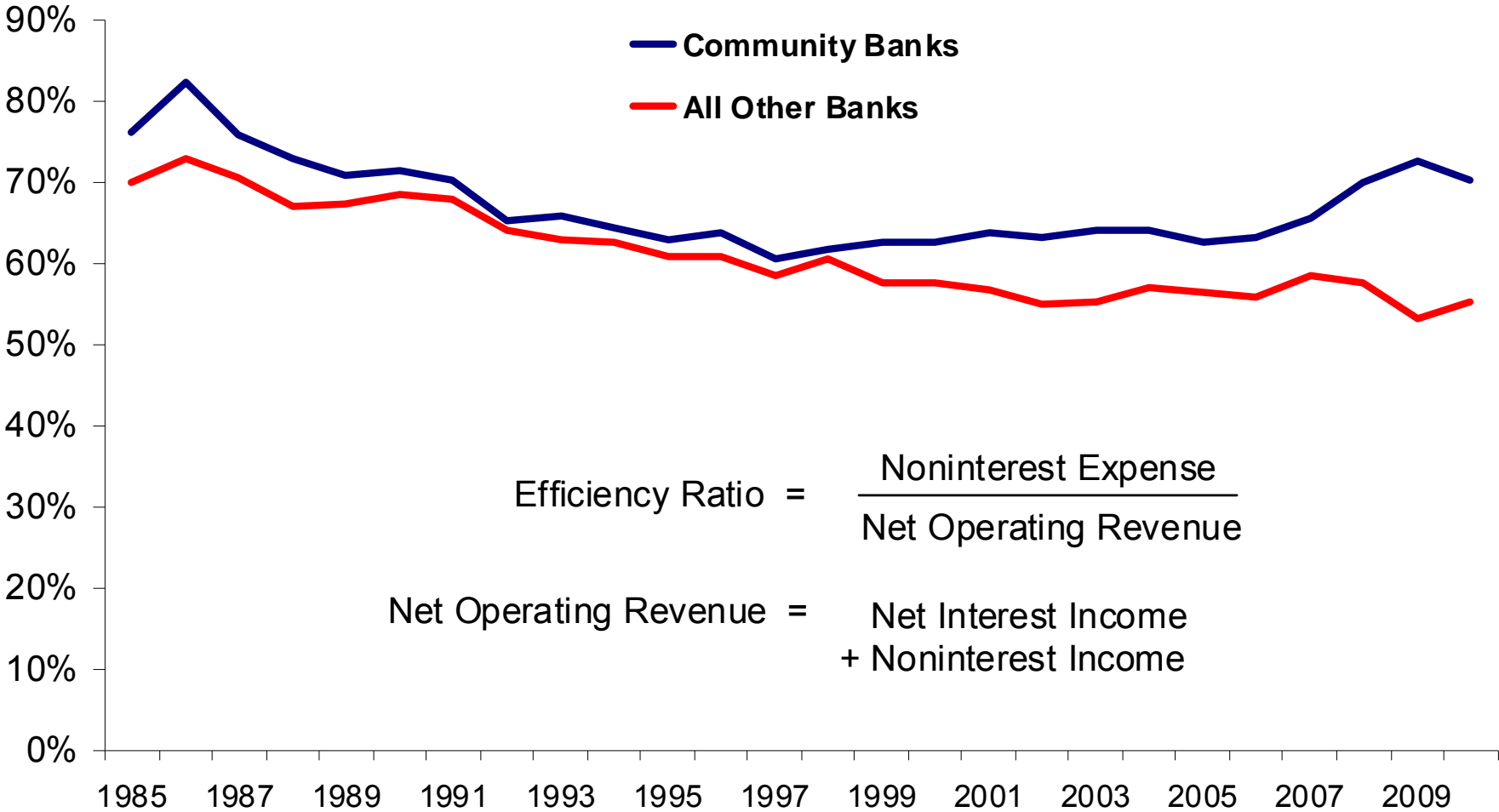
Noninterest Income to Assets



Noninterest Expense to Assets



Efficiency Ratio, 1985 - 2010



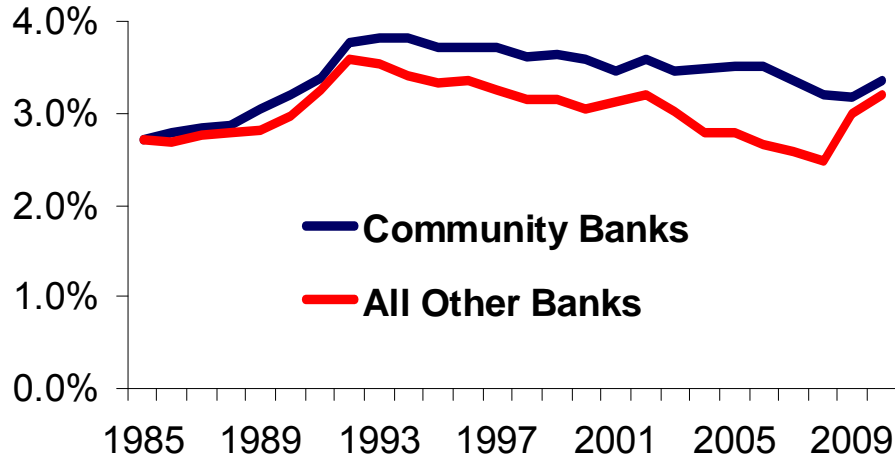
$$\text{Efficiency Ratio} = \frac{\text{Noninterest Expense}}{\text{Net Operating Revenue}}$$

$$\text{Net Operating Revenue} = \text{Net Interest Income} + \text{Noninterest Income}$$

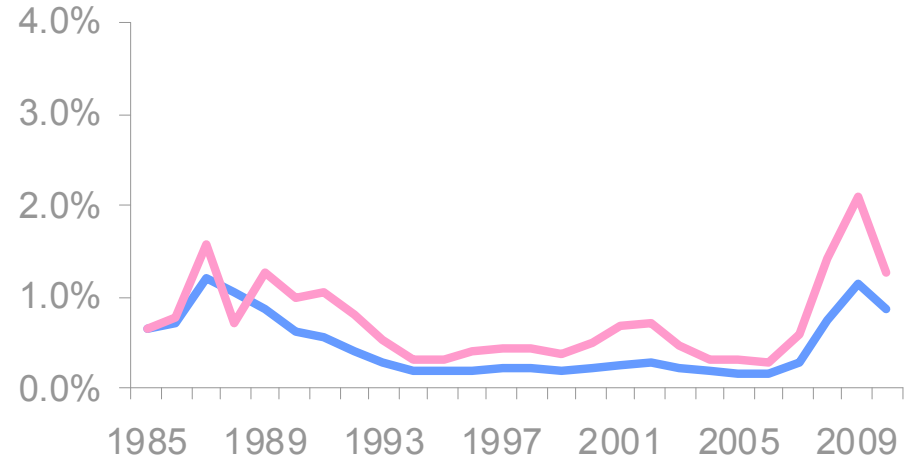
Source: FDIC Community Banking Research Project

Community Bank Earnings Performance vs. All Other Banks, 1985 - 2010

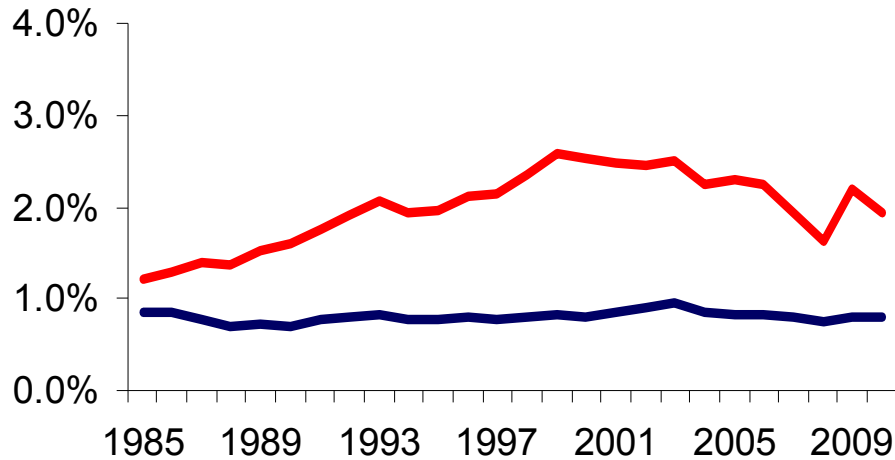
Net Interest Income to Assets



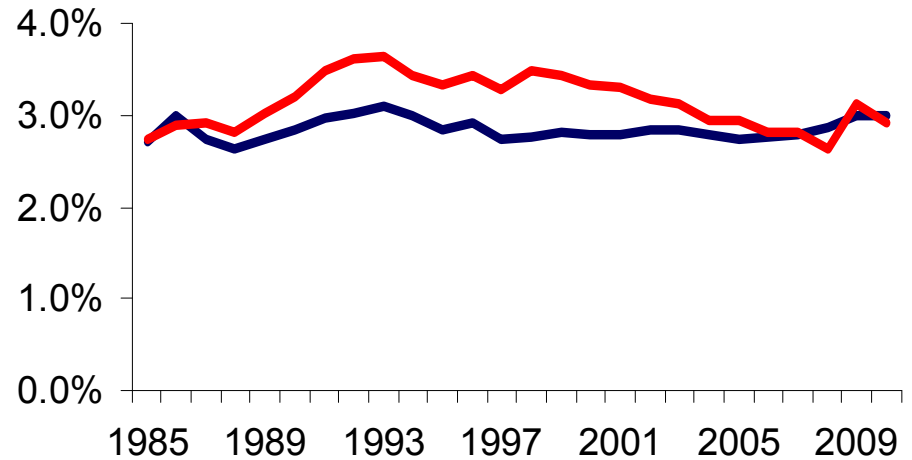
Provision Expense to Assets



Noninterest Income to Assets



Noninterest Expense to Assets



Directions for Future Research

- Bank cost structure and economies of scale
- Successful business models
- Alternative bank performance metrics
- Factors that make community banks unique
- Connections to local communities
- The small business economy
- Rural depopulation
- Role and use of technology
- Lessons of the crisis