

# Community Bank Structure and Performance: A Historical Perspective

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“Banking on Main Street”  
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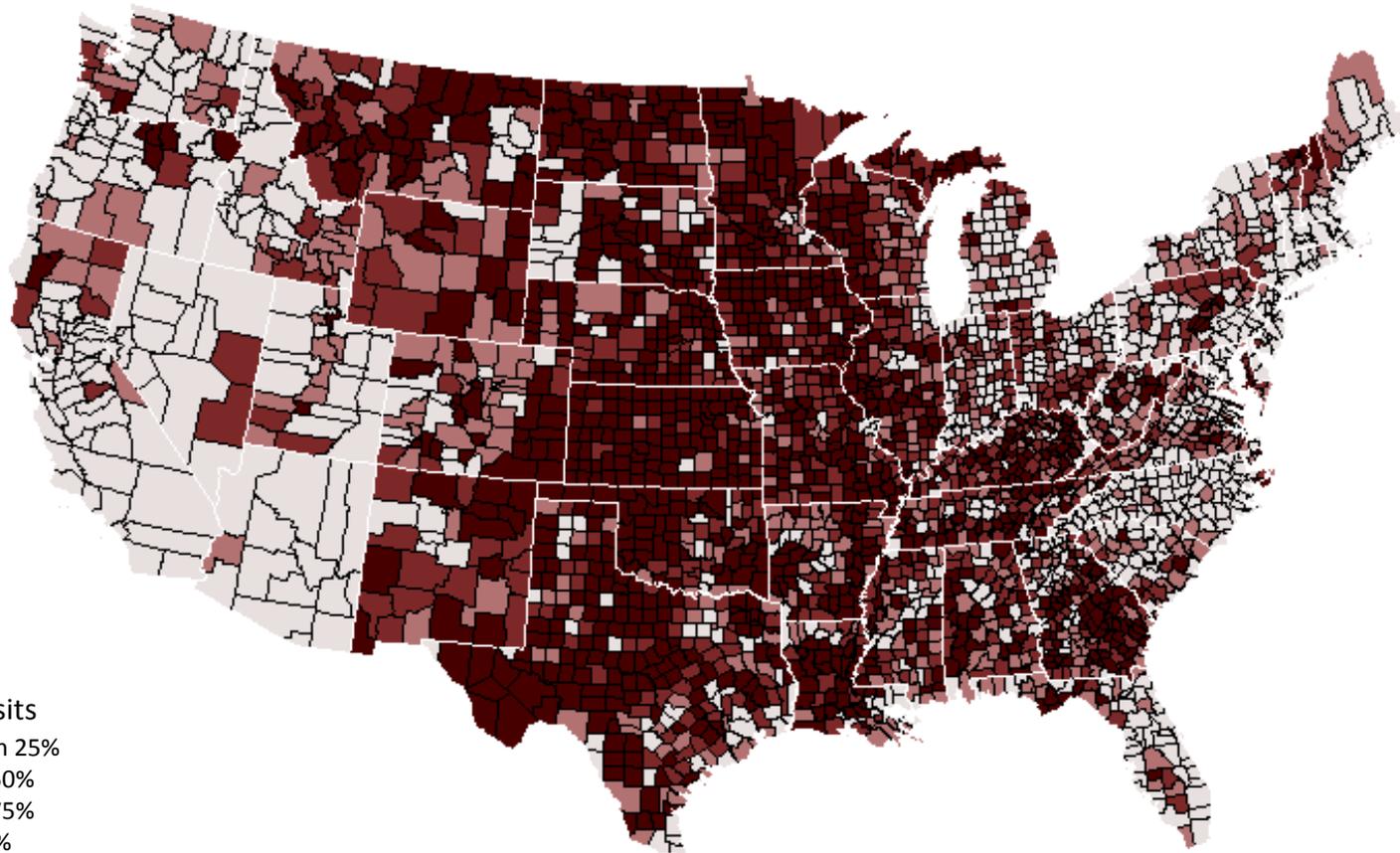
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# Topic Overview

- Industry Structure
- Earnings
- Asset Quality

# Community Bank Local Market Share

(Banks less than \$1 Billion of Assets)

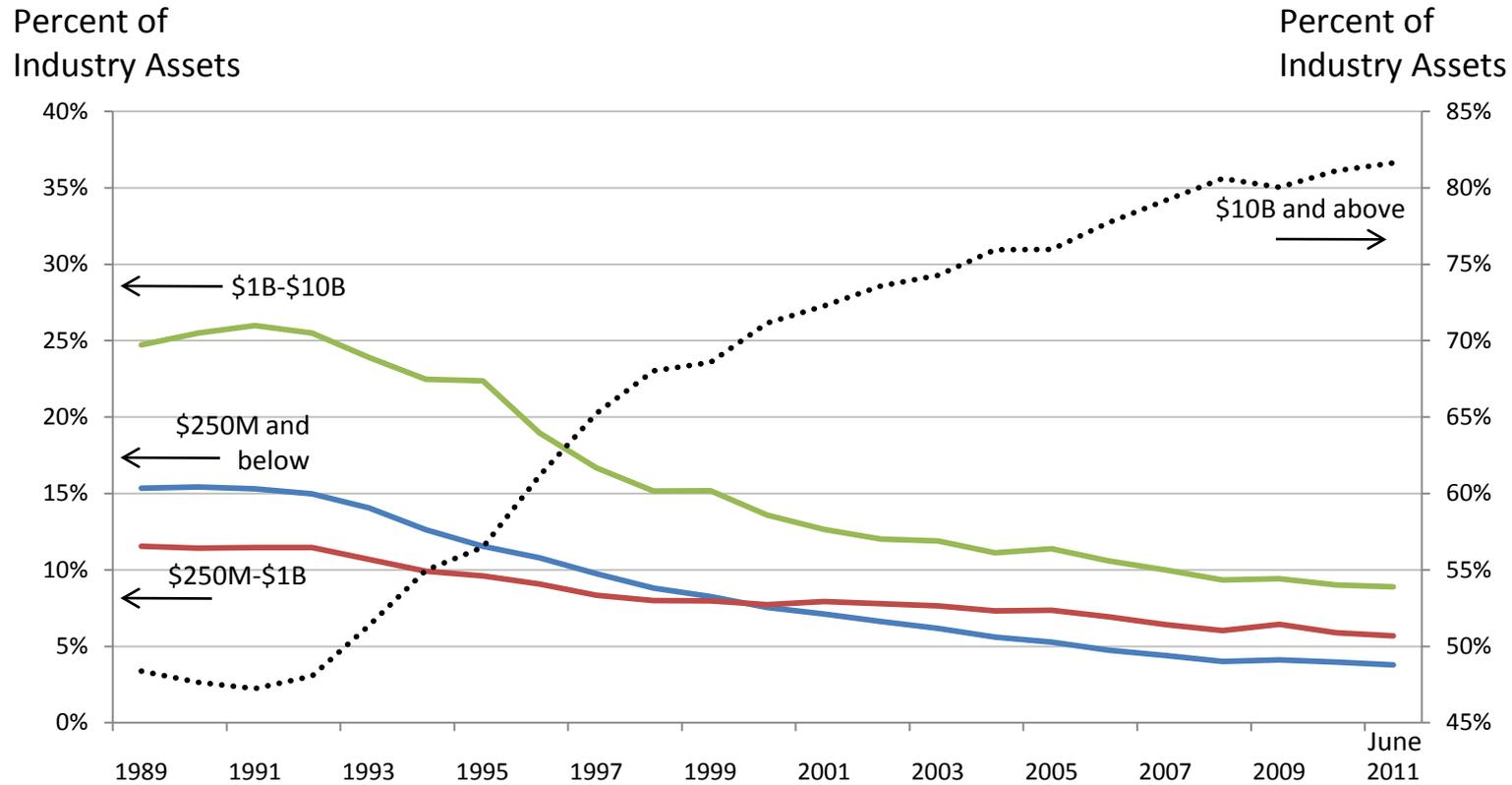


% of Deposits

- Less than 25%
- 25% to 50%
- 50% to 75%
- Over 75%

Source: FDIC Summary of Deposits (June 2010)

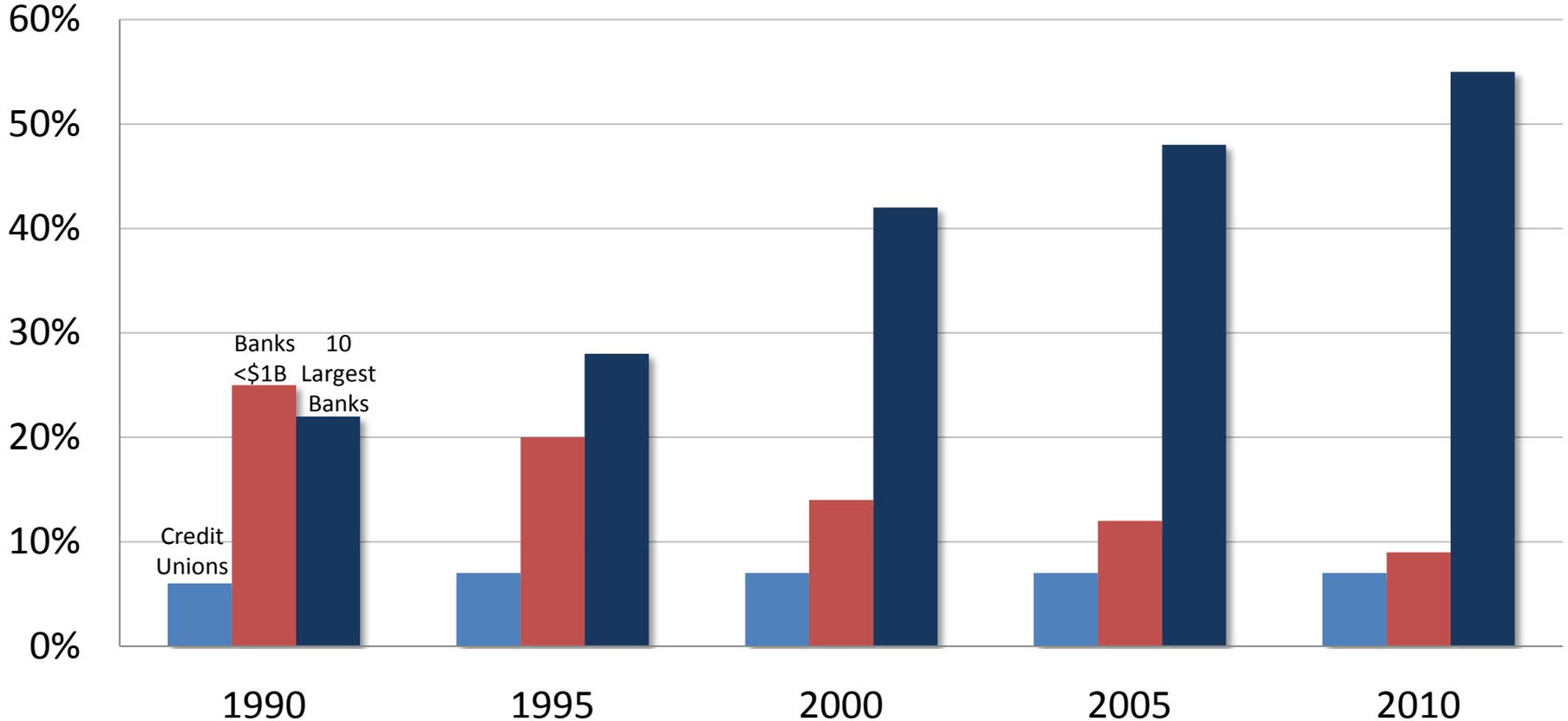
# Community Bank Market Share Has Fallen Sharply ...



Notes: Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.  
Source: Reports of Condition and Income

# ... With Most of the Gains Going to the 10 Largest Banks

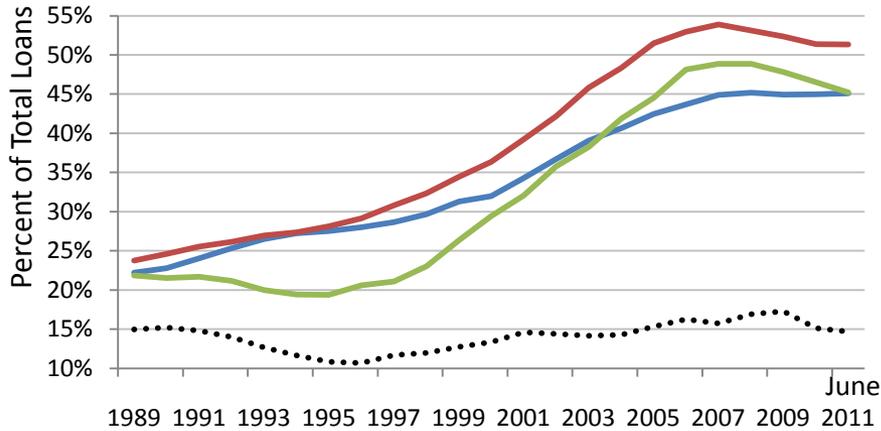
Percent of Banking and Credit Union Industry Assets



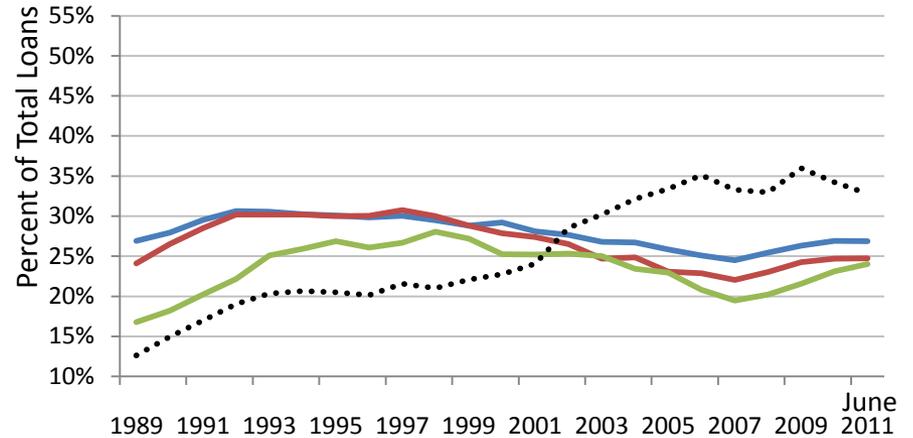
Sources: Reports of Condition and Income; NCUA 5300

# Loan Portfolio Changes

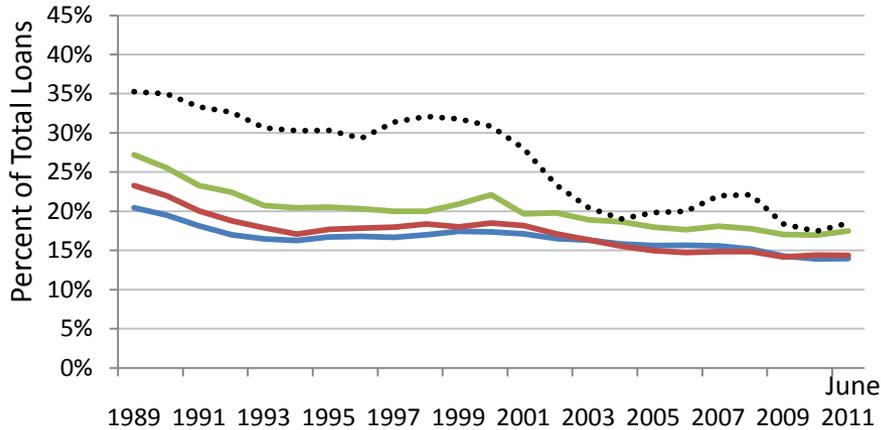
## CRE: Rising at Community Banks



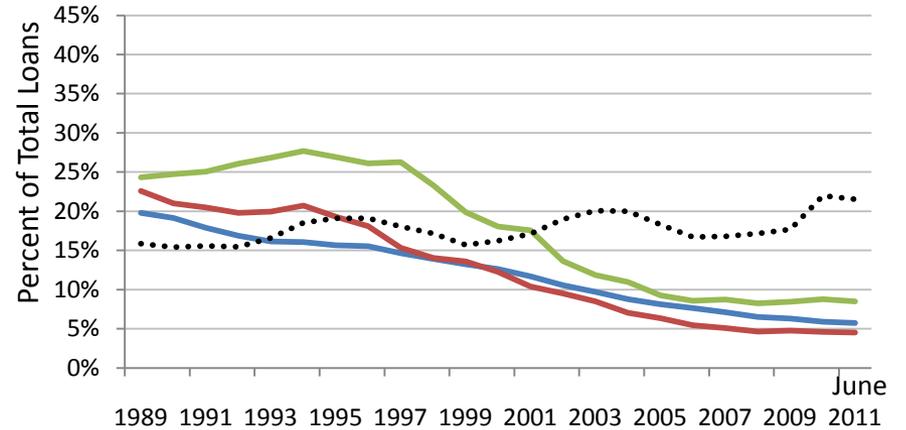
## RRE: Rising at Largest Banks



## C&I: Falling at All Banks, But More at Largest



## Cons: Falling at Community Banks, But Rising at Largest



Notes: Size thresholds are based on assets as of Dec. 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

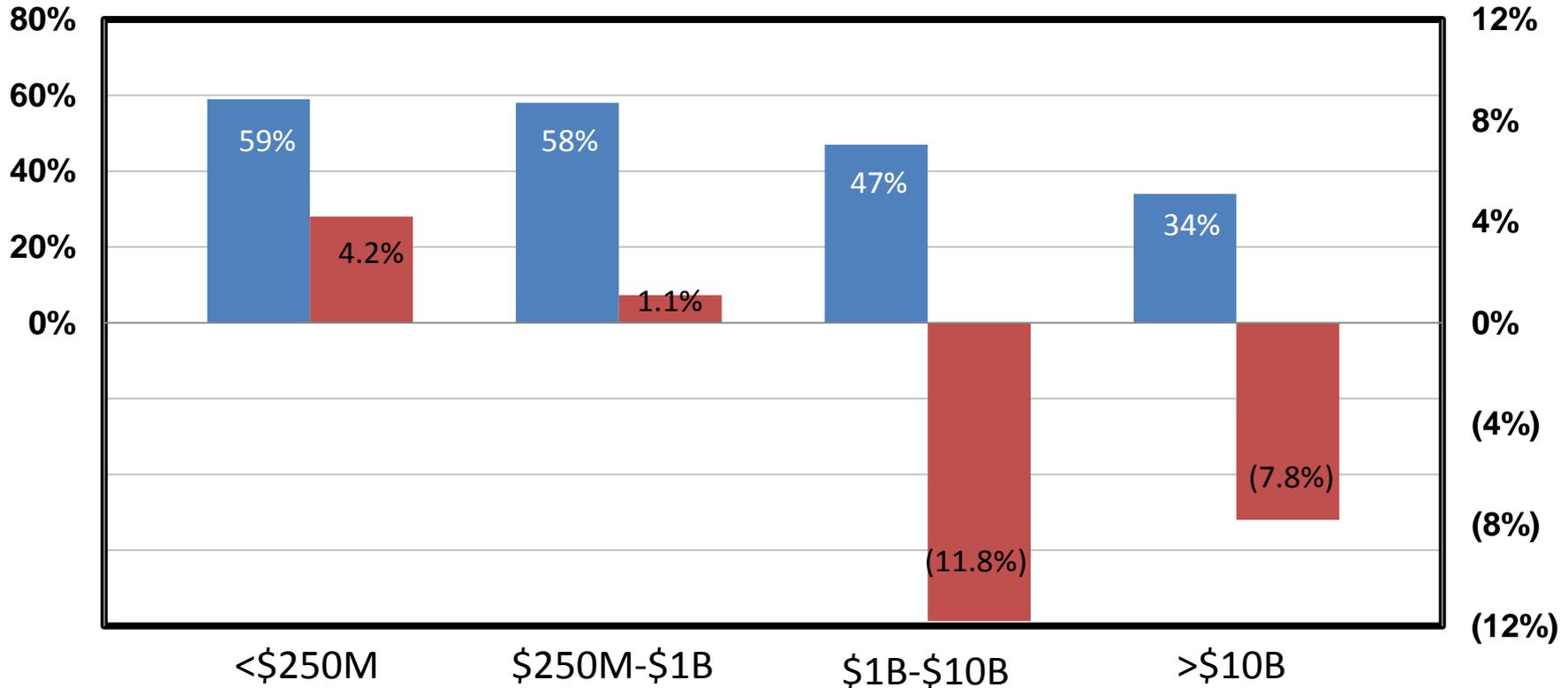
<\$250M    \$250M-\$1B    >\$10B  
 \$1B-\$10B    >\$10B    .....

# Community Banks Have Provided Relatively More Credit Since Beginning of 2007 Recession

(Dec. 2007– June 2011)

Percent of Banks Increasing Loans

Percent Change in Total Loans

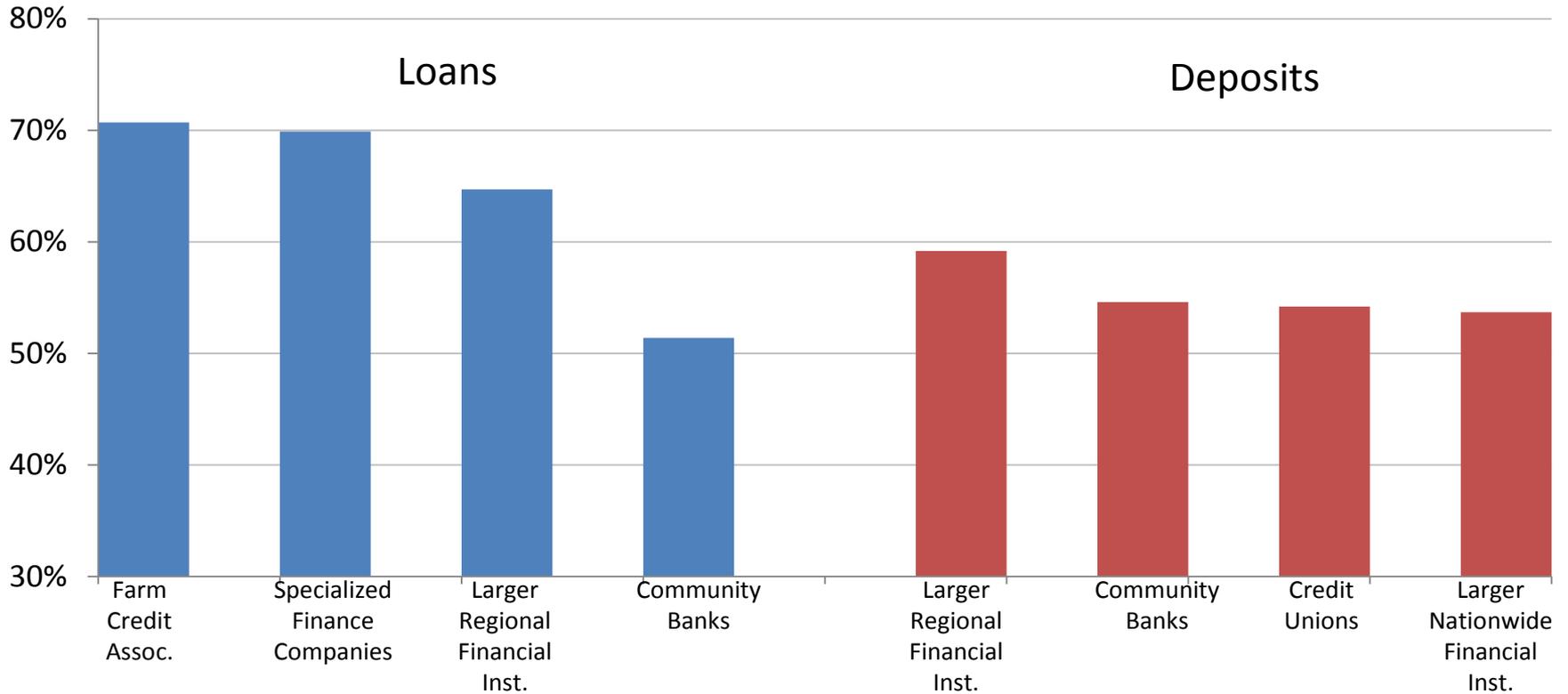


Notes: Total loans exclude credit card loans because of distortions caused by the required "on-boarding" of securitized credit card loans in March 2010 (FAS166/167). The banks included in each size group were adjusted to eliminate distortions from acquisitions, including failed banks. Bank size thresholds are based on assets as of June 2011.

Source: Reports of Condition and Income

# Expected Increase in Competition Over the Next 3 Years

Percent of Bank Respondents



Notes: Survey was sent to Tenth District community banks, savings and loans, and credit unions with less than \$1 billion of assets. Results in the chart are based on bank respondents.

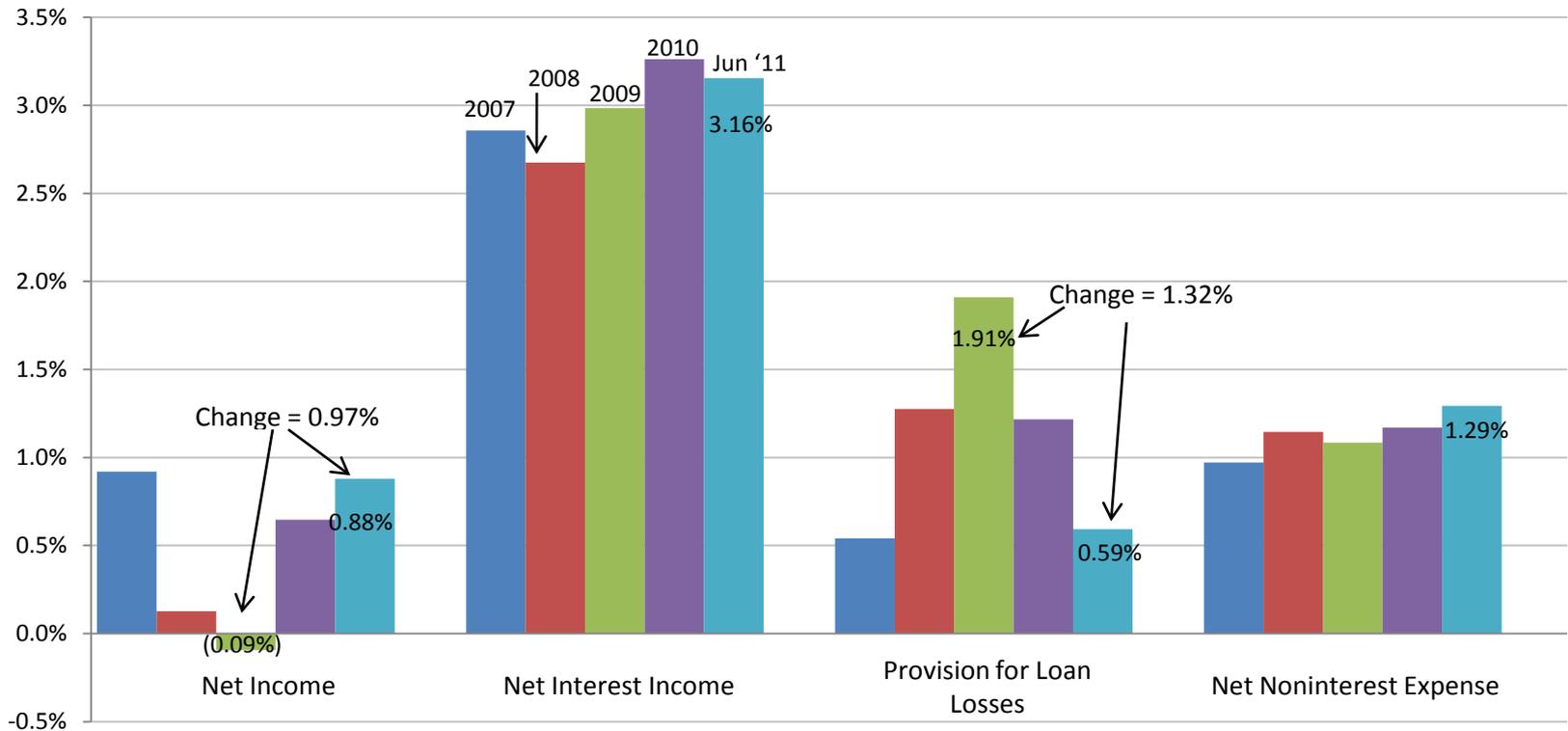
Source: 2011 Survey of Community Depository Institutions in the Tenth Federal Reserve District



Earnings are Much Improved,  
But Continued Increases Will be  
Challenging

# Industry Profits Continue to Improve

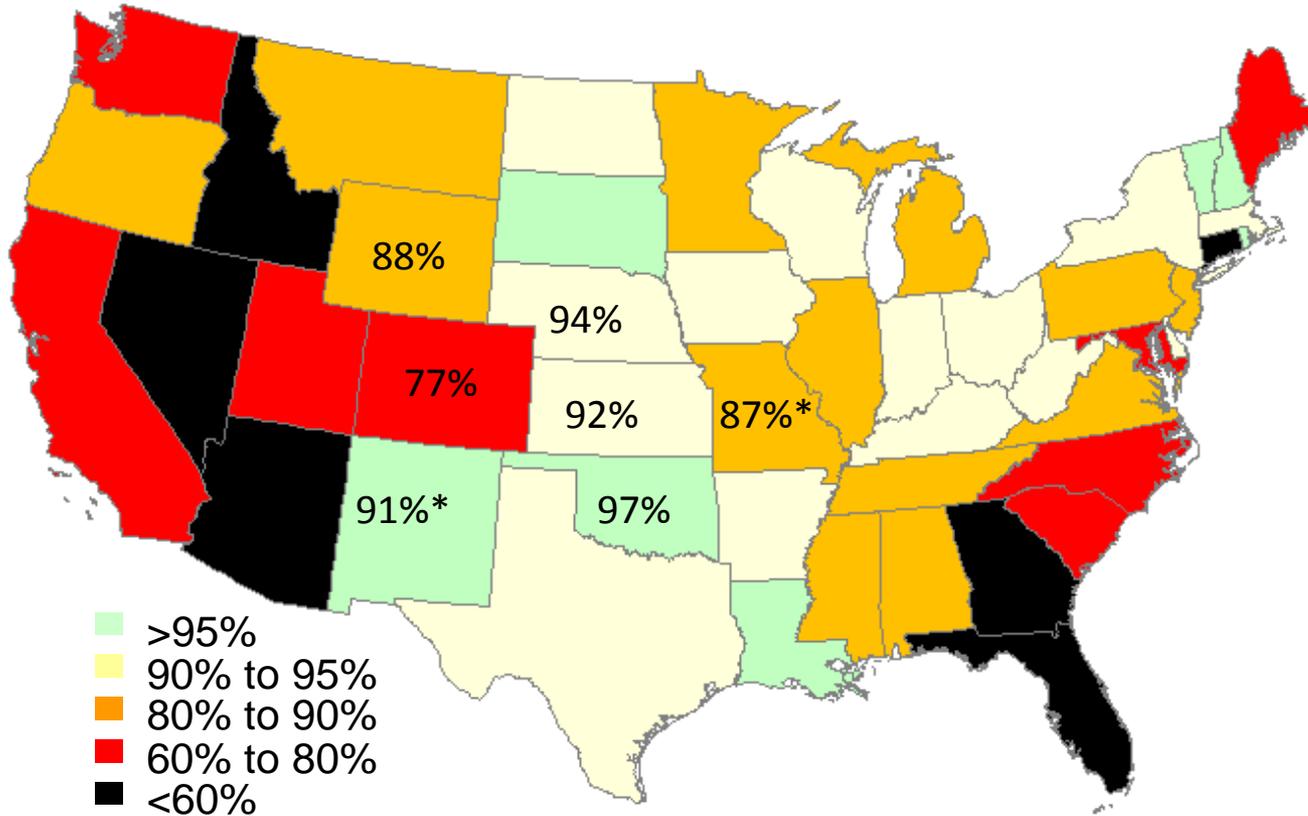
Percent of  
Average Assets



Notes: June 2011 data are annualized.  
Source: Reports of Condition and Income

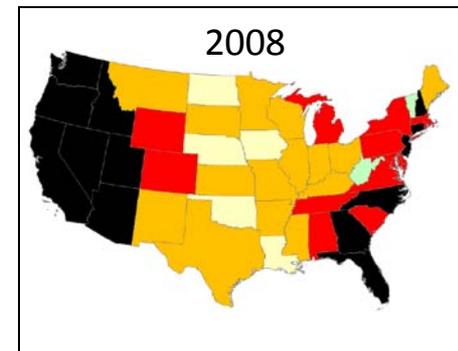
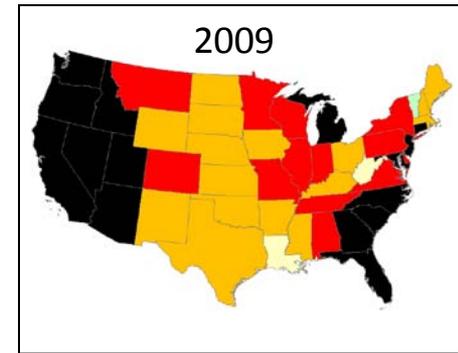
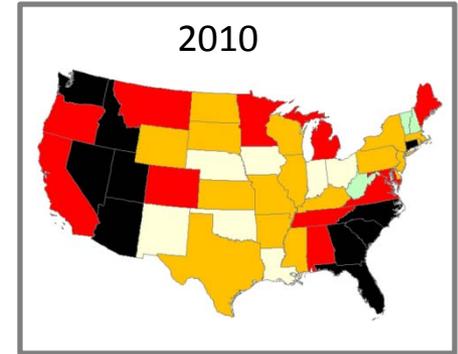
# More Banks are Earning Profits

June 2011



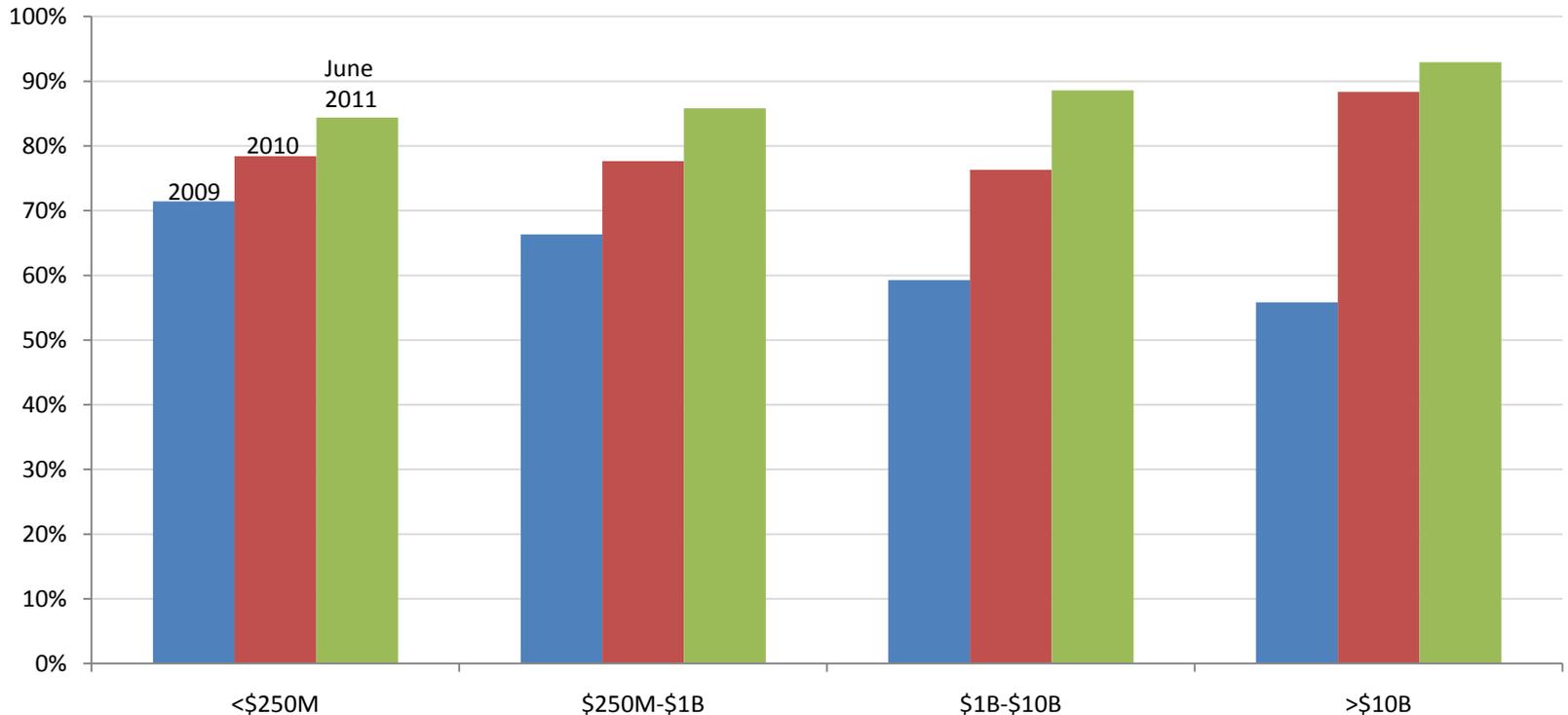
Notes: Percentage of banks with positive net income. The percentages for New Mexico and Missouri are just for Tenth District banks (northern New Mexico and western Missouri).

Source: Reports of Condition and Income



# More Banks are Earning Profits in all Size Groups

Percent of Banks  
in Size Group



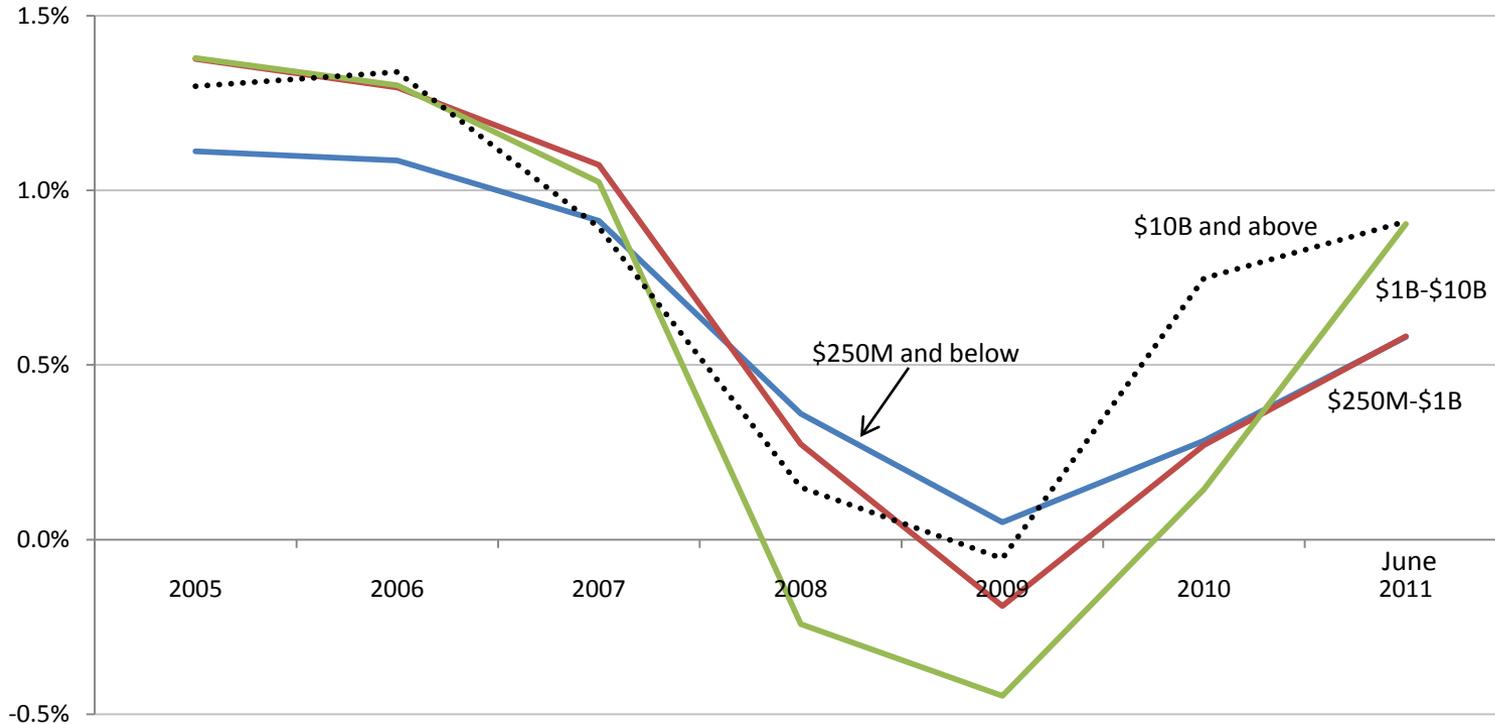
Notes: Percentage of banks in size group with positive net income.

Source: Reports of Condition and Income

# Profitability Continues to Improve at Community Banks ...

(Return on Average Assets)

Percent

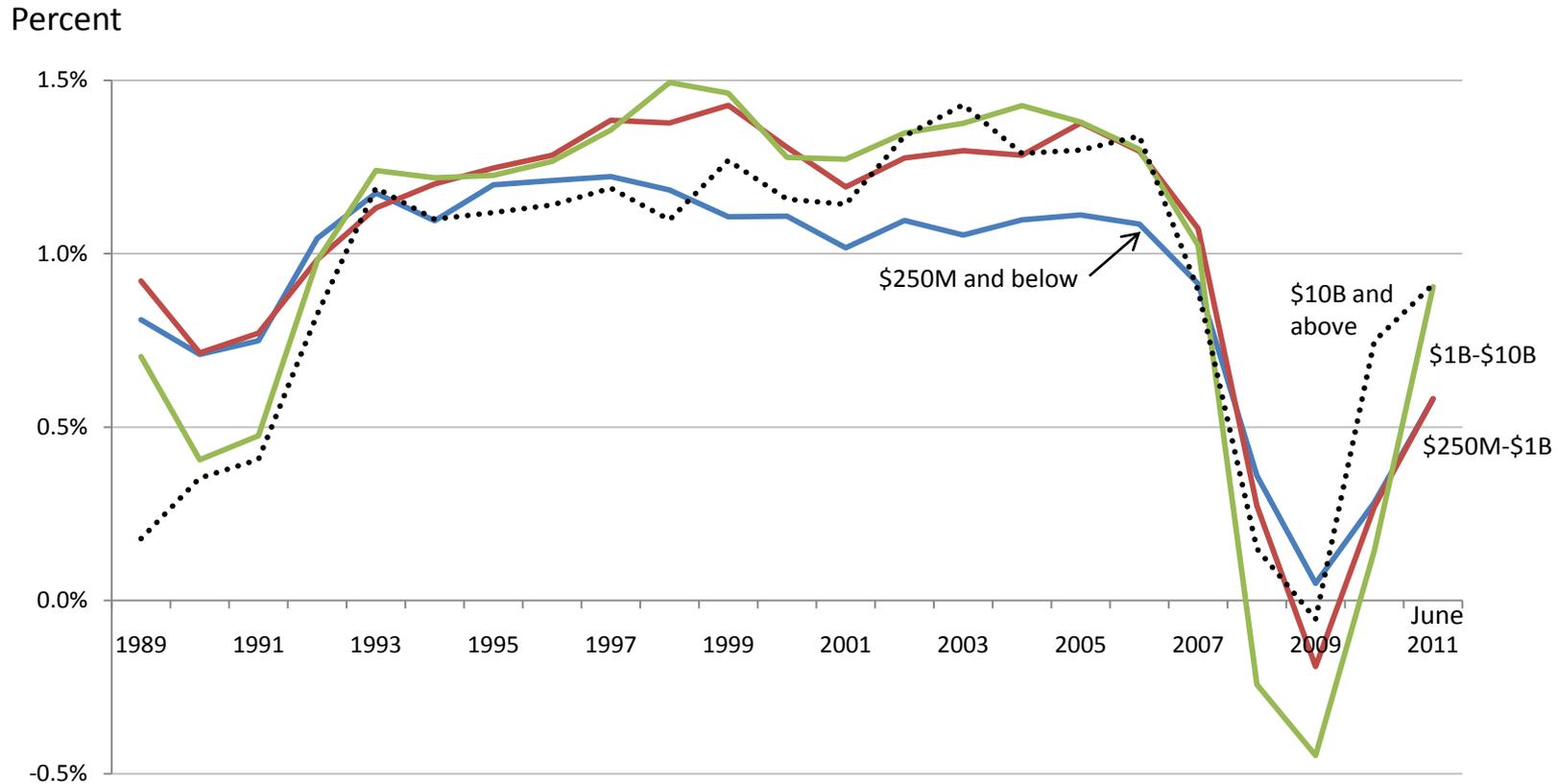


Notes: Return on average assets is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# ... But Remains Well Below Recent Historical Norms

## (Return on Average Assets)

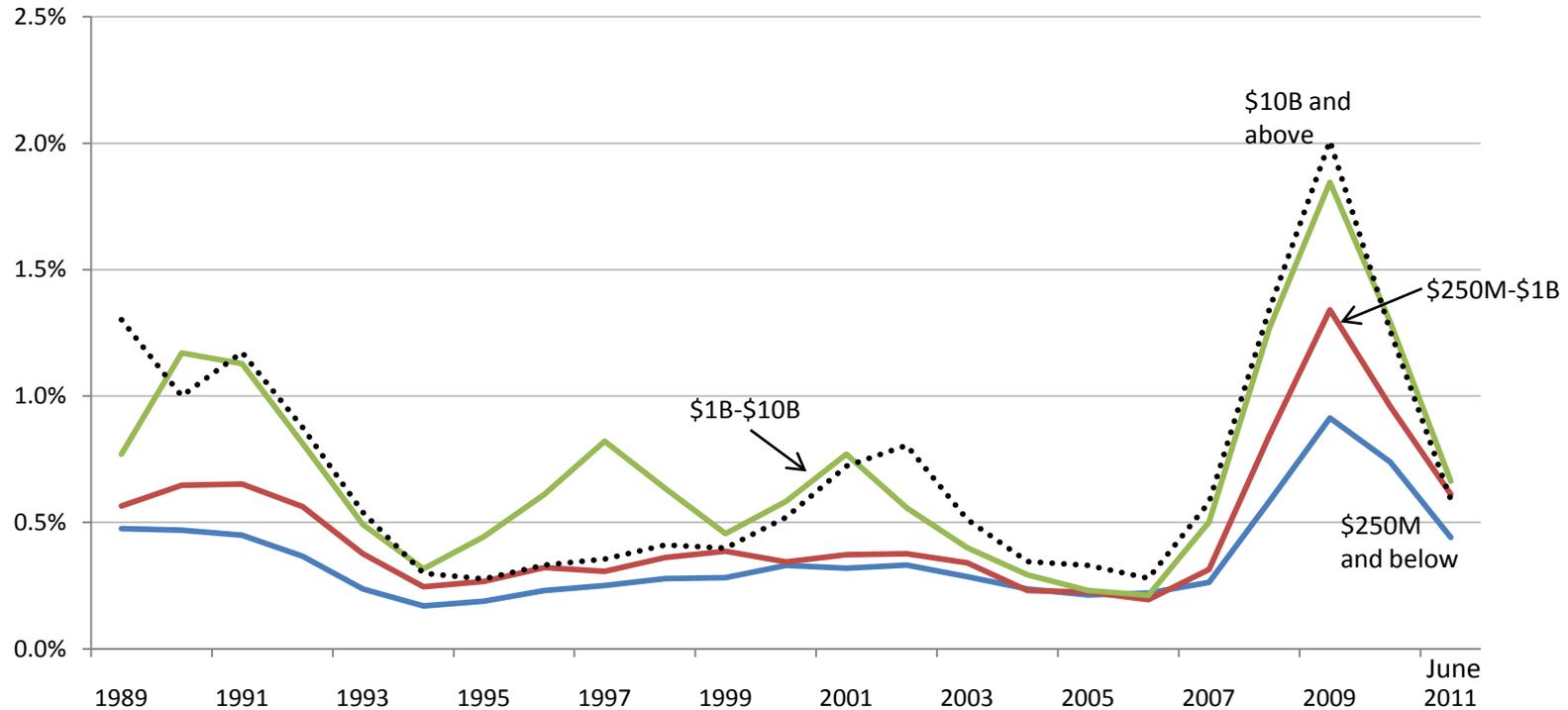


Notes: Return on average assets is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Loan Loss Provision Contribution to Rising Earnings Nearing an End for All Size Groups

Percent of  
Average Assets

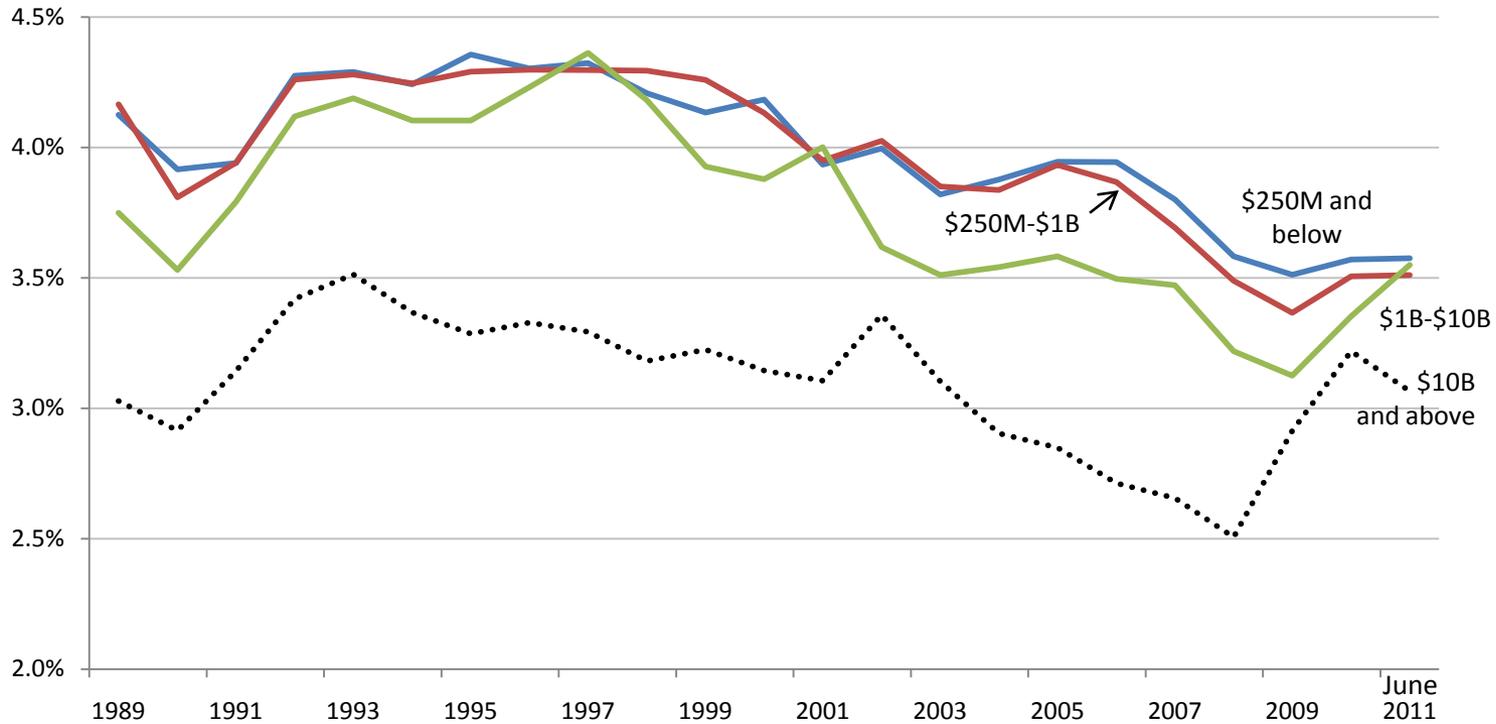


Notes: Loan loss provision is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Net Interest Income has Stabilized at Community Banks, But Below Recent Norms

Percent of  
Average Assets

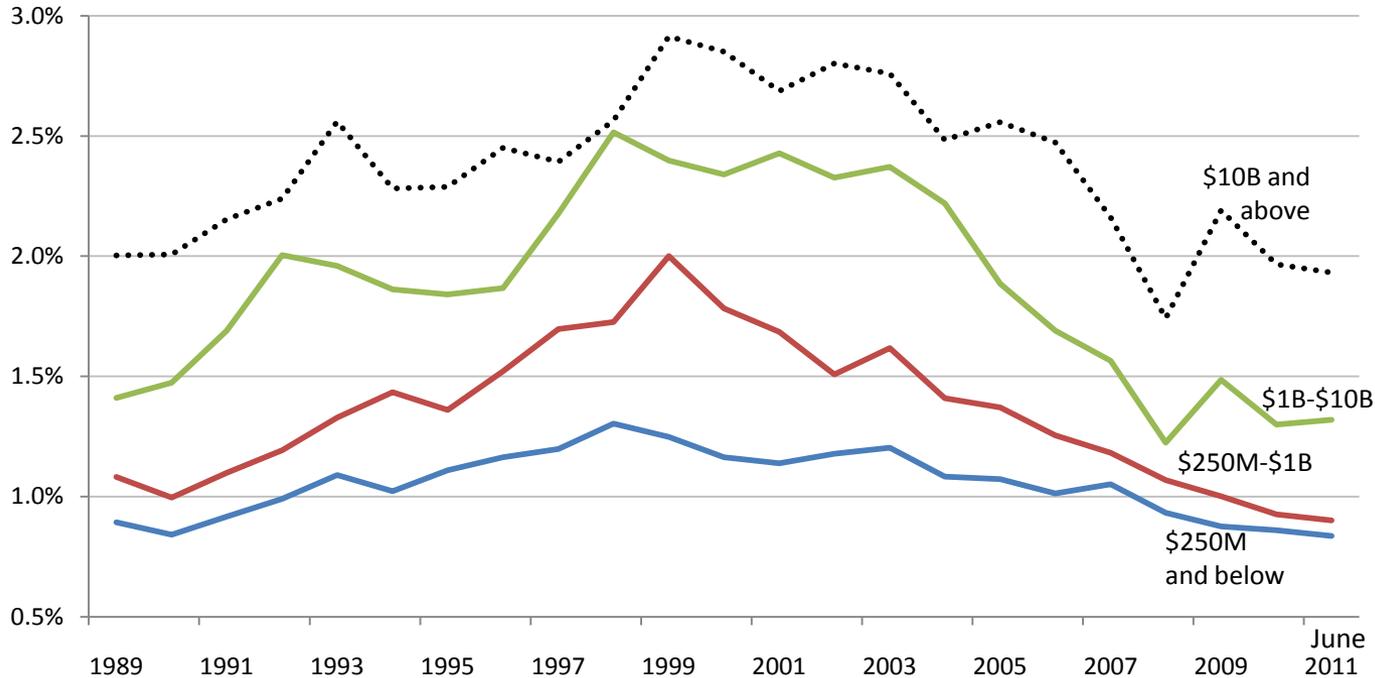


Notes: Net interest income is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Noninterest Income has Stabilized at Community Banks, But Below Recent Norms

Percent of Average Assets

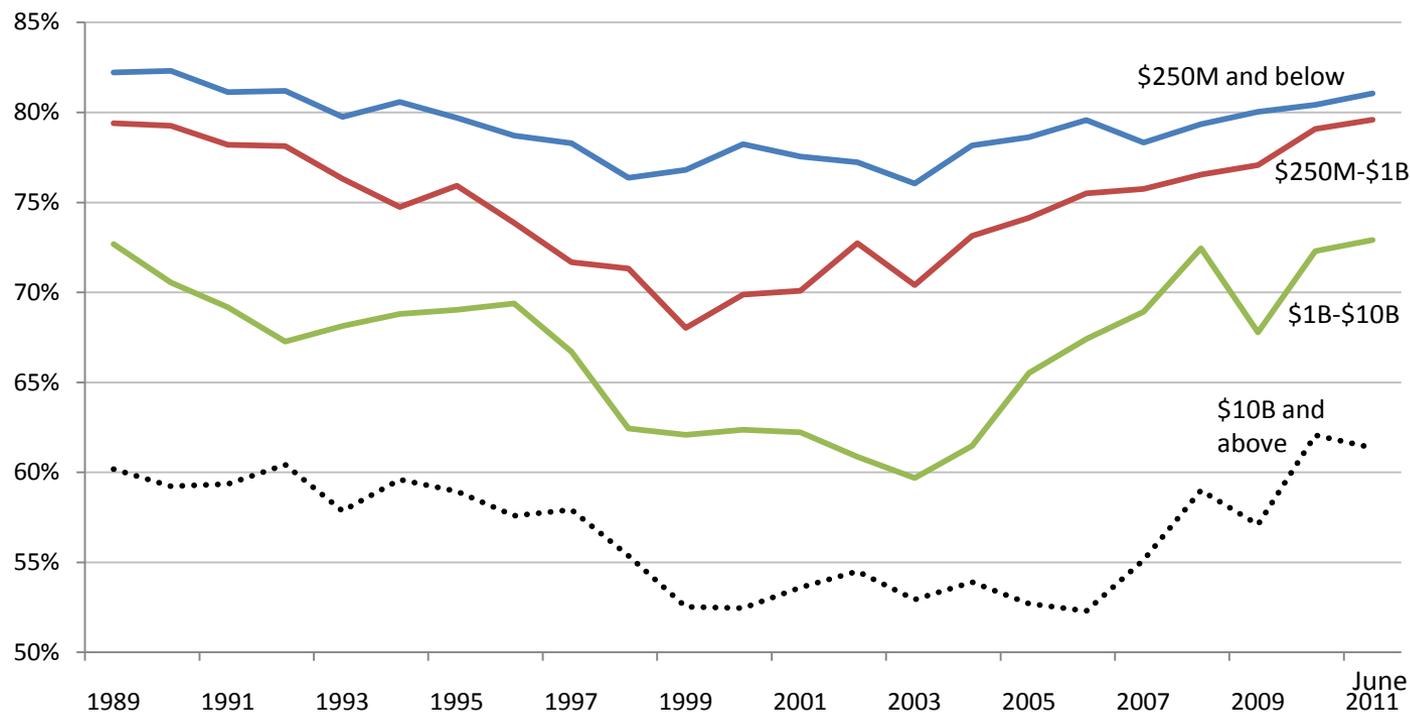


Notes: Noninterest income is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Net Interest Income Share of Total Revenue on Upward Trend for All Size Groups

Percent of Total Revenue

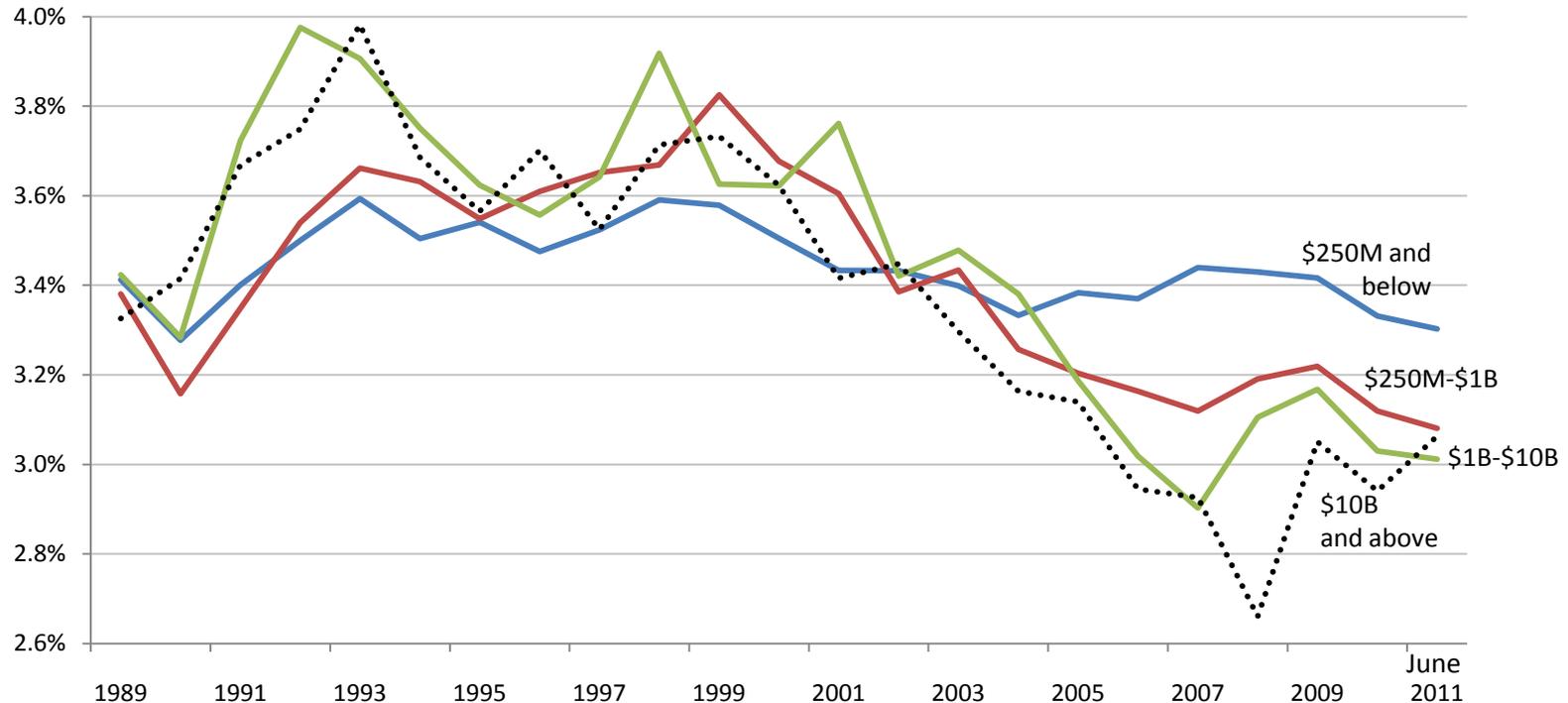


Notes: Net interest income is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Noninterest Expense – Downward Trend for All, But Steeper with Size

Percent of  
Average Assets



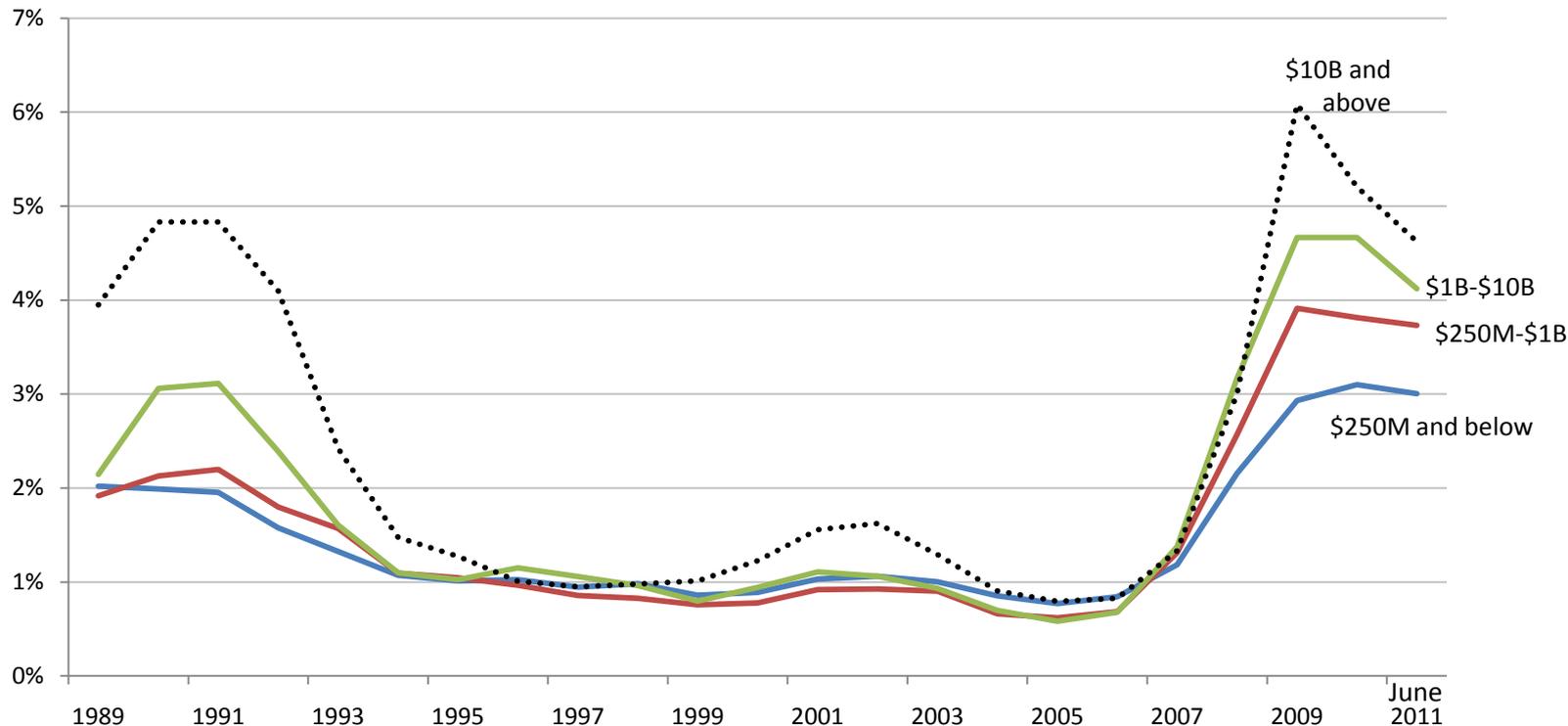
Notes: Noninterest expense is end of year, except for 2011, which is annualized. Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

Asset Quality is Starting to Improve, But Will Continue to be a Major Challenge

# Problem Loans are Historically High Relative to Total Loans

Percent of Total Loans



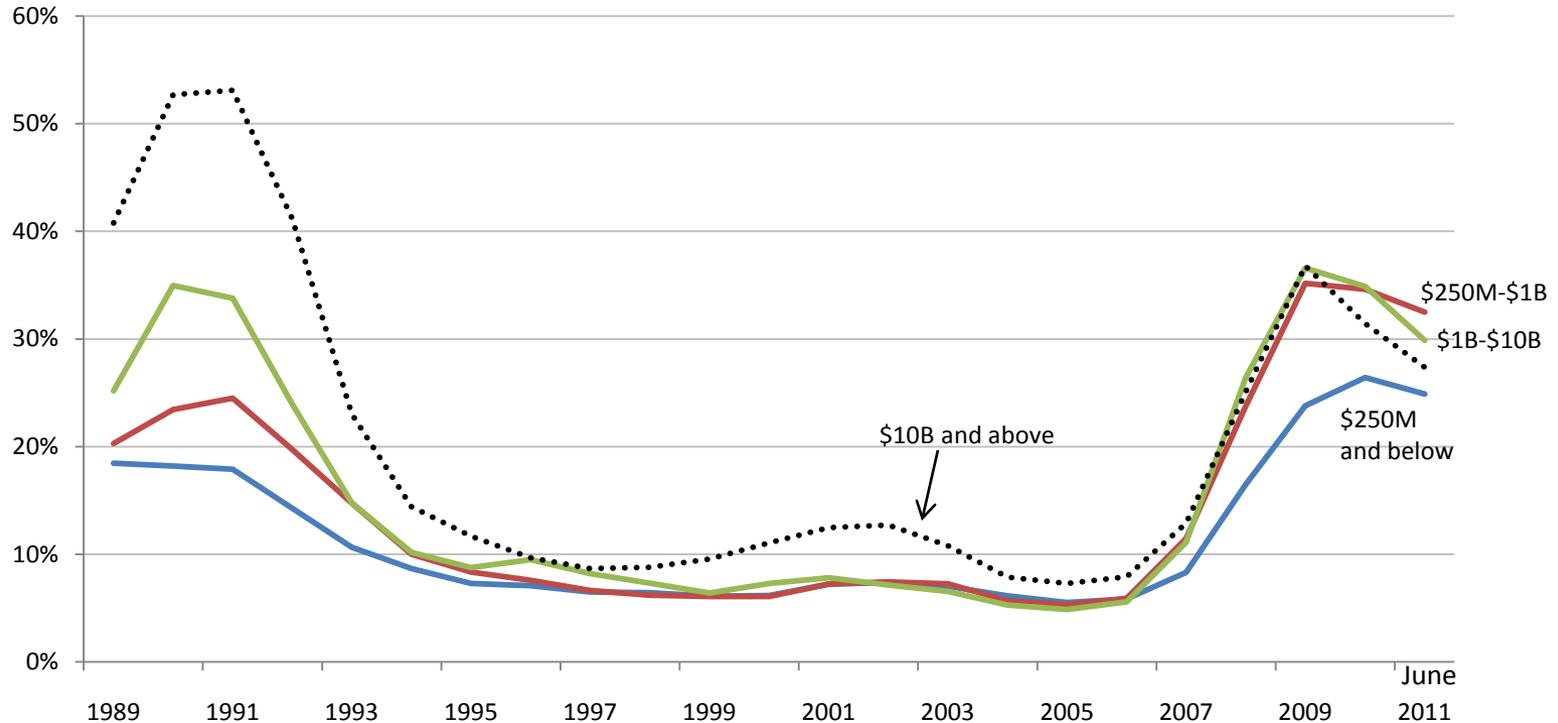
Notes: Problem loans are the sum of loans not accruing interest and loans accruing interest that are 90 or more days past due.

Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# Problem Assets are High Relative to Loan Loss Reserves and Equity

Percent of ALLL plus  
Tangible Common Equity

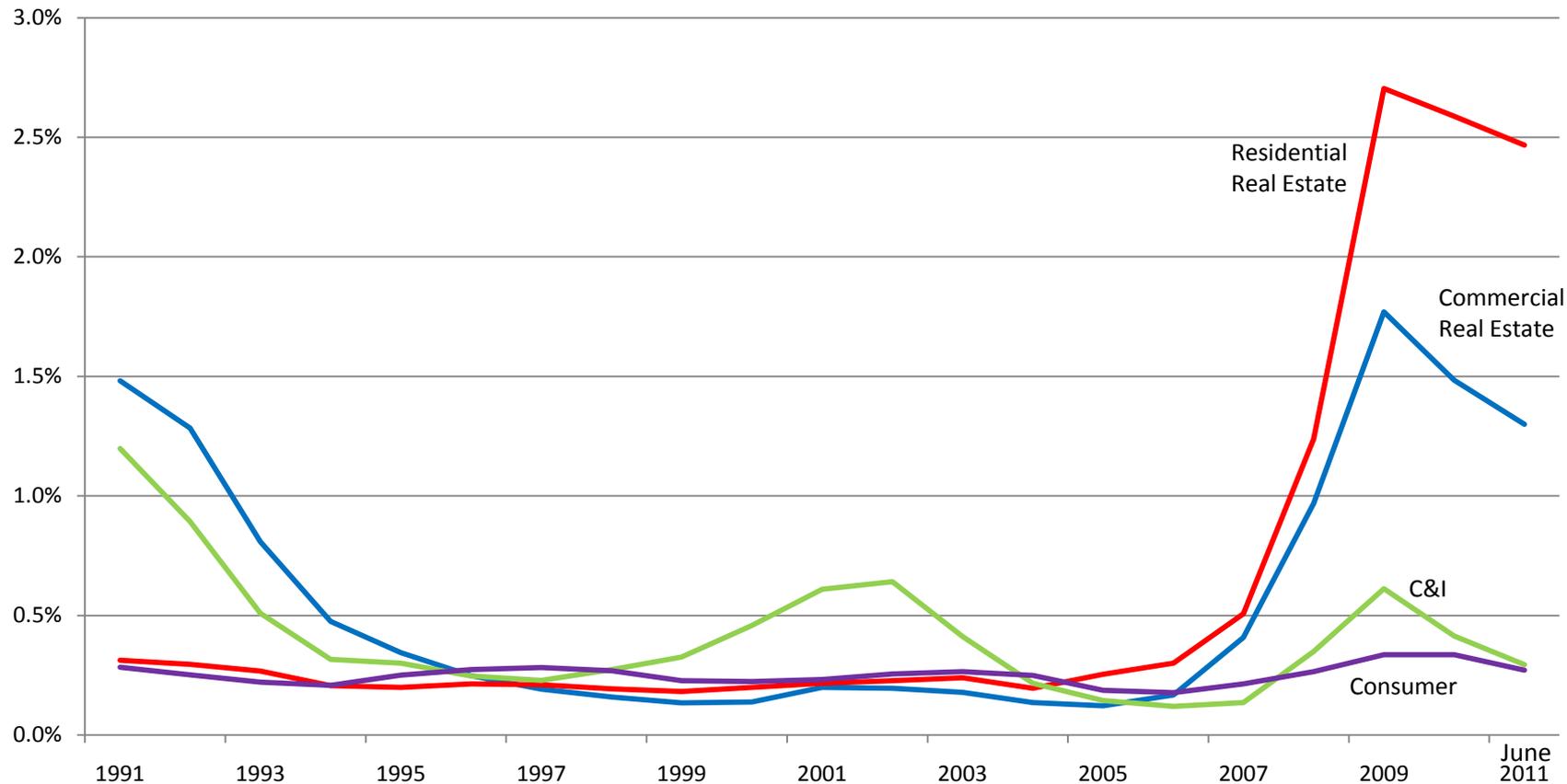


Notes: Problem assets are the sum of loans not accruing interest, loans accruing interest that are 90 or more days past due, and other real estate owned. The ratio in the chart is often referred to as the “Texas Ratio.” Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# High Level of Problem Loans Due to Real Estate

Percent of Total Loans

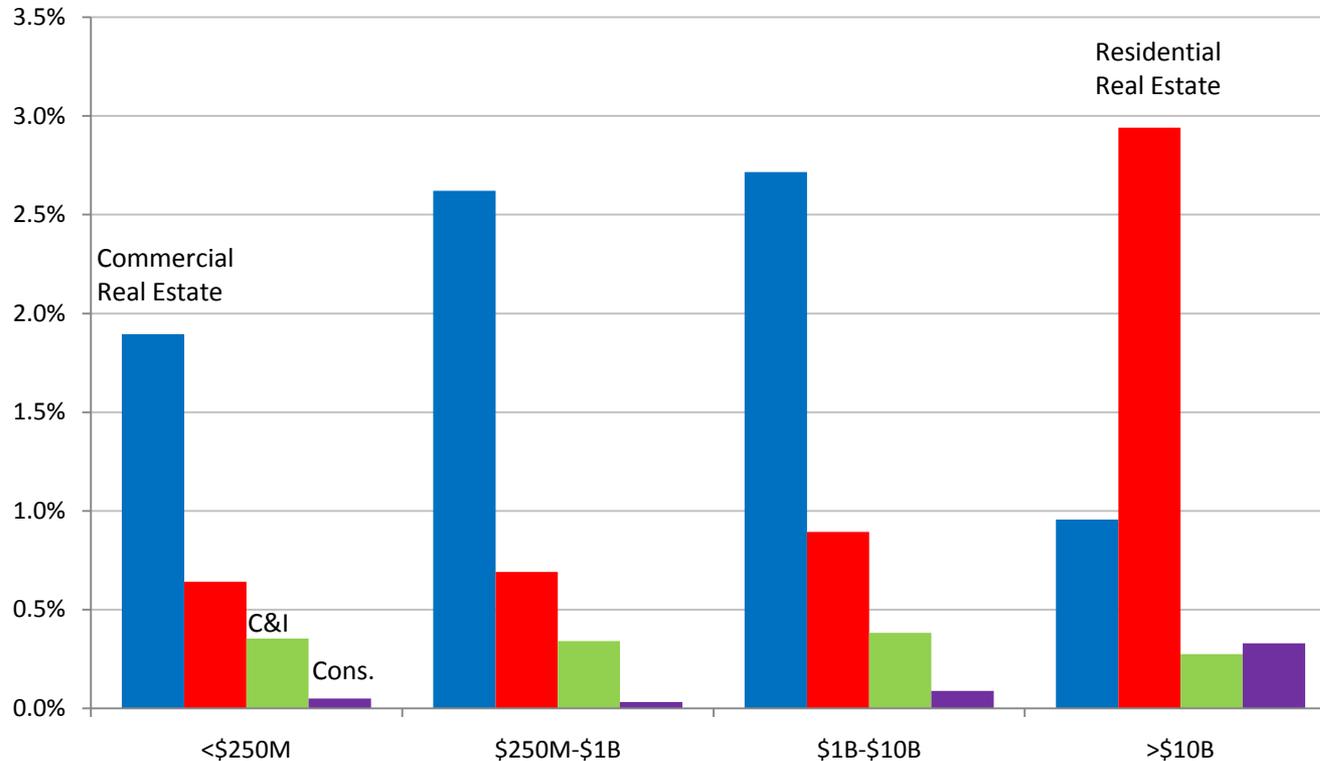


Notes: Problem loans are the sum of loans not accruing interest and loans accruing interest that are 90 or more days past due.

Source: Reports of Condition and Income

# CRE Problems are Primarily at Community Banks, RRE Problems are at Large Banks

Percent of  
Total Loans



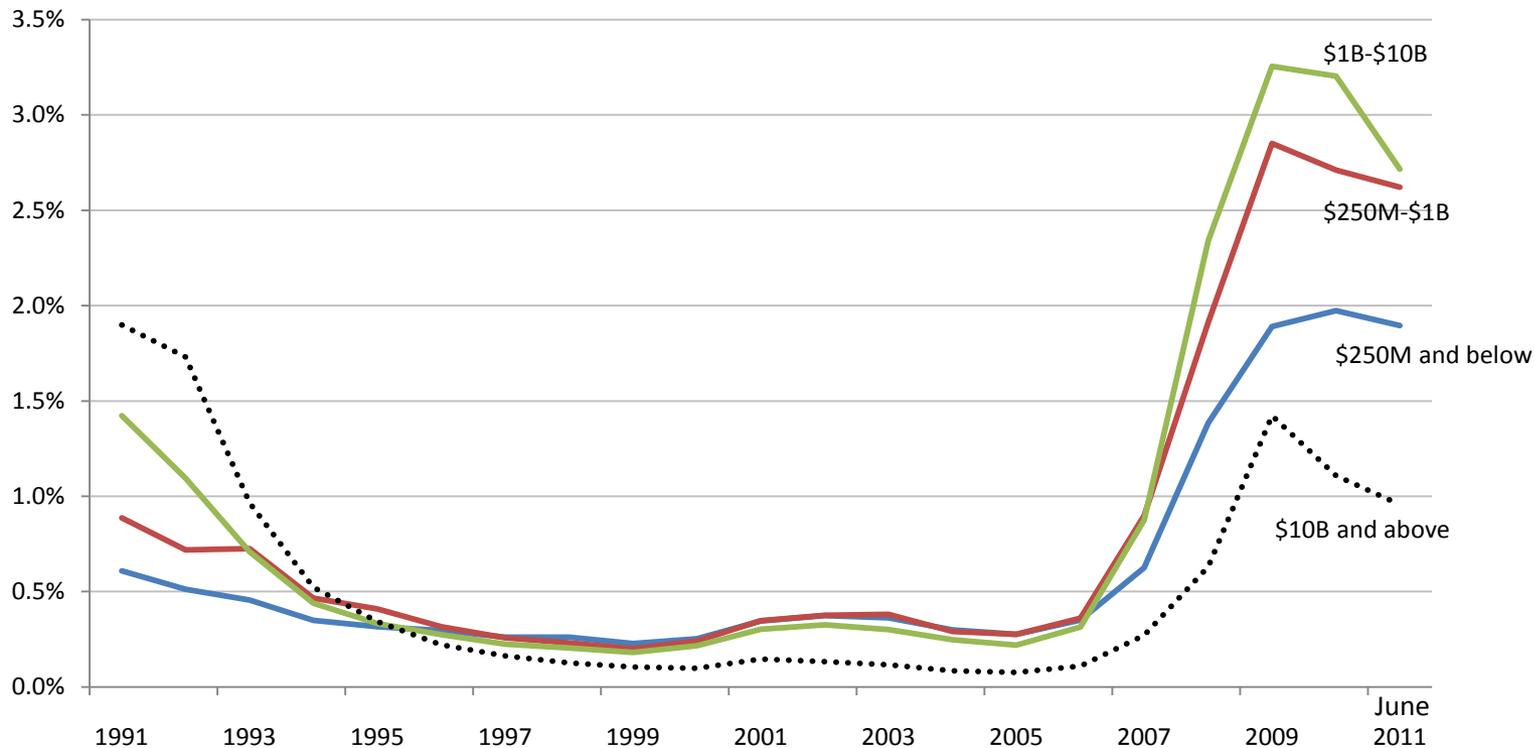
Notes: Problem loans are the sum of loans not accruing interest and loans accruing interest that are 90 or more days past due.

Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# CRE Problem Loans are Historically High, Particularly at Community Banks

Percent of  
Total Loans



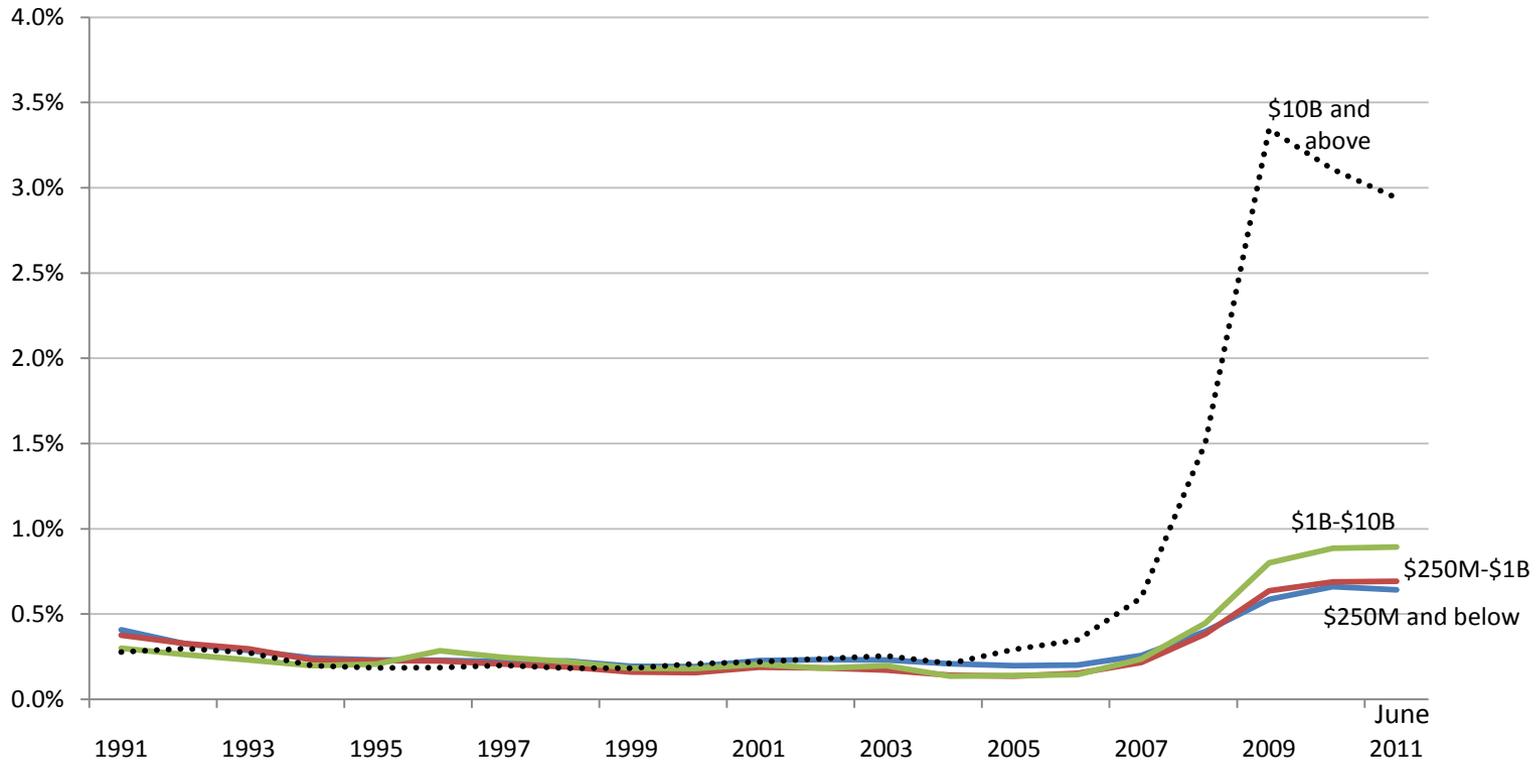
Notes: Problem loans are the sum of loans not accruing interest and loans accruing interest that are 90 or more days past due.

Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

# RRE Problem Loans are Historically High, Particularly at Large Banks

Percent of Total Loans



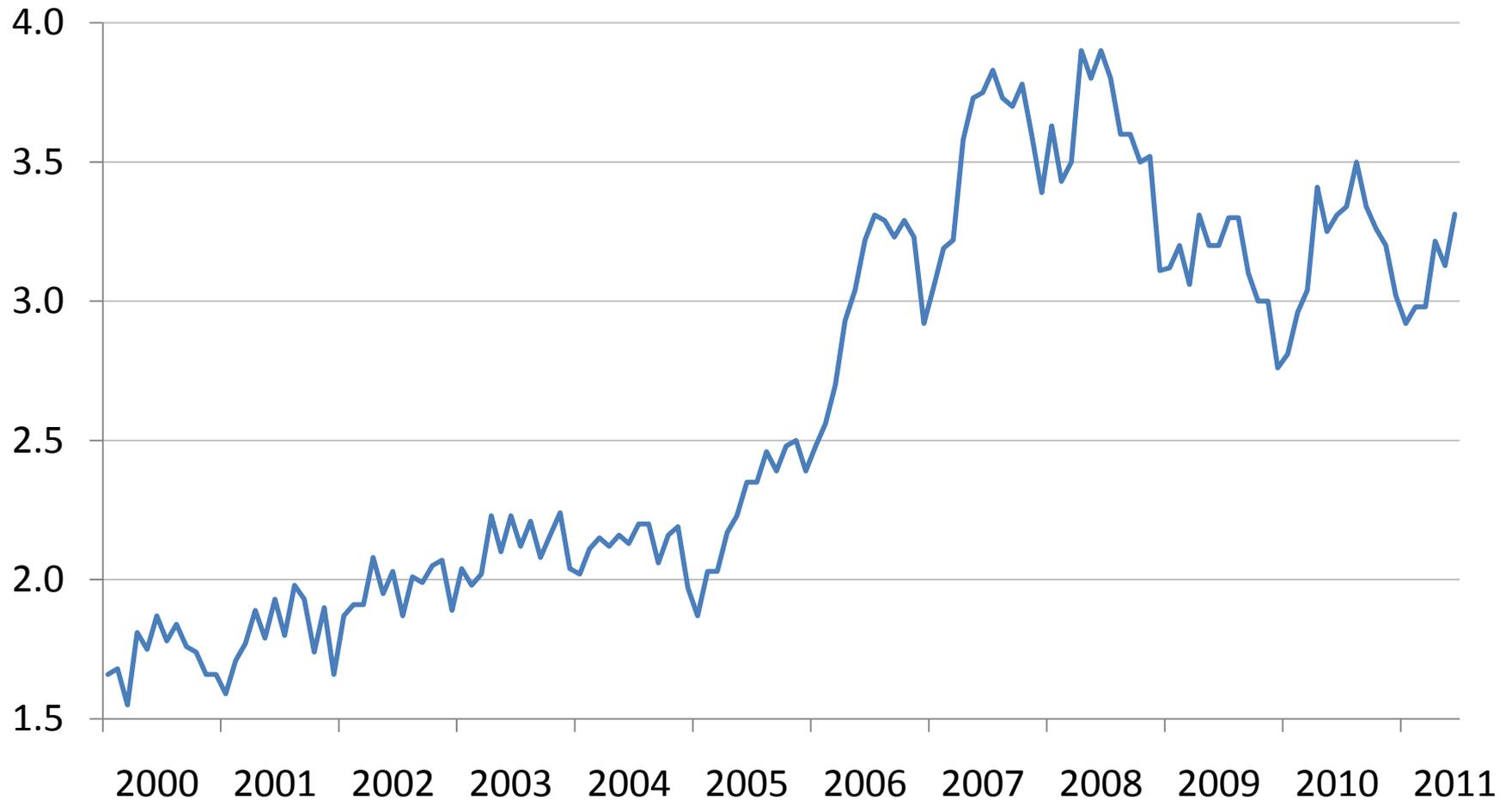
Notes: Problem loans are the sum of loans not accruing interest and loans accruing interest that are 90 or more days past due.

Size thresholds are based on assets as of December 2010 and deflated by the Consumer Price Index for earlier years.

Source: Reports of Condition and Income

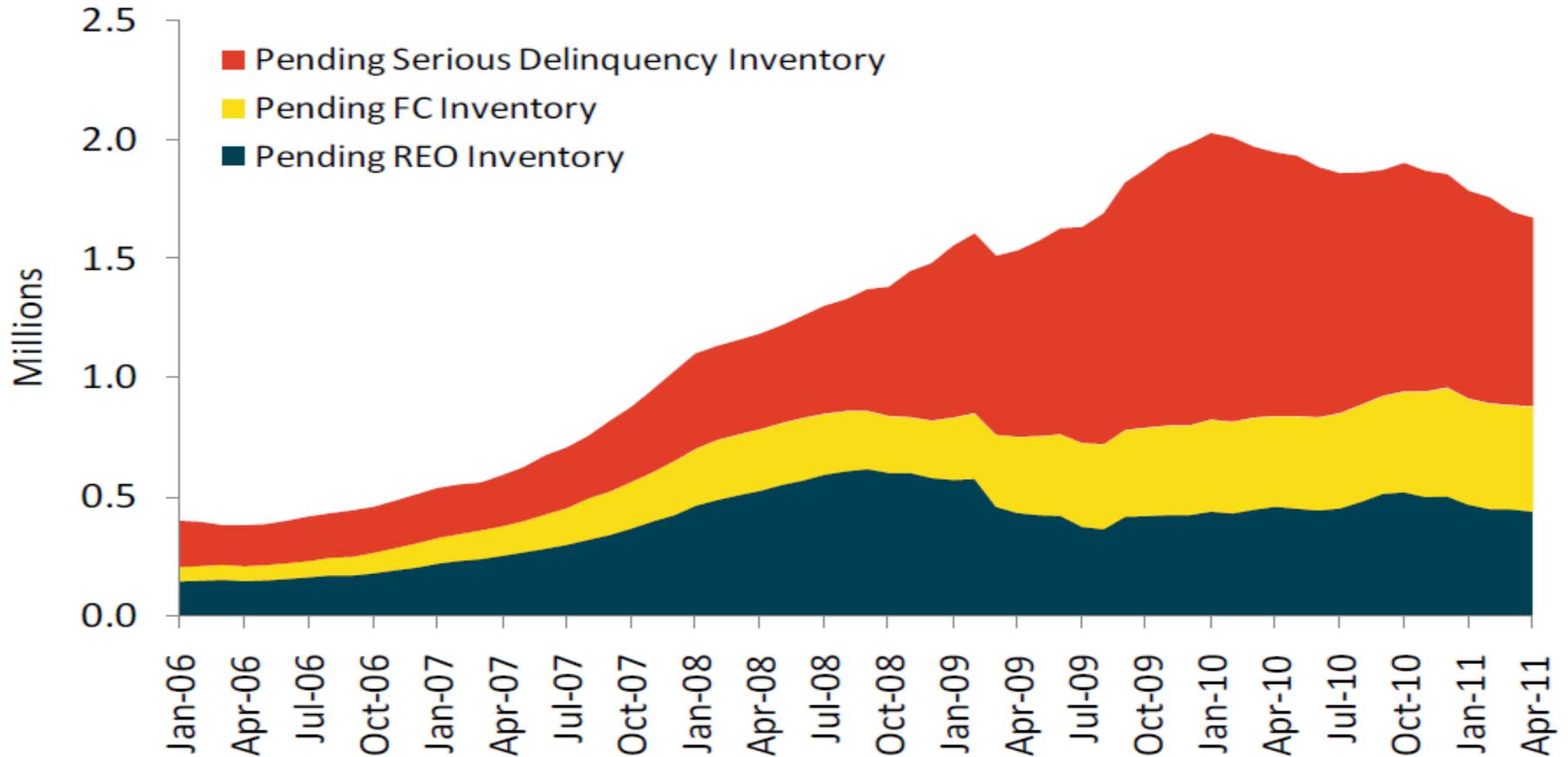
# Visible Housing Inventory

Millions  
of Units



Source: Bloomberg

# Shadow Housing Inventory



Source: CoreLogic

# Community Banking: Reasons to be optimistic

- Relationship banking
  - Community bankers know their customers and communities
  - Community banks' success is tied to their communities
- Customer service
  - Community banks provide personalized services to their customers
- Overcame challenges in the past

Notes: Survey was sent to Tenth District community banks, savings and loans, and credit unions with less than \$1 billion of assets. Results in the chart are based on bank respondents.

Source: 2011 Survey of Community Depository Institutions in the Tenth Federal Reserve District