Economic Review

The Increasing Brick-and-Mortar Efficiency of Community Banks

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Community banks have become more efficient on average since the 2008 global financial crisis.

The number of community banks in the United States has been declining steadily for decades, as has the share of total industry assets held by these banks. Because community banks play an outsized role in originating loans to small businesses, a continued decline in their numbers and asset holdings could constrain entrepreneurs' access to credit—and, accordingly, constrain growth in the overall economy.

One possible explanation for the declining number of community banks is that larger banks have benefitted from economies of scale and outpaced them in efficiency. Stefan Jacewitz examines how the efficiency of community banks has changed since the 2008 global financial crisis. He finds that community banks have in fact seen substantial improvements in efficiency, partially attributable to a relative decline in their brick-and-mortar expenses. His results suggest that community banks have made and continue to make meaningful gains even as the banking landscape evolves.

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