Economic Review

The Increasing Brick-and-Mortar Efficiency of Community Banks

by: Stefan A. Jacewitz

May 12, 2022

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.

Publication information: Vol. 107, no. 2
DOI: 10.18651/ER/v107n2Jacewitz

Author

Stefan A. Jacewitz

Research and Policy Officer

Stefan Jacewitz is a Research and Policy Officer at the Federal Reserve Bank of Kansas City. He joined the Economic Research Department in April 2021 after serving 12 years at the Federal Deposit Insurance Corporation (FDIC), most recently as the Chief of the Quantitative Risk Analysis Section and previously as a Senior Financial Economist. Mr. Jacewitz has B.A. degrees in Mathematics and Economics from the University of Oklahoma and a Ph.D. in Economics from Texas A&M University. His main areas of research are bank regulation and financial intermediation.