



# COMMUNITY BANKS

REMAIN RELEVANT IN TODAY'S **BIG-BANK** ENVIRONMENT



**D**espite the changing regulatory environment, community banks' resiliency and ability to adapt gives them opportunity to compete in today's big-bank climate.

Community bankers, however, will need to take advantage of new markets and technological advancements in order to entice younger, technology-driven customers, while still providing that personal touch to their existing customers.

Speakers discussed these topics and other related issues at the 2012 Community Banking Conference, which more than 100 community bankers and regulators attended Nov. 2 at the Kansas City Fed.

"Through outreach events like these, we are able to share ideas and perspectives outside of an examination setting," said Kevin Moore, senior vice president of the Kansas City Fed's Supervision and Risk Management Division.

Community bankers will have to pay more attention than ever to the newest regulations and policies that result from the Dodd-Frank Act and Basel III rules, said Mary Beth Guard, executive editor of BankersOnline.com and CEO of Glia Group, Inc., and keynote speaker at the conference.

What's in the new regulations is extensive, repetitive and redundant, Guard said, and it will take competent people to make sure banks comply.

"The level of knowledge for a compliance officer is greater than ever before," she said. "You can't hire someone off the street and train them anymore. I'm telling you, be nice to the ones you have now."

Esther George, president of the Kansas City Fed, has her own concerns about the current direction of regulatory policy and how it affects the ability of community banks to be competitive and serve the credit needs of their communities.

"We often hear from community bankers that they do not expect this changing environment to work well for them," George said. "These bankers anticipate being hit with significant regulatory costs for a crisis that originated in other parts of the financial system."

Well-run community banks have always found a way to navigate new regulations and thrive in a changing banking environment, George said.

"To be sure, the community bank business model has proven resilient and able to withstand significant challenges when boards of directors




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KEVIN MOORE, SENIOR VICE PRESIDENT of the Kansas City Fed's Supervision and Risk Management Division, introduces Community Banking Conference keynote speaker Mary Beth Guard, executive editor of BankersOnline.com and CEO of Glia Group, Inc.

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and their management teams demand strong performance and are willing to be flexible and ready to capitalize on new opportunities," she said.

Guard said there's much of Dodd-Frank yet to come, but she's confident banks and financial institutions can handle the new climate.

In the past 30 years, community banks saw restrictions lifted on multibank holding companies and interstate banking practices, the removal of deposit interest rate ceilings, and certain lending and product markets shift to larger institutions, captive finance companies, credit unions and the capital markets.

Some of those changes allowed community banks to expand services and stay competitive in a changing financial market.

Steve Goodenow, president and CEO of Bank Midwest, Spirit Lake, Iowa, said his bank made the decision to become a financial

services holding company and pursue other noninterest revenue sources to diversify and grow revenue.

"We added complexity, regulatory second looks and most importantly, new revenue," he said.

The newest changes will provide more challenges and force community banks to reassess their game plans and to create a proactive business model, said Dan Musso, president and CEO of FinPro, Inc., in Liberty Corner, N.J.

"You must avoid the mistakes of the past and change your business model to reflect today's reality," he said.

He encouraged bankers to use enterprise risk management to their advantage and make sure their plans take a realistic look at capital, asset quality, management, earnings, funding, people and delivery channels.

Another change for community bankers

said Steve Brown, president and CEO of Pacific Coast Bankers' Bank, Walnut Creek, Calif., is the rapid technological developments within the banking sector.

"The first recorded bank loan was in 350 A.D., and pretty much nothing changed in the next 1,500 years."

But as the 20th century moved toward the new millennium, technology developments such as ATM networks, online banking, automation of banking operations, new financial instruments and risk-management models changed the way consumers bank.

"There are many tech opportunities for community banks to help them grow their services and customer base," Brown said.

From tablets to smartphones, community banks can develop services that meet their customers' needs, and the costs for new technology will pay for themselves if done correctly, he said.

Brown cited a study that showed customers receiving e-alerts about loan payments were 70 percent more likely to make a payment on time. And given the growing consumer climate for e-banking, Brown says community banks must invest in new banking technology. Currently, a majority of consumers 29 years and younger bank with the four big banks: Wells Fargo, Citigroup, Bank of America and JPMorgan Chase, and a majority of that group owns and uses smartphones and other technology for banking.

"We've (community banks) got to figure out how to get them back," Goodenow said.

A Kansas City Fed study shows that while many now claim that the value of customer relationships is declining with the use of credit scoring and credit risk models, there is real value in relationship lending and in the soft personal information on customers that community bankers typically have, George said.

"History has shown that well-managed and innovative community banks are in the best position to handle the challenges of the future and to take advantage of new opportunities,"

she said. "The new regulatory challenges, though, may be a different type of battle."

George has encouraged regulators to ensure that community banks are not put at a disadvantage by laws and rules meant to fix problems that do not exist in community banks.

"This Reserve Bank is fully committed to this objective, and I encourage all of you to share your thoughts with us and with other regulatory agencies at every opportunity," she said.

Community banks, whether large or small, will need to invest in people who are contextual thinkers, who are detail oriented, who give advice up front and think about business implications from multiple perspectives, Guard said.

Even with the downturn in the economy and loss of some banks, Mark Moylan, deputy regional director with the FDIC in Kansas City, Mo., remains optimistic about the future of community banks.

"I'm highly cognizant of the well-run institutions and their capabilities of overcoming the changes within the industry," he said.

Moore said the conference was part of the Kansas City Fed's continuing efforts to reach out to community banks.

"The dialogue and questions we receive from community bankers are important in helping us understand the impact of proposed policies and regulations on their operations."



**KEVIN WRIGHT**, EDITOR

To read Esther George's full remarks at the conference, see Page 1. For more information on the conference, and for guest speaker and panel presentations, go to <http://www.kansascityfed.org/eventinfo/banking/2012-com-banking-documents.cfm>