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FDIC Releases New 2020 Community Banking Study

WASHINGTON – The Federal Deposit Insurance Corporation (FDIC) today released a new large-scale study on the state of the nation's community banks. The FDIC's *2020 Community Banking Study* finds community banks played a critical role in providing access to credit in several key areas of the U.S. economy, particularly through lending to support commercial real estate, small businesses and agriculture.

The FDIC study found that, relative to the broader banking sector, community banks continued to report positive financial performance and demonstrated this strength during the COVID-19 pandemic. The 2020 Study also included an examination of the influence of regulation and technology on community banks.

"The FDIC recognizes the critical role community banks play in providing loan and deposit services to customers throughout the United States," said FDIC Chairman Jelena McWilliams. "By continuing to study community banks, the FDIC can provide support to these institutions and the communities they serve."

Key Findings:

Structural Changes – Voluntary mergers between unaffiliated institutions were the primary cause of the decline in the number of insured depository institutions between 2012 and 2019: the number of community banks fell from 6,802 to 4,750 and the number of non-community banks dropped from 555 to 427. Community banks acquired more than two-thirds of the community banks that closed during the study period.

Regulation – The scope of regulatory change from 2008 through 2019 underscores that regulatory burden can be challenging for small banks with limited compliance resources. Banks' regulatory compliance function is likely a factor contributing to scale economies, thereby indirectly affecting some banks' decisions to enter or exit the industry and the distribution of residential mortgage holdings across banks of different sizes.

Community Bank Lending – Though community banks tend to be relatively small, their commercial real estate (CRE), small business and agriculture lending far exceed their relative size within the overall banking industry. While community banks account for just 15 percent of the banking industry's total loans, they hold 30 percent of all CRE loans, 36 percent of small business loans, and 70 percent of agricultural loans.

In addition, community banks were successful in areas with growing economies and populations while they continued to meet the credit needs of less economically vibrant areas, such as rural counties and areas with declining populations. Community banks have also proven to be resilient in their performance over the last seven years and during the COVID-19 pandemic.

Technology – Several factors drove community banks' adoption of technology including bank characteristics, the economic and competitive environment, and the attitudes and expectations of bank leadership. Based on FDIC research and survey data from the Conference of State Bank Supervisors, larger community banks and community banks with higher loan-to-asset ratios and higher growth were greater technology adopters. Similarly, community banks that faced greater competition and whose leadership had more optimistic expectations about the future were more likely to adopt technology.

Read the FDIC's 2020 Community Banking Study