



Commonwealth of Kentucky Public Protection Cabinet

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New Report Details Community Banking in Kentucky, Nation *State Banking Regulators, Federal Reserve Release 2016 National Survey*

FRANKFORT, Ky. (Sept. 29, 2016) – Kentucky bankers shared their insights and concerns about the economy, competition, regulatory burden and more in a report published today, *Community Banking in the 21st Century: Opportunities, Challenges and Perspectives*.

The Kentucky Department of Financial Institutions (DFI) joins the Conference of State Bank Supervisors (CSBS) and the Federal Reserve in releasing this annual report that features the findings of a nationwide survey on community banking, along with state-by-state banker interviews.

The report was released in conjunction with the Community Banking in the 21st Century Research and Policy Conference, hosted by the Fed and CSBS at the Federal Reserve Bank of St. Louis on Sept. 28-29, 2016. This fourth annual research conference brings together community bankers, academics, policymakers and bank regulators to discuss the latest research on community banking.

Highlights from Kentucky banker interviews include:

- Kentucky bankers have some concerns about the state's economic conditions, especially regarding coal production, urban migration and low demand for loans for capital investments to improve operating efficiency.
- Kentucky bankers are seeing increased competition from non-bank entities, credit unions and the Farm Credit System.
- Easy access to credit and increasing compliance burdens for banks make the market challenging for Kentucky community banks.
- The federal TILA-RESPA Integrated Disclosure rule was cited as the most time-consuming and burdensome regulation to which Kentucky bankers must comply.
- Increased disclosures and federal regulations have led to a significant decrease in bank employee productivity.
- Kentucky bankers in rural areas are facing challenges with recruiting millennials.
- Financial literacy needs are a significant concern among Kentucky bankers.

Highlights from the national survey include:

- Bankers are seeing an active merger and acquisition market, as 20 percent of banks surveyed made an acquisition offer in the past year.
- Regulatory burden is still a top concern among bankers and was cited the number one reason for banks exiting an activity, product or geographic market.
- The TILA-RESPA Integrated Disclosure rule was cited the most costly regulation, accounting for 23 percent of all compliance expenses.
- While surveyed community banks saw an increase in small business lending activity by more than 7 percent, the total dollar *volume* of overall small business lending slightly decreased to \$340 billion.
- Approximately 75 percent of surveyed banks made small business loans to customers in 2015 with whom they had a previous relationship.

“Kentucky community banker concerns are similar to those of community bankers nationally,” said DFI Commissioner Charles Vice. “I’m pleased that Kentucky’s perspective is shared within the broader context of this report, which shows how vital community banks are to local and national economic growth and prosperity.”

The 2016 national survey was developed and administered with the assistance of Cornell University’s Survey Research Institute. It was distributed by state bank commissioners in 30 states. A total of 557 community bankers participated. The survey provides a comprehensive view of what bankers are thinking surrounding key issues facing their industry and how they are responding to changes in their markets. The state-by-state banker interviews were conducted by state banking commissioners from 29 states.

The *Community Banking in the 21st Century: Opportunities, Challenges and Perspectives* report is available online at www.communitybanking.org. That website also provides information, proceedings and research papers from this year’s conference, as well as the three preceding conferences.

Mark D. Strother, president and CEO of The Commercial Bank of Grayson, attended the conference as Commissioner Vice’s guest. DFI selected Strother’s bank at random in a “golden ticket” drawing in which all Kentucky banks completing the survey were entered. Strother said hearing the research papers and panels presented at the conference has reinforced what he knows to be true in his own community.

“We’re helping small businesses to grow,” Strother said. “What would be a small loan to a super-regional bank is a big loan to us, as a community bank. Would there be as much opportunity for those small businesses to grow if the community bank wasn’t there? Definitely not.”

DFI, <http://kfi.ky.gov>, is an agency in the Public Protection Cabinet. For more than 100 years, it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI’s mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.

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