February 2008

Survey of Community Bank in the Tenth Federal Reserve Distri

Division of Supervision and Risk Management

Federal Reserve Bank of Kansas City

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Kansas City, MO 64198-0001

ABOUT THE SURVEY

The 2008 Survey of Community Banks in the Tenth Federal Reserve District was conducted from February 15, 2008 to March 30, 2008. Surveys were mailed to all commercial banks with assets less than $1 billion located in the Tenth Federal Reserve District.

Of the 1,121 potential respondents, 401 banks completed the survey, resulting in a response rate of 35.8 percent. The characteristics of survey respondents are closely aligned with the characteristics of community banks located in the Tenth District, although the survey does not represent a random sample.

A summary article that compares the survey results with past surveys completed in 2004 and 1999 is forthcoming in *Financial Industry Perspectives*, a publication of the Federal Reserve Bank of Kansas City.

The survey is organized into four sections:

I. General Information About Your Bank

1. The location of your bank's home office is:

	CO	**KS**	**MO**	**NE**	**NM**	**OK**	**WY**	Valid obs.	No response
Number	27	112	46	93	1	83	13	375	26
Percent of valid observations	7.2	29.9	12.3	24.8	.3	22.1	3.47		

2. Your bank has a:

	National charter	State charter	Valid obs.	No response
Number	92	221	371	30
Percent of valid observations	29.4	70.6		

3. Asset size of your bank at year-end 2007:

	Number	Percent of obs.
Less than $150 million	288	77.0
$150 to $300 million	48	12.8
$300 million to $1 billion	38	10.2
Valid observations	374	
No response	27	

4. Your offices are located within:

	Number	Percent of obs.
a single county	218	58.6
in more than one county within a state	141	37.9
in more than one state	13	3.5
Valid observations	372	
No response	29	

5. Bank structure:

	Number	Percent of obs.
Independent bank (not in a bank holding company)	50	17.2
Member of a one-bank holding company	201	69.1
Member of multi-bank holding company	40	13.7
Valid observations	291	
No response	110	

If your bank is owned by a bank holding company, what is the consolidated asset size of the holding company at year-end 2007?

	Number	Percent of obs.
Less than $150 million	159	66.8
$150 to $300 million	44	18.5
$300 million to $1 billion	27	11.3
Over $1 billion	8	3.4
Valid observations	238	
No response	163	

6. Is your bank or parent bank holding company publicly traded?

	Yes	No	Valid obs.	No response
Number	3	285	288	113
Percent of valid observations	1.0	99.0		

7. Does your bank file its federal income taxes as a Subchapter S corporation?

	Yes	No	Valid obs.	No response
Number	160	111	290	401
Percent of valid observations	55.2	44.8		

8. What was your bank's Return on Average Assets ratio for 2007?

Average	Median	Minimum	Maximum	Valid obs.	No response
.99	1.0	-1.0	7.0	329	72

9. The population of the town or metropolitan area where your bank's home office is located is:

	Number	Percent of obs.
Less than 2,500	191	51.2
2,500 to 9,999	97	26.0
10,000 to 19,999	21	5.6
20,000 to 99,999	37	9.9
100,000 to 249,999	9	2.4
Over 250,000	18	4.8
Valid observations	373	
No response	28	

10. What was the percentage change in the population of the community where your bank's home office is located between the 1990 and 2000 census?

	Number	Percent of obs.
Lost population	132	36.0
Between 0% - 2% growth	85	23.2
Between 2% - 5% growth	47	12.8
Between 5% - 10% growth	32	8.7
Between 10% - 15% growth	19	5.2
Between 15% - 20% growth	20	5.4
Over 20% growth	32	8.7
Valid observations	367	
No response	34	

11. Is your community located within 30 miles of a city with a population of 100,000 or more?

	Yes	No	Valid obs.	No response
Number	107	266	373	28
Percent of valid observations	28.7	71.3		

12. The primary economic support for your community is:

	Number	Percent of obs.
Agriculture	179	64.4
Manufacturing	26	9.4
Service	9	3.2
Government	21	7.6
Mining/Energy	23	8.3
Tourism	8	2.9
Other	12	4.3
Valid observations	278	
No response	123	

II. PROSPECTS AND CHALLENGES

13. **During the next five years**, the business strategy for your bank is to:

	Number	Percent of obs.	Valid obs.	No response
Operating under the same ownership	371	98.1	378	23
Sell the bank to another banking organization or ownership group	20	8.1	247	154
Acquire other banks	101	40.4	250	151
Acquire additional branches	142	54.0	263	138

14. How many deposit taking offices does your bank have currently, excluding the bank's headquarters office?

Average Number	Median Number	Valid obs.	No response
2.5	1	389	12

15. Do you plan to open/acquire additional branches in the **next five years**?

	Yes	No	Valid obs.	No response
Number	193	201	394	7
Percent of valid observations	49.0	51.0		

16. If yes, where will the new branches be located in relation to your bank's main office? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Within the same city, town, village	38	19.7
Within the same county	58	30.0
In immediately adjacent counties	103	53.4
More distant counties (same state)	65	33.7
More distant counties (different state)	17	8.8

17. If yes, what factors will cause you to establish or buy new branches? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Increase deposits	122	63.2
Meet competition from others	65	33.7
Better serve customer base	93	48.2
Enhance geographic diversification	89	46.1
Take advantage of growth opportunities in more vibrant markets	114	59.1

18. Has the geographic reach of your bank's individual offices expanded over the last 10 years?

	Yes	No	Valid obs.	No response
Number	233	164	397	4
Percent of valid observations	58.7	41.3		

19. To what factors do you attribute this greater geographic reach? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Improved and lower cost communications technologies	139	59.7
Improved and lower cost computer technologies	142	60.9
Better roads and other transportation improvements	31	13.3
Changes in banking laws	34	14.6
Banking consolidation and changing character of bank competitors	107	45.9

20. Compared to ten years ago, does your bank feel greater competition from more distant competitors?

	Yes	No	Valid obs.	No response
Number	356	39	395	6
Percent of valid observations	90.1	9.9		

21. To what factors do you attribute this greater competition? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Improved and lower cost communications technologies	228	57.7
Improved and lower cost computer technologies	233	59.0
Better roads and other transportation improvements	27	6.8
Changes in banking laws	140	35.4
Banking consolidation and changing character of bank competitors	232	58.7
Other	37	9.4

22. What level of competition do you expect for **loans** from these sources **during the next five years**?

Competitor	Level of competition:							
	Intense		Moderate		Weak			
	n	%	n	%	n	%	Valid obs.	No response
Community banks	196	50.6	177	45.7	14	3.6	387	14
Larger out-of-state banking organizations	75	21.0	188	52.7	94	26.3	357	44
Larger in-state banking organizations	111	31.7	190	54.3	49	14.0	350	51
Thrifts	31	9.6	128	39.5	165	50.9	324	77
Credit unions	120	33.1	159	43.9	83	22.9	362	39
Insurance companies	33	9.3	147	41.6	173	49.0	353	48
Securities firms	24	7.1	124	36.5	192	56.5	340	61
Farm credit associations	237	63.4	97	25.9	40	10.7	374	27
Lending subsidiaries of machinery and auto dealers (e.g., John Deer Credit, GMAC)	169	47.6	151	42.5	35	9.9	355	46
Finance companies	31	9.3	153	45.8	150	44.9	334	67
Financial institutions on the Internet	47	13.9	150	44.4	141	41.7	338	63
Mortgage companies	92	26.4	171	49.1	85	24.4	348	53
National credit card marketers (VISA, MC, AMEX, Discover)	84	25.5	135	41.0	110	33.4	329	72
Other (describe)	6	16.7	6	16.7	24	66.7	36	365

23. What level of competition do you expect for **deposits** from these sources **during the next five years**?

Competitor	Level of competition:							
	Intense		Moderate		Weak			
	n	%	n	%	n	%	Valid obs.	No response
Community banks	250	66.0	125	33.0	4	1.1	379	22
Larger out-of-state banking organizations	115	32.6	172	48.7	66	18.7	353	48
Larger in-state banking organizations	163	45.8	161	45.2	32	9.0	356	45
Thrifts	79	24.6	140	43.6	102	31.8	321	80
Credit unions	160	46.0	127	36.5	61	17.5	348	53
Financial institutions on the Internet	89	26.3	136	40.2	113	33.4	338	63
Insurance companies	61	17.8	149	43.4	133	38.8	343	58
Mutual funds	118	33.9	176	50.6	54	15.5	348	53
Securities firms	118	33.3	170	48.0	66	18.6	354	47

24. What challenges, if any, do you anticipate in the following areas during the **next five years**?

	Level of challenge:							
Performance:	**Significant**		**Moderate**		**Slight**		Valid obs.	No response
	n	%	n	%	n	%		
Maintaining or increasing capital	49	12.9	185	48.6	147	38.6	381	20
Maintaining credit quality	96	24.8	247	63.8	44	11.4	387	14
Maintaining and attracting retail deposits	244	63.2	121	31.3	21	5.4	386	15
Developing new sources of noninterest income	239	61.8	139	35.9	9	2.3	387	14
Achieving satisfactory growth of loans	199	51.3	166	42.8	23	5.9	388	13
Achieving a satisfactory earnings	191	49.1	182	46.8	16	4.1	389	12
Attracting new business customers	235	60.9	139	36.0	12	3.1	386	15
Organization:	**Significant**		**Moderate**		**Slight**			
Meeting regulatory compliance requirements	256	65.5	115	29.4	20	5.1	391	10
Maintaining a secure electronic environment	209	53.3	169	43.1	14	3.6	392	9
Effectively utilizing new technological devices	163	41.9	214	55.0	12	3.1	389	12
Planning for management succession	80	20.6	220	56.7	88	22.7	388	13
Economic:	**Significant**		**Moderate**		**Slight**			
Population loss	91	23.4	156	40.1	142	36.5		
Adapting to new markets	71	18.5	227	59.1	86	22.4	384	17
Aging customer base	189	48.5	167	42.8	34	8.7	390	11
Lack of diversification opportunities	151	39.3	188	49.0	45	11.7	384	17
Decline in the community’s primary industry	46	12.2	151	39.9	181	47.9	378	23
Slow growth in your community	140	36.4	161	41.8	84	21.8	385	16
n=Number of responses; %=Percent of valid observations								

25. Over the last five years, small business lending at your bank has:

	Number	Percent of obs.
Increased	188	47.2
Decreased	76	19.1
Stayed the same	134	33.7
Valid observations	398	
No response	3	

26. If your small business lending changed, what was the primary cause? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Change in the number of small businesses in your market	158	84.0
Willingness of small business to seek funding from out-of-market sources	36	19.1
New lending technologies (online loan applications, credit scoring, etc.)	26	13.8
Change in the bank's lending strategy	88	46.8
Other	36	19.1

27. Over the last five years, how has level of competition for small business lending opportunities changed with respect to the following competitors?

	Level of Competition:							
Small Business Lending Competitor	**Increased**		**Decreased**		**Unchanged**		**Not a competitor**	
	n	%	n	%	n	%	n	%
Other community banks	243	62.3	7	1.8	131	33.6	9	2.3
Finance companies	78	20.8	18	4.8	197	52.5	82	21.9
Financial institutions on the Internet	136	36.1	8	2.1	153	40.6	80	21.2
Mortgage companies	156	41.3	15	4.0	140	37.0	67	17.7
Credit card marketers (VISA, MC, etc.)	178	47.6	9	2.4	124	33.2	63	16.8
Farm credit associations	266	69.5	6	1.6	90	23.5	21	5.5
Larger out-of-state banking organizations	145	38.3	16	4.2	185	48.8	33	8.7
Larger in-state banking organizations	198	52.7	16	4.3	138	36.7	24	6.4
Thrifts	63	16.8	20	5.3	206	55.1	85	22.7
Credit unions	178	47.7	13	3.5	132	35.4	50	13.4
Insurance companies	100	26.7	17	4.5	187	50.0	70	18.7
Securities firms	69	18.9	17	4.7	185	50.7	94	25.8

28. Does your bank use credit scores when reviewing small business loan applications?

	Yes	No	Valid obs.	No response
Number	202	187	389	12
Percent of valid observations	51.9	48.1		

29. If yes, which type of credit scores do you use? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Consumer credit score of business owner(s)	186	92.1
Small business credit score (including owner and firm credit history)	57	28.2

30. How have you changed your lending strategy with respect to **residential** mortgage lending? (*check all that apply*)?

	Checked Boxes	
	Number	Percent of obs.
Offering new products (reverse mortgages, new types of ARMs or Home Equity Loans (HELs))	85	30.4
Increased securitization	63	22.5
Greater use of mortgage brokers / third parties	83	29.6
Greater consideration of ‘suitability’ between borrower and mortgage product	125	44.6
Other (those who chose “other” noted no change in lending practices)	34	12.1

31. How have you changed your lending practices with respect to **commercial** real estate lending? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Greater monitoring of builder clients	165	56.9
Increased scrutiny of appraisal validity	229	79.0
Increased market analysis	159	54.8
Utilizing portfolio stress testing tools	66	22.8
Other (those who chose “other” noted no change in lending practices)	26	9.0

32. In the last two years, changes in market conditions have resulted in which of the following funding changes at your bank: (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Increased cost of deposit funding	315	81.8
Commercial customers reducing DDA balances	140	36.4
Retail customers moving balances from DDA to MMDAs	178	46.2
Commercial customers reducing DDA balances and increasing CD balances	86	22.3
Increased use of sweep accounts and repurchase agreements	132	34.3
Caused the bank to obtain brokered deposits	71	18.4
Caused the bank to obtain deposits through an Internet posting service	31	8.1
Caused the bank to increase use of FHLB advances	179	46.5
Caused the bank to decrease use of FHLB advances	14	3.6
Caused the bank to shorten maturities of wholesale funding or CDs	76	19.7
Caused the bank to lengthen maturities of wholesale funding or CDs	23	6.0

33. How would you rate the level of liquidity risk at your bank?

	Number	Percent of obs.
Significant	30	7.5
Moderate	127	31.8
Low	208	52.0
No risk	35	8.8
Valid observations	400	
No response	1	

34. Does your bank have a formally documented/written contingency funding plan?

	Yes	No	Valid obs.	No response
Number	264	132	396	5
Percent of valid observations	66.7	33.3		

35. If yes, does the plan include estimates of funding that may need to be replaced in a stress situation?

	Yes	No	Valid obs.	No response
Number	123	136	259	5
Percent of valid observations	47.5	52.5		

36. If yes, please comment briefly on the nature of the stress scenario considered.

- Holding company has spent significant amount of resources to address liquidity. Stress tests have been placed and contingent sources of funding have been obtained and tested.
- If loans were to increase 20%, and deposits decrease 20% at the same time, what would the impact to liquidity be (drops from 40 to 32 in most recent test).
- We look monthly at liquidity analysis and monitor dependency ratio closely.
- Core deposit challenges in the local market economic stress/strain
- If our two largest depositors departed (22 percent), what would we do?
- Primarily seasonal lending for an Ag. bank.
- The assistance of funding from CEDA's, FHLB, FFP, and other brokered deposits required because of a lost large deposit factor. This plan also considers the liquidations of securities and participation of loans to other financial institutions.
- High loan demand, high deposit withdrawal.
- Intense competition, loss of longer CDs, potential of adverse earnings announcement.
- Various percentages of deposit loss.
- We look at where we are now in relation to big deposit customers, and then we consider where we would borrow in case those customers changed banks. Our goal is to be independent of big deposit customer swings in their depository strategy when they look at price.
- We have tried to address liquidity needs without questioning each scenario, possible causes-natural disasters, large employer shutdowns, etc.
- Low loan volume no real stress.
- We will fund from FHLB, our holding co., bring letters of Credit, CDARS, etc.
- The plan considers the loss of any funding source and steps that could/would be taken to replace it (alternative sources).
- Stress scenario #1 considers unusual increase in loan demand. Stress scenario #2 considers extreme loss of core deposit base.
- Use FHLB and Fed Funds
- Sale of guaranteed govt loans
- Should we see deposit outflows, 1) Increased borrowing from FHLB, 2) Asset sales (loans to bonds), 3) Wholesale CDs, 4) Reduced lending.
- Lines of credit with FHLB correspondent banks.
- FHLB Advances, Brokered CDs, Internet CDs, Sell Loans.
- Funds from securities. Borrow from correspondent banks and FHLB.
- Plan to get deposit outside of market or to go to Fed and borrow money or FHLB.
- Alternative sources of funding identified and caps on amount of "wholesale" funding available for our use. All compared to max borrowing ability, which amount is constantly monitored.
- Drought, suppressed Ag prices
- We looked at categories of deposits and assigned a percentage of runoffs to the category. We then made sure we had access to enough wholesale funding to take care of the runoff.
- Do a loan pipeline report, estimate funding date and amount.
- We go thru a Steps A-G with the easiest liquidity changes, first down to g, which is selling loans if need be, and we have the relationships in place to do this and at a specified amount.

- Our largest account provides us with 20% of our funding (sweep accounts). We have a formal plan to address how we will handle our liquidity in the event of a sudden loss of their business.
- Plan if largest depositor withdraws funds and advance LOC, plan is to deal with either securities on FHLB advances. More detail is included in policy.
- Approved lines of credit with correspondents.
- Our largest depositor is tribal related. We update our stress test monthly if we would lose this customer.
- Seasonal credit demands inherent to being heavily concentrated in agricultural lending.
- We closely monitor the age and direction of our deposits.
- Annually, we perform a liquidity analysis of potential balances during our seasonal borrowing period. Within this analysis, we plan for funding sources if the need arises.
- Withdrawal of liquid deposits
- 2% movement of interest rates up or down
- 200 B.P. scenario
- Significant loan demand
- no securitization liquidity
- Real estate market deterioration leading to decrease of FHLB borrowing capacity.
- Use of public funds, sale of loans (liquidity lines), sale of securities, use of brokered CDs, Internet, FHLB borrowings - over 100,000,000 in contingency financing.
- Sale of guaranteed loans. FHLB borrowing. Use of Jumbo/Brokered CDs. Participation commitments.
- Major decrease in deposits.
- Availability of contingent funding sources are reviewed by executive management on a monthly basis.
- Fed borrowing
- Continue building capital to 16-17 percent of total assets. Presently at 16 percent. Strong capital is an important part of our plan to prevent a stress situation.
- Any stress on deposits would be on a short term basis.
- FHLB Investments
- Certain times of the year, our loan demand is very high. We are an agricultural bank.
- Deposit run off
- Borrowings from correspondent, Federal Reserve Bank, and Federal Home Loan Bank

37. Which of the following products do you currently offer or plan to offer in the next three years? (*Check all that apply*)

	Currently Offer	**Plan to Offer in 3 years**
	N	N
Home equity lines of credit	193	22
2nd mortgage other than HELs	206	3
Adjustable rate mortgages	201	13
Non-traditional mortgages	61	5
Reverse mortgages	35	22
Electronic bill payment	246	70
Online loan applications	83	96
Electronic bill presentment	101	62
Email / wireless banking alerts	84	90
Identity theft protection	103	96
Stored value / prepaid cards	113	56
Payroll cards	11	56
Cash management services	107	27
Corporate / Business credit cards	119	19
Asset management	45	18
Remote deposit	89	134
No-fee ATMs	132	28
Money remittance services	14	9
Health savings accounts	156	61
Insurance (property and casualty, health)	87	18
Real estate services	26	29

III. LAWS, REGULATIONS, AND GUIDANCE

38. Compared to **five years ago**, the amount of time spent on compliance matters by your bank's board of directors and executive management has:

	Number	Percent of obs.
Increased	379	95.9
Decreased	1	0.3
Stayed the same	15	3.8
Valid observations	395	
No response	6	

39. Rank the following laws, regulations, and guidance according to the amount of time devoted to them in 2007: (1= most time spent, 10= least time spent)

1	Bank Secrecy Act and Currency Transactions Reports (CTRs)
2	USA Patriot Act and "Know Your Customer" requirements
3	Information security / authentication guidelines
4	Real Estate Settlement Procedures Act (RESPA)
5	Truth in Lending Act (TILA)
6	Home Mortgage Disclosure Act (HMDA) and Regulation C
7	Privacy notices (GLBA)
8	Community Reinvestment Act (CRA)
9	Commercial Real Estate Concentration Guidance
10	Nontraditional Mortgage Product Risk Guidance

40. Do you believe that the proposed changes to the bank capital guidelines will place your bank at a competitive disadvantage to larger institutions that adopt the Basel II framework?

	Yes	No	Valid obs.	No response
Number	125	233	358	43
Percent of valid observations	34.9	65.1		

41. How will changes to bank capital guidelines affect your bank? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Bank will be at a pricing disadvantage vis-a-vis larger banks	132	36.2
Bank will be at a greater competitive disadvantage to nonbank competitors	141	38.6
Will not receive the same capital relief as larger banks	143	39.2
Adopting new risk measurement tools will be a challenge	147	40.3
Other (respondents choosing "other" noted no impact)	15	4.1

IV. STAFFING PRACTICES AND GOVERNANCE

42. In general, do you foresee problems in filling **non-official** staff positions during the **next five years**?

	Yes	No	Valid obs.	No response
Number	170	228	398	3
Percent of valid observations	42.7	57.3		

43. If yes, what non-official staff positions do you foresee difficulty filling? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Teller	123	72.4
Loan administration	103	60.6
Loan review	65	38.2
Customer service	90	52.9
Accounting	69	40.6
Auditing	64	37.6
Other	8	4.7

44. If yes, what makes the staff positions difficult to fill? (*check at that apply*)

	Checked Boxes	
	Number	Percent of obs.
Qualified applicants are not available	134	78.8
Competing employment opportunities	113	66.5
Other (respondents choosing "other" noted	8	0.5

45. Do you foresee problems in filling **official staff** positions during the **next five years**?

	Yes	No	Valid obs.	No response
Number	228	169	397	4
Percent of valid observations	57.4	42.6		

46. If yes, what official positions do you foresee difficulty filling? (*check all that apply*)

	Checked Boxes	
	Number	Percent of obs.
Chief executive officer	59	25.9
Senior lending officer	121	53.1
Cashier / operations officer	79	34.6
Chief financial officer	35	15.4
Chief information technology officer	80	35.1
Loan review officer	47	20.6
Loan officer	148	64.9
Compliance officer	111	48.7
Auditor	45	19.7
Other	7	3.1

47. If yes, what makes <u>official</u> positions difficult to fill?

	Checked Boxes	
	Number	Percent of obs.
Qualified applicants aren't available in the community or qualified candidates are unwilling to move to community	194	85.1
Unable to offer career/advancement opportunities	52	22.8
Competing employment opportunities in community	73	32.0
Other	12	5.3

48. Do you foresee problems in filling **<u>outside director</u>** vacancies during the **next five years**? (An outside director is not an employee of the bank or an owner of 10 percent or more of any class of the bank's outstanding common voting stock)

	Yes	No	Valid obs.	No response
Number	120	276	396	5
Percent of valid observations	30.3	69.7		

If yes, what makes filling <u>outside director</u> positions difficult?

	Checked Boxes	
	Number	Percent of obs.
Director liability	80	66.7
Work and time involved	42	35.0
Knowledgeable individuals with business expertise, background and/or skills needed by bank not available	83	69.2
Inadequate compensation	27	22.5
Other	3	2.5

49. Does your bank have a mandatory retirement age for senior officers?

	Yes	No	Valid obs.	No response
Number	11	385	396	5
Percent of valid observations	2.8	97.2		

If yes, which officers will reach this age within the next five years?

	Checked Boxes	
	Number	Percent of obs.
Chief executive officer	3	27.3
Senior lending officer	1	9.1
Cashier / operations officer	1	9.1
Chief financial officer	0	0
Chief information technology officer	0	0

50. Does your bank have a written management succession plan?

	Yes	No	Valid obs.	No response
Number	163	229	392	9
Percent of valid observations	41.6	58.4		

51. Do management officials of your bank serve on the boards of for-profit nonfinancial corporations?

	Yes	No	Valid obs.	No response
Number	152	243	395	6
Percent of valid observations	38.5	61.5		

If yes, do these management officials own or control 25 percent or more of the voting stock of these corporations?

	Yes	No	Valid obs.
Number	38	114	152
Percent of valid observations	25.0	75.0	

If yes, does your bank have outstanding loans to these nonfinancial corporations?

	Yes	No	Valid obs.	No response
Number	26	84	110	42
Percent of valid observations	23.6	76.4		

52. What was the number of directors on your bank's board at year-end 2007?

Average	Median	Minimum	Maximum	Valid obs.	No response
7.2	7.0	3	17	400	1

53. What was the number of **outside** directors on your bank's board at year-end 2007?

Average	Median	Minimum	Maximum	Valid obs.	No response
3.7	3.0	0	16	397	4

54. How many regularly scheduled board meetings did your board have in 2007?

Average	Median	Minimum	Maximum	Valid obs.	No response
10.8	12.0	0	26	398	3

55. On an annual basis, the directors at your bank are paid what amount for their board service?

Average	Median	Minimum	Maximum	Valid obs.	No response
4822	3500	0	84000	385	16

56. Is this payment made regardless of meeting attendance?

	Yes	No	Valid obs.	No response
Number	179	206	385	16
Percent of valid observations	46.5	53.5		

57. Are the positions of board chairman and CEO held by different individuals at your bank?

	Yes	No	Valid obs.	No response
Number	229	168	397	4
Percent of valid observations	57.7	42.3		

58. Does your bank have a mandatory retirement age for its board members?

	Yes	No	Valid obs.	No response
Number	21	377	398	3
Percent of valid observations	5.3	94.7		

If so, how many of your bank's directors will reach this age within the next five years?

Average	Median	Minimum	Maximum	Valid obs.	No response
1.6	1.0	0	6	21	0

59. Do retired officers of the bank serve on the board?

	Yes	No	Valid obs.	No response
Number	125	270	395	6
Percent of valid observations	31.6	68.4		

60. Is the performance of board members assessed periodically?

	Yes	No	Valid obs.	No response
Number	118	271	389	12
Percent of valid observations	30.3	69.7		

61. Did your directors participate in any training sessions in 2007?

	Yes	No	Valid obs.	No response
Number	236	161	397	4
Percent of valid observations	59.4	40.6		

62. Has the board of directors at your bank adopted a code of ethics for the bank?

	Yes	No	Valid obs.	No response
Number	297	95	392	9
Percent of valid observations	75.8	24.2		

63. Do you have any general comments on the future of banking and/or more detailed responses to any of the previous questions?

- Two Concerns: 1) I have already discussed the Farm Credit System. But I don't think anyone in government is listening. It is becoming more serious than politicians realize. When the government Farm Credit System has more loans in [a given county] than all other banks combined, we are in for big trouble. Their momentum is growing and, because their rates are lower, they pay no taxes, no filing fees; we will not be able to compete. I think it's going to take a train wreck before someone realizes this. 2) Abundance of regulation - I'm not even going to waste our time in discussing this. It isn't going to change. It's only going to get worse. Example: FASB 5 and 114 ALLL accounts. Our ALLL account system has been one of the best for over 100 years. The regulators allowed a bunch of bureaucrats in Washington to take one of the strongest and simplest sections of our balance sheet and turn it in to one of now weakest and most complicated sections. Each quarter now I have to waste three full days of one of my employees' time on this useless law.

- The regulatory and compliance issues for small community banks are a nightmare and expensive!!

- Regulators are making a difficult environment for small town banks.

- Laws written for larger banks, FASB 114 and FASB 5, as well as the appraisal changes should not be applied to small (under 100 or 250 million) banks. We do not have the staff.

- Since we are an Ag bank, we have great concerns regarding Farm Credit and Credit Unions in regard to their tax-free status. We believe the playing field should be equal. If we didn't have to pay Federal and State income taxes, our loan rates could be lower (more competitive with Farm Credit) and our deposit rates could be higher (more competitive with Credit Unions). Common sense tells us that. The purpose of Farm Credit and Credit Unions has changed since they were started.

- Our largest problem is Farm Credit Services and their ability to loan money at below market rates. Our next largest problem is attracting and maintaining deposits.

- The Fed bouncing interest rates around makes customer relations a lot more difficult. The time and training spent on compliance issues seems to take precedence over competing for additional business or business development.

- We are being regulated to death.

- Get regulators under control! Too much regulatory risk! Inadequate experience in regulators. No real banking experience. Unreal expectations as a result.

- We are in need of help with regulatory relief! Credit Union Controls, Thank You

- If the government keeps piling on regulations, small banks will be forced out of business due to overhead costs. Further reduction of interest rates will make it very hard for 50 million and under banks to show a profit.

- One of the problems that is being seen is that the Fed does not have a lot of folks who have made a loan to a consumer or a business, nor do they know anything about deposit gathering. Because of this, the Fed has become more and more outside the banking mainstream and less in tune with what is going on out here in the real world. For instance, the real world is scary enough w/o the Fed panicking over a recession and dropping interest rates 50 and 75 basis points at a time. These acts of desperation by the Fed and the 28-day auctions are causing an actual retraction in lending because of the fear being generated by the Fed. Throwing a boulder into the pond is not the way and reminds bankers of times before Paul Voelker!!!

- The continued increase in compliance and regulation will hurry the sale of community banks.

- Over regulation and micro management of the bank at every level is our major concern. Political pressure for regulators to 'slam the door on the sub-prime mortgage crises' will have a chilling effect on our ability to offer mortgages. We have no subprime paper yet we expect to be burdened with additional onerous regulations governing mortgage lending to correct a problem we had no part in creating. The existing mortgage lending regulations are almost incomprehensible. Unfortunately, we expect them to get worse. I don't see how more disclosures could have prevented the subprime crises.

- More and more time spent on non-productive, non-income producing, non-customer service related work for regulatory compliance. Very frustrated with Examinations. Lack of experienced examiners plus the microscope of exams. Farm Credit is kicking our butts!

- Someone needs to become aware that the level of our regulation needs to shrink! Credit Unions and Farm Credit have taken a majority of our customers - it's so difficult to compete with government subsidized competition!

- Too many banks, competitive advantage of credit unions, no regulatory control over non-bank mortgage companies.

- The regulatory burden for small institutions is at a very high level. More regulatory relief is needed.

- Very difficult for a young bank to keep up with compliance requirements. Cost of an in-house compliance person is prohibitive. Development of risk assessments (time and human resources) has been a very burdensome task. Our bank also struggled to find a loan officer position at an affordable price. Our willingness to pay base and incentive with someone already trained was not well-received in our market area (larger bases was the concern).

- Delivery systems are changing. The changes are expensive. Younger generations want and will demand more portable access to services. Deliver or decline. It's your choice.

- As the population ages, core deposits are going to move out of the banking system, and more expensive wholesale funding options will be necessary to maintain the balance sheet. Margins will compress and traditional banking services will become more expensive.

- Real community banking is disappearing throughout the U.S. as mergers are required to remain competitive. This trend ruins many small towns, moves lending to hub cities, reduces small business opportunities, etc. We are, for many reasons or factors, eliminating the very core of what made the U.S. grow and prosper for decades. Bigger, bigger, bigger will not sustain America, it will only separate rich vs. everyone else more.

- Regulatory burden for small community banks is becoming overwhelming. Information Technology and Information Security challenges are increasingly difficult for small community banks. Look at the decreasing number of community banks under 100M over the last 10 years. This is a problem for rural communities.

- Being so close to the metro area opens us up for more competition. Credit Unions are very aggressive in Johnson county for consumer loans. Regional KC banks seem to come into our market to try and cherry pick where they can. Also, Farm Credit has continued to be a big competitor for loans that aren't truly farm loans, and they are well under the market in their pricing for other ag loans. On the deposit side, the thrifts and the credit card banks are the biggest buyers of deposits, along with the brokerage houses.

- The Farm Credit Service is doing the exact opposite of what they were created to do. They look at only the best credit and offer them low, long-term, fixed rates. It is impossible to compete with them, and now they want to get into non-farm lending.

- Community banks were not involved in sub-prime lending. We should not be punished for the greedy and mainly larger banks and brokerage houses that were. We have always made sure that the loan was suitable for our customers. We should not have to prove it now. Isolate and identify the guilty parties and punish them.

- Looks like ‘08 and ‘09 will be very difficult for our industry. Regulators have spent way too much time working for Congress on compliance issues and not enough time looking at asset quality. We have heard a lot of the concentration issues for community banks, but the big banks have huge losses with questionable portfolios. Should not allow SEC to push down large banks' allowances for loan loss reserves. Hope you will focus more effort in the future on credit quality!

- Compliance issues i.e. IT and BSA are getting prohibitive to a small community bank and are redundant and unnecessary. It's like CRA in years past; it was finally decided a bank in rural USA is not the same as downtown NY.

- Changing regulatory requirements, audit mandates, and margin compression will continue to strain the viability of the community bank.

- The time and cost of compliance in our small bank is killing us.

- Addtl regulation seems always to be a knee-jerk reaction resulting in useless paperwork. Privacy notices are useless-no one reads them. Real estate lending challenges one's common sense. No borrower even reads or even cares about the piles of paper. The system used to screen customers, surely can be streamlined and perhaps made to be a meaningful tool. And lastly, the subprime lending took our regulators by surprise. Couldn't all the risk analysis they are promoting detect this! We need relief in order to compete with credit unions and the Farm Credit System, who seem to be regulated freely and who essentially pay no tax. What will be the next crisis? Perhaps it will be in regard to a product that promotes over spending and has out of sight fees for past due payments and over limit advances. It affects low-income individuals by the highest percentage and then funnels them to their own non-profit (fee) organization to promote restructuring so they can take the cure. Yes, it's credit cards, average rate for those who do not pay monthly is now 18% and more!

- Over-regulation and increased costs of unfunded mandates and reporting requirements will stress profitability. The prospects for socialized medicine will ultimately drive up the cost of doing business for everyone, with reduced profitability of our commercial customers, reducing the rate that real wealth can be created.

- Deposits are becoming very difficult to obtain. Regulatory compliance is becoming very burdensome and expensive.

- I believe strongly that if credit unions continue to want to offer full financial services, including commercial products to a wide array of customers, they should be taxed and regulated as banks.

- Small banks, as well as large banks, are policed to death. Examiners believe banks run solely because of policies. Common sense is non-existent. We spend more and more of management's time on compliance and less on business development. Conflicting govt regulations are more burdensome. CRA regulations want more and more loans to needy, high-risk applicants while safety and soundness regulations penalize for poor asset quality. The fun has gone out of banking.

- Regulatory issues, particularly BSA, are getting out of control.

- I am concerned about the future of the small bank due to government regulation and competitive pressure from the large banks and also non-taxpaying government entities.

- We have a great deal of concern about the regulatory burden and the examination process.

- Quality-trained personnel are really hard to find. Professional people are becoming fewer and fewer. Young people are definitely smarter but lack the personal skills and loyalty to their job or community! We are really going to miss this in future. We have had significant growth and service and community participation has been a large factor.

- Focus more on asset quality and less on compliance matters.

- Continuing narrowing of interest margins will require banks to generate more fee income sources.

- Your regulations are killing us. You are forcing small banks out of business. New banks will be unable to open because of the regulatory burden. You lower rates to stimulate the economy and encourage loans and then you hammer bankers for making loans. Which way do you want it?

- Compliance issues are taking up increasing amounts of time.

- If substantial regulatory relief is not forthcoming soon for small community banks, there will be few, if any, left. Regulation is duplicative and excessive and seldom achieves its desired purpose. It is a one-size-fits-all mentality in response to some actual or perceived wrong perpetrated almost entirely by a large bank/broker (e.g.: US Bank-privacy regulation after they sold their customer list). I have no doubt I will be forced to comply with addtl regulatory burden in response to the subprime mess for which we had no part. You can't regulate common sense! Having customers sign new disclosures, in addition to the prior stack of disclosures they signed but did not read, is only a political solution, not a practical one! If I sound frustrated, I am. We should not be forced to compete w/tax-advantaged (Farm Credit) and not-taxed (Credit Unions) institutions, and then be forced to comply with addtl regulatory burden. Small rural communities are struggling, and the independent small community banks are being forced to divert too much time on issues unrelated to solving our communities' issues and problems.

- I believe that 20 years from now my grandchildren will think a community bank as one of the twenty branches located a few blocks away or the full service ATMs located everywhere. In such an environment, a banker couldn't possibly know every customer, who their father and grandfather was. It seems to me this country is only interested in mega corporations and their expansion. Like most things, when community banks are gone-they are gone, and it is too late to effectively/economically do something about it.

- Key issues for our bank is growing core deposits, attracting and retaining A-players, continuing to grow and find other significant income sources, affording triple-A healthcare coverage for all employees. Regulatory relief would help.

- Farm Credit and Credit Unions combined will and are hurting our business. The tax advantage is huge and continues to make competing very difficult.

- There seems to be a perception that regulators, whether intentional or not, are tending to apply pressures on community banks, from loan underwriting standards to internal operations and compliance issues, which may be forcing smaller community banks to consider sale to or otherwise merge with larger institutions. The stress associated with these pressures has caused many competent bank owners and/or managers to seek other fields of endeavor. This is a disturbing trend currently underway in the community banking sector. Also, it has become very difficult to interest qualified individuals to become a bank director due to these same pressures and subsequent personal liabilities. Becoming an outside bank director holds very little reward in relation to the risks involved.

- Too many employees are needed to meet the regulations being imposed. These employees have an adverse effect on the bank's profitability. Farm Credit, with their lower cost of funds, no income tax, and their ability to attract the more attractive customer, makes the playing field out of balance. All lenders need to play by the same rules!

- Reduction of regulatory burden has not helped small community banks. Our burdens have only increased! No regulatory oversight regarding mortgage lending companies ticks me off. Sub-prime meltdown was due also to greed and fraud. I am not happy with Farm Credit (Land Bank) Associations. They only want the best loans, have far exceeded their original intended purpose, and use unfair loan pricing due to certain advantages they have over community banks. Credit Unions, as well, to a lesser degree.

- Now bank competition, such as Farm Credit and Credit Unions, are our biggest competition. Their tax-free status allows buildup of capital and makes funding costs for them even lower. They also do not have to spend as much on compliance and regulatory issues. Those institutions continue to pay significantly higher salaries for officer positions that have fewer responsibilities.

- All of the regulations are a significant threat to the viability of community banks! Need a common sense approach rather than knee jerk reactions to problems real or imagined.

- Regulatory requirements and consumer disclosure continue to be large burdens and have no direct bearing nor benefit to population in general. As always, government continues to be biggest threat to business!

- Credit unions that pay no taxes and have a different capital structure than banks. They have a competitive edge on pricing or products. Put us on a level playing field with them. Farm credit has taken all farm loans from us; the customer is so tied up with farm credit they don't feel they can get away from them. Insurance companies are offering loans to insurance customers, potentially tying the insurance coverage to loans, (should be a conflict of interest). WalMart is doing everything it can to be a bank without a charter. As we small banks face all of this we are regulated like big banks. Small community banks are not a $1 billion bank. There should be a break under 100 million then 100-500 and 500 to one billion. At 20 million we are regulated as if we were 20 billion. The size difference needs to be addressed.