Survey of Community Depository Institutions

In the Tenth Federal Reserve District

Division of Supervision and Risk Management

Federal Reserve Bank of Kansas City

1 Memorial Drive

Kansas City, Missouri 64198-0001

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ABOUT THE SURVEY

The 2011 Survey of Community Depository Institutions in the Tenth Federal Reserve District was conducted from June 1, 2011 to June 22, 2011. Surveys were emailed to community depository institutions (including banks, credit unions, and thrifts) with assets less than $1 billion located in the Tenth Federal Reserve District.

Of the 1,380 potential respondents, 322 institutions completed the survey, resulting in a response rate of 23.3 percent. The characteristics of survey respondents are closely aligned with the characteristics of institutions located in the Tenth District, although the survey does not represent a random sample.

The survey is organized into four sections:

General Information Regarding the Survey Respondents

Location of home office:

State	**# of Respondents**	**%**
Colorado	30	9.3%
Kansas	100	31.1%
Oklahoma	64	19.9%
Nebraska	62	19.3%
New Mexico	12	3.7%
Missouri	30	9.3%
Wyoming	24	7.5%
Total	*322*	

Entity Type:

Type	**# of Respondents**	**%**
Banks	225	69.9%
Credit Unions	81	25.2%
Savings & Loans	16	5.0%

Asset Size:

Type	**# of Respondents**	**%**
Less than $100 Million	193	59.9%
$100 to $500 Million	116	36.0%
$500 Million to $1 Billion	13	4.0%

Responses that follow represent the responses of community banks only

I. Business Prospects and Challenges

1. Rate the magnitude of the strategic challenges you anticipate in the following areas **over the next three years.**

A. Performance — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Maintaining or increasing capital	72	*32.0%*	89	*39.6%*	61	*27.1%*	3	*1.3%*	225
Maintaining or improving credit quality	57	*25.3%*	129	*57.3%*	39	*17.3%*	0	*0.0%*	225
Maintaining or attracting retail deposits	37	*16.4%*	102	*45.3%*	82	*36.4%*	4	*1.8%*	225
Strengthening net interest margin	125	*55.6%*	87	*38.7%*	13	*5.8%*	0	*0.0%*	225
Maintaining or increasing noninterest income	137	*60.9%*	77	*34.2%*	11	*4.9%*	0	*0.0%*	225
Increasing earnings	142	*63.1%*	78	*34.7%*	5	*2.2%*	0	*0.0%*	225
Achieving satisfactory mortgage loan volume	56	*24.9%*	93	*41.3%*	46	*20.4%*	30	*13.3%*	225
Achieving satisfactory business loan volume	95	*42.2%*	100	*44.4%*	27	*12.0%*	3	*1.3%*	225
Achieving satisfactory consumer loan volume	60	*26.8%*	109	*48.7%*	49	*21.9%*	6	*2.7%*	224

B. Organization/Operational — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Meeting regulatory compliance requirements	189	*84.0%*	29	*12.9%*	7	*3.1%*	0	*0.0%*	225
Maintaining a secure electronic environment	110	*48.9%*	102	*45.3%*	12	*5.3%*	1	*0.4%*	225
Maintaining access to affordable payments services	51	*22.7%*	119	*52.9%*	48	*21.3%*	7	*3.1%*	225
Expanding your investment in technology	59	*26.2%*	136	*60.4%*	30	*13.3%*	0	*0.0%*	225
Attracting and retaining skilled staff and management	83	*36.9%*	99	*44.0%*	43	*19.1%*	0	*0.0%*	225

C. Economic — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Population loss	44	*19.7%*	72	*32.3%*	104	*46.6%*	3	*1.3%*	223
Slow growth in your community	70	*31.1%*	107	*47.6%*	46	*20.4%*	2	*0.9%*	225
Weak housing markets	64	*28.7%*	101	*45.3%*	53	*23.8%*	5	*2.2%*	223
Aging customer base	87	*38.8%*	103	*46.0%*	32	*14.3%*	2	*0.9%*	224
Lack of diversification opportunities	70	*31.4%*	104	*46.6%*	48	*21.5%*	1	*0.4%*	223
Decline in the community’s primary industry	27	*12.0%*	80	*35.6%*	106	*47.1%*	12	*5.3%*	225
Other	13	*56.5%*	0	*0.0%*	0	*0.0%*	10	*43.5%*	23

2. Strategic direction: **Over the next three years** your institution will: (Check all that apply.)

	Probable	%	Possible	%	Unlikely	%	Total
Continue under the same ownership and organization structure	188	*83.9%*	26	*11.6%*	10	*4.5%*	224
Merge or sell to another organization or ownership group	12	*5.4%*	61	*27.2%*	151	*67.4%*	224
Acquire other institutions	15	*6.7%*	80	*35.7%*	129	*57.6%*	224
Establish additional branches	18	*8.0%*	67	*29.9%*	139	*62.1%*	224
Reduce number of branches	9	*4.1%*	31	*14.0%*	182	*82.0%*	222
Emphasize internal growth	121	*54.5%*	81	*36.5%*	20	*9.0%*	222

3. If you expect to expand operations **over the next three years**, what are the primary drivers and objectives? (Check all that apply.)

Increase deposits	86
Increase loans	162
Counter competition from others	54
Diversify assets and risk profile	72
Take advantage of growth opportunities in more vibrant markets	59
Grow assets to make better use of capital base	75
Other	9
Not applicable	30

4. Indicate critical factors you expect to impact competition for your institution. (Check all that apply.)

New branches established in market by existing competitors	32
Branch expansion into market by regional, national or global financial institutions	40
More aggressive pricing by existing competitors	176
New focus on small and midsize business customers by regional, national or global financial institutions	89
Other	30

5. Indicate your expectations for changes in competition for **loans** from these sources **over the next three years**.

Competitor	Level of Competition						
	Increase	%	Decrease	%	Stay the Same	%	Total
Community banks	107	*51.4%*	11	*5.3%*	90	*43.3%*	208
Larger regional financial institutions	132	*64.7%*	4	*2.0%*	68	*33.3%*	204
Larger nationwide financial institutions	98	*47.3%*	10	*4.8%*	99	*47.8%*	207
Thrifts	37	*18.0%*	26	*12.7%*	142	*69.3%*	205
Credit unions	100	*48.5%*	10	*4.9%*	96	*46.6%*	206
Insurance companies	60	*29.6%*	12	*5.9%*	131	*64.5%*	203
Securities firms	31	*15.3%*	19	*9.4%*	152	*75.2%*	202
Farm credit associations	147	*70.7%*	5	*2.4%*	56	*26.9%*	208
Finance companies specializing in machinery or cars (e.g., John Deere Credit, Ally, Ford)	146	*69.9%*	2	*1.0%*	61	*29.2%*	209
Mortgage companies	54	*26.7%*	39	*19.3%*	109	*54.0%*	202
Other	1	*16.7%*	0	*0.0%*	5	*83.3%*	6

6. Indicate your expectations for changes in competition for **deposits** from these sources **over the next three years**.

Competitor	Level of Competition						
	Increase	%	Decrease	%	Stay the Same	%	Total
Community banks	112	*54.6%*	8	*3.9%*	85	*41.5%*	205
Larger regional financial institutions	122	*59.2%*	5	*2.4%*	79	*38.3%*	206
Larger nationwide financial institutions	110	*53.7%*	11	*5.4%*	84	*41.0%*	205
Thrifts	49	*24.6%*	16	*8.0%*	134	*67.3%*	199
Credit unions	110	*54.2%*	1	*0.5%*	92	*45.3%*	203
Financial institutions with local presence limited mainly to on-line access	89	*44.9%*	7	*3.5%*	102	*51.5%*	198
Insurance companies	66	*33.7%*	8	*4.1%*	122	*62.2%*	196

7. Payment of interest on business demand deposits: Effective in July 2011, the Dodd-Frank Act repeals the longstanding prohibition on the payment of interest on commercial demand deposit accounts. How significant will this change be for your institution in the following areas?

	Significant	%	Moderate	%	Not Significant	%	Total
Expected shift in business noninterest bearing demand deposits to demand balances paying interest	54	*26.5%*	98	*48.0%*	52	*25.5%*	204
Expected changes in usage of cash management accounts by businesses	41	*20.2%*	95	*46.8%*	67	*33.0%*	203
Effect on overall interest expense	52	*25.5%*	107	*52.5%*	45	*22.1%*	204

8. **Over the next three years**, what changes do you expect for the following **funding** categories for your institution?

	Increase	%	Decrease	%	No Change	%	Total
Cost of deposit funding	180	*88.2%*	6	*2.9%*	18	*8.8%*	204
Business demand deposit balances	108	*52.9%*	32	*15.7%*	64	*31.4%*	204
Business CD balances	41	*20.2%*	37	*18.2%*	125	*61.6%*	203
Retail customers average demand deposit balances	60	*29.6%*	38	*18.7%*	105	*51.7%*	203
Retail customers average CD balances	61	*30.2%*	49	*24.3%*	92	*45.5%*	202
Customer use of sweep accounts and repurchase agreements	49	*24.1%*	33	*16.3%*	121	*59.6%*	203
Brokered deposit levels	21	*10.4%*	23	*11.4%*	158	*78.2%*	202
Internet deposits (deposits obtained from online posting services)	46	*23.1%*	6	*3.0%*	147	*73.9%*	199
Federal Home Loan Bank advances	53	*26.1%*	27	*13.3%*	123	*60.6%*	203

9. Which of the following products do you currently offer**?** (Check all that apply and indicate your future plans.)

	Currently Offer	%	Do Not Currently Offer But Plan to Over Next 3 Years	%	Currently Offer But Plan to Exit Over the Next 3 Years	%	Total
Home equity lines of credit	95	*68.8%*	29	*21.0%*	14	*10.1%*	138
2nd mortgage other than HELOCs	109	*77.9%*	15	*10.7%*	16	*11.4%*	140
Adjustable rate mortgages	102	*76.7%*	23	*17.3%*	8	*6.0%*	133
Nontraditional mortgages	59	*62.8%*	23	*24.5%*	12	*12.8%*	94
Reverse mortgages	11	*19.6%*	30	*53.6%*	15	*26.8%*	56
Online loan applications	52	*40.0%*	73	*56.2%*	5	*3.9%*	130
Electronic bill presentment	87	*61.3%*	54	*38.0%*	1	*0.7%*	142
Electronic bill payment	148	*85.6%*	25	*14.5%*	0	*0.0%*	173
Person-to-person payments	75	*60.0%*	47	*37.6%*	3	*2.4%*	125
Email/wireless banking alerts	71	*52.6%*	63	*46.7%*	1	*0.7%*	135
Mobile banking	39	*30.2%*	87	*67.4%*	3	*2.3%*	129
Check deposit by phone	25	*28.1%*	60	*67.4%*	4	*4.5%*	89
Identity theft protection	77	*59.2%*	53	*40.8%*	0	*0.0%*	130
Stored value/prepaid cards	62	*52.1%*	52	*43.7%*	5	*4.2%*	119
Credit cards	81	*78.6%*	17	*16.5%*	5	*4.9%*	103
Cash management services	77	*71.3%*	30	*27.8%*	1	*0.9%*	108
Corporate/business credit cards	79	*76.7%*	19	*18.5%*	5	*4.9%*	103
Asset management	26	*40.0%*	35	*53.9%*	4	*6.2%*	65
Remote deposit capture	84	*62.7%*	48	*35.8%*	2	*1.5%*	134
Payroll cards	15	*23.1%*	47	*72.3%*	3	*4.6%*	65
No fee ATMs	84	*73.7%*	19	*16.7%*	11	*9.7%*	114
Money remittance services	19	*35.9%*	26	*49.1%*	8	*15.1%*	53
PIN debit cards	172	*96.1%*	6	*3.4%*	1	*0.6%*	179
Signature debit cards	130	*91.6%*	10	*7.0%*	2	*1.4%*	142
Contactless payment cards	4	*7.6%*	45	*84.9%*	4	*7.6%*	53
Health savings accounts	94	*75.2%*	28	*22.4%*	3	*2.4%*	125
Insurance (life, accident and health)	60	*74.1%*	18	*22.2%*	3	*3.7%*	81
Mobile payments	22	*25.6%*	62	*72.1%*	2	*2.3%*	86
Personal financial management tools	27	*38.0%*	42	*59.2%*	2	*2.8%*	71
Reward/discount offers	31	*43.1%*	39	*54.2%*	2	*2.8%*	72

II. Loans and Investments

10. Indicate the extent to which you intend to change your emphasis on the following **loan types over the next three years**.

	Significant Increase	%	Moderate Increase	%	No Change	%	Moderate Decrease	%	Significant Decrease	%	Total
Commercial and industrial loans	17	8.5%	97	48.5%	76	38.0%	9	4.5%	1	0.5%	200
Commercial real estate loans (income-producing nonfarm nonowner occupied)	7	3.5%	68	34.2%	102	51.3%	18	9.0%	4	2.0%	199
Commercial real estate loans (construction & land development)	2	1.0%	27	13.6%	128	64.6%	24	12.1%	17	8.6%	198
Real estate loans 1-to 4-family (retained)	8	4.1%	70	36.1%	85	43.8%	11	5.7%	20	10.3%	194
Real estate loans 1-to 4-family (sold)	17	9.7%	53	30.1%	82	46.6%	9	5.1%	15	8.5%	176
Consumer installment loans	13	6.6%	84	42.6%	95	48.2%	3	1.5%	2	1.0%	197
Home equity loans or lines of credit	4	2.3%	33	19.0%	109	62.6%	13	7.5%	15	8.6%	174
Consumer credit card loans	1	0.7%	6	4.2%	121	84.0%	1	0.7%	15	10.4%	144
Farm operating loans	18	9.8%	90	48.9%	72	39.1%	3	1.6%	1	0.5%	184
Farm land loans	14	7.5%	89	47.6%	74	39.6%	6	3.2%	4	2.1%	187
Other	0	0.0%	2	66.7%	1	33.3%	0	0.0%	0	0.0%	3

11. Indicate the extent to which your institution's strategy includes changing the relative mix of **investments over the next three years**.

	Significant Increase	%	Moderate Increase	%	No Change	%	Moderate Decrease	%	Significant Decrease	%	Total
Level of investments (relative to assets)	16	8.1%	69	35.0%	75	38.1%	35	17.8%	2	1.0%	197
Treasury Securities (relative to total securities)	3	1.6%	22	11.7%	150	79.8%	10	5.3%	3	1.6%	188
Agency Securities (relative to total securities)	7	3.7%	72	37.9%	90	47.4%	20	10.5%	1	0.5%	190
Mortgage Backed Securities (relative to total securities)	6	3.2%	54	28.4%	104	54.7%	21	11.1%	5	2.6%	190
Municipal Securities (relative to total securities)	13	6.7%	78	40.0%	84	43.1%	17	8.7%	3	1.5%	195
Derivatives (such as futures, forwards or swaps)	2	1.3%	2	1.3%	135	88.8%	3	2.0%	10	6.6%	152

12. Over the next three years, what changes in competition for **business loans** do you expect from the following competitors?

Business Lending Competitor	**Level of Competition**								
	Increased	%	Decreased	%	Unchanged	%	Not a Competitor	%	Total
Community banks	129	*65.2%*	3	*1.5%*	66	*33.3%*	0	*0.0%*	198
Thrifts	36	*19.1%*	10	*5.3%*	83	*44.1%*	59	*31.4%*	188
Credit unions	96	*49.2%*	1	*0.5%*	67	*34.4%*	31	*15.9%*	195
National credit card brands	50	*26.5%*	4	*2.1%*	91	*48.1%*	44	*23.3%*	189
Farm credit associations	132	*68.0%*	4	*2.1%*	45	*23.2%*	13	*6.7%*	194
Larger regional financial institutions	128	*65.6%*	0	*0.0%*	60	*30.8%*	7	*3.6%*	195
Larger nationwide financial institutions	91	*47.6%*	4	*2.1%*	86	*45.0%*	10	*5.2%*	191
Finance companies	62	*32.5%*	5	*2.6%*	93	*48.7%*	31	*16.2%*	191
Other	2	*25.0%*	0	*0.0%*	5	*62.5%*	1	*12.5%*	8

13. If your institution's strategy is to **increase** business lending **over the next three years**, rate the significance of the following drivers:

	Highly Significant	%	Moderately Significant	%	Not Applicable	%	Total
Expect higher business loan demand in market area	18	*10.3%*	108	*61.7%*	49	*28.0%*	175
Change in strategic focus of your institution to develop commercial lending program	19	*11.0%*	62	*36.0%*	91	*52.9%*	172
Replace decrease in commercial real estate development lending	15	*8.9%*	51	*30.2%*	103	*60.9%*	169
Replace decrease in lending on income producing commercial real estate	10	*6.0%*	58	*34.9%*	98	*59.0%*	166
Expect low demand for other loan categories	19	*11.4%*	73	*43.7%*	75	*44.9%*	167
Available deposit funding	25	*14.7%*	80	*47.1%*	65	*38.2%*	170
Availability of capital funds under the federal Small Business Lending Program	11	*6.7%*	43	*26.1%*	111	*67.3%*	165

14. If your institution **does not anticipate increasing** business lending, rate the significance of the following factors:

	Highly Significant	%	Moderately Significant	%	Not Applicable	%	Total
Weak business loan demand in market area	44	*40.7%*	41	*38.0%*	23	*21.3%*	108
Limited commercial loan expertise or resources	14	*13.6%*	47	*45.6%*	42	*40.8%*	103
Deposit funding not available	2	*1.9%*	19	*18.3%*	83	*79.8%*	104
Capital not available	13	*12.4%*	11	*10.5%*	81	*77.1%*	105
Not a strategic focus for our institution	15	*15.0%*	33	*33.0%*	52	*52.0%*	100
Not a need for our customer base	13	*13.1%*	34	*34.3%*	52	*52.5%*	99
Focus on other types of loans	21	*23.1%*	25	*27.5%*	45	*49.5%*	91

III. Noninterest Income

15. For your institution, indicate expected changes in levels of **noninterest revenue** for the following items **over the next three years**.

	Significant Decrease	%	Modest Decrease	%	No Significant Change	%	Modest Increase	%	Significant Increase	%	Total
Debit card fee income	40	*21.3%*	51	*27.1%*	63	*33.5%*	32	*17.0%*	2	*1.1%*	188
Debit card interchange income	88	*47.1%*	41	*21.9%*	41	*21.9%*	16	*8.6%*	1	*0.5%*	187
Credit card fee income	14	*8.6%*	25	*15.3%*	112	*68.7%*	12	*7.4%*	0	*0.0%*	163
Credit card interchange income	22	*13.5%*	29	*17.8%*	103	*63.2%*	9	*5.5%*	0	*0.0%*	163
Overall noninterest income	41	*21.6%*	62	*32.6%*	39	*20.5%*	43	*22.6%*	5	*2.6%*	190

16. Indicate expected changes to **fee structures** or **account terms** you expect to implement **over the next three years**.

	Significant Decrease	%	Modest Decrease	%	No Significant Change	%	Modest Increase	%	Significant Increase	%	Total
ATM surcharges	7	*3.8%*	5	*2.7%*	97	*52.7%*	71	*38.6%*	4	*2.2%*	184
Limits on maximum per transaction amounts for debit cards	5	*2.7%*	18	*9.9%*	117	*64.3%*	34	*18.7%*	8	*4.4%*	182
Checking account maintenance, overdraft, and per item fees	5	*2.6%*	9	*4.8%*	55	*29.1%*	101	*53.4%*	19	*10.1%*	189
Proportion of accounts qualified for free checking	36	*19.3%*	53	*28.3%*	82	*43.9%*	14	*7.5%*	2	*1.1%*	187

17. Does your institution currently offer overdraft protection to customers as part of a fee based program?

Yes	%	No	%	Total
67	*34.9%*	125	*65.1%*	192

18. If your institution does not currently offer an overdraft protection program to customers indicate the reasons:
(Check all that apply.)

Charge-off expenses too high	9
Avoid compliance costs	92
Other	39

19. Overdraft plans: Federal Reserve Regulation E was recently amended to prohibit financial institutions from charging fees for paying overdrafts on ATM and one-time debit card transactions unless the customer opts-in to the overdraft service for those types of transactions. Indicate your opt-in experience below, and rate the effect of these changes on your institution.

	0 -25%	%	25% - 75%	%	75% or more	%	Total
Percent of customers that have"opted" for overdraft protection for ATM and one-time debit protection	94	*58.4%*	41	*25.5%*	26	*16.2%*	161

Rate the effect of this change in the following areas:

	Significant Decrease	%	Modest Decrease	%	No Significant Change	%	Total
Overdraft per item fee	25	*15.2%*	38	*23.2%*	101	*61.6%*	164
Debit card overdraft fee income	37	*22.4%*	50	*30.3%*	78	*47.3%*	165
Overall noninterest income	38	*22.8%*	61	*36.5%*	68	*40.7%*	167

IV. Laws, Regulations, and Guidance

20. Rank staff time devoted to the following compliance related areas (1= most time spent, 5= least time spent) and indicate whether you expect the time committed to increase **over the next three years**.

	5 - least time spent	%	4	%	3	%	2	%	1 - most time spent	%	Total
Community Reinvestment Act (CRA)	67	*39.0%*	86	*50.0%*	17	*9.9%*	2	*1.2%*	0	*0.0%*	172
Deposit account compliance, including overdraft rules	0	*0.0%*	30	*17.3%*	86	*49.7%*	45	*26.0%*	12	*6.9%*	173
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	8	*4.6%*	41	*23.7%*	77	*44.5%*	47	*27.2%*	173
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	7	*4.1%*	6	*3.5%*	18	*10.6%*	35	*20.6%*	104	*61.2%*	170
Other	18	*29.5%*	16	*26.2%*	9	*14.8%*	9	*14.8%*	9	*14.8%*	61

	Decrease	%	No Significant Change	%	Increase	%	Total
Community Reinvestment Act (CRA)	6	*3.4%*	138	*77.1%*	35	*19.6%*	179
Deposit account compliance, including overdraft rules	0	*0.0%*	40	*22.5%*	138	*77.5%*	178
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	66	*36.9%*	113	*63.1%*	179
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	2	*1.2%*	24	*13.8%*	148	*85.1%*	174
Other (describe)	1	*1.5%*	18	*27.3%*	47	*71.2%*	66

21. Indicate how you expect senior management and board of director's attention to compliance oversight, policies and resource planning will change **over the next three years.**

	Significant Increase	%	Increase	%	No Change	%	Decline	%	Total
Expected change in board and senior management attention devoted to compliance oversight	91	*48.9%*	82	*44.1%*	13	*7.0%*	0	*0.0%*	186

22. Estimate the budget impact of each of the following compliance management strategies for your institution **over the next three years.**

	Budget Impact								
	Significant Increase	%	Increase	%	No Change	%	Not Applicable	%	Total
Hire staff with compliance subject matter expertise	40	*21.5%*	89	*47.8%*	50	*26.9%*	7	*3.8%*	186
Technology software upgrades	55	*29.7%*	119	*64.3%*	11	*5.9%*	0	*0.0%*	185
Outsourcing of internal audit or external consultant fees	54	*29.0%*	96	*51.6%*	35	*18.8%*	1	*0.5%*	186
Training expenses	60	*32.3%*	113	*60.8%*	13	*7.0%*	0	*0.0%*	186

23. Indicate how many full time equivalent (FTE) employees are devoted to regulatory compliance in your bank.

	Less than 1 FTE	%	1-3 FTE	%	4-5 FTE	%	5-10 FTE	%	More than 10 FTE	%	Total
Current FTE devoted to compliance	31	*16.8%*	139	*75.1%*	9	*4.9%*	5	*2.7%*	1	*0.5%*	185
Expected FTE devoted to compliance **over next three years**	9	*4.9%*	122	*65.9%*	43	*23.2%*	7	*3.8%*	4	*2.2%*	185