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 institutions located in Kansas 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	31	*31.0%*	40	*40.0%*	29	*29.0%*	0	*0.0%*	100
Maintaining or improving credit quality	24	*24.0%*	59	*59.0%*	17	*17.0%*	0	*0.0%*	100
Maintaining or attracting retail deposits	12	*12.0%*	44	*44.0%*	34	*34.0%*	10	*10.0%*	100
Strengthening net interest margin	53	*53.0%*	45	*45.0%*	2	*2.0%*	0	*0.0%*	100
Maintaining or increasing noninterest income	62	*62.0%*	31	*31.0%*	6	*6.0%*	1	*1.0%*	100
Increasing earnings	66	*66.0%*	33	*33.0%*	1	*1.0%*	0	*0.0%*	100
Achieving satisfactory mortgage loan volume	30	*30.0%*	39	*39.0%*	18	*18.0%*	13	*13.0%*	100
Achieving satisfactory business loan volume	33	*33.0%*	37	*37.0%*	16	*16.0%*	14	*14.0%*	100
Achieving satisfactory consumer loan volume	31	*31.0%*	47	*47.0%*	18	*18.0%*	4	*4.0%*	100

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

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Meeting regulatory compliance requirements	83	*83.0%*	16	*16.0%*	1	*1.0%*	0	*0.0%*	100
Maintaining a secure electronic environment	42	*42.0%*	51	*51.0%*	5	*5.0%*	2	*2.0%*	100
Maintaining access to affordable payments services	25	*25.0%*	50	*50.0%*	21	*21.0%*	4	*4.0%*	100
Expanding your investment in technology	28	*28.0%*	54	*54.0%*	17	*17.0%*	1	*1.0%*	100
Attracting and retaining skilled staff and management	33	*33.0%*	46	*46.0%*	21	*21.0%*	0	*0.0%*	100

C. Economic — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Population loss	20	*20.0%*	34	*34.0%*	45	*45.0%*	1	*1.0%*	100
Slow growth in your community	28	*28.0%*	49	*49.0%*	22	*22.0%*	1	*1.0%*	100
Weak housing markets	26	*26.3%*	41	*41.4%*	27	*27.3%*	5	*5.1%*	99
Aging customer base	45	*45.0%*	40	*40.0%*	14	*14.0%*	1	*1.0%*	100
Lack of diversification opportunities	26	*26.3%*	49	*49.5%*	24	*24.2%*	0	*0.0%*	99
Decline in the community's primary industry	13	*13.0%*	38	*38.0%*	43	*43.0%*	6	*6.0%*	100
Other	4	*50.0%*	0	*0.0%*	0	*0.0%*	4	*50.0%*	8

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	86	*86.9%*	10	*10.1%*	3	*3.0%*	99
Merge or sell to another organization or ownership group	2	*2.0%*	24	*24.2%*	73	*73.7%*	99
Acquire other institutions	8	*8.1%*	37	*37.4%*	54	*54.5%*	99
Establish additional branches	4	*4.0%*	27	*27.3%*	68	*68.7%*	99
Reduce number of branches	2	*2.0%*	8	*8.2%*	88	*89.8%*	98
Emphasize internal growth	52	*52.5%*	34	*34.3%*	13	*13.1%*	99

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	31
Increase loans	66
Counter competition from others	21
Diversify assets and risk profile	26
Take advantage of growth opportunities in more vibrant markets	17
Grow assets to make better use of capital base	32
Other	3
Not applicable	16

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

New branches established in market by existing competitors	18
Branch expansion into market by regional, national or global financial institutions	12
More aggressive pricing by existing competitors	74
New focus on small and midsize business customers by regional, national or global financial institutions	32
Other	7

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	42	*47.2%*	2	*2.2%*	45	*50.6%*	89
Larger regional financial institutions	48	*54.5%*	4	*4.5%*	36	*40.9%*	88
Larger nationwide financial institutions	31	*35.2%*	6	*6.8%*	51	*58.0%*	88
Thrifts	14	*16.1%*	7	*8.0%*	66	*75.9%*	87
Credit unions	36	*41.4%*	3	*3.4%*	48	*55.2%*	87
Insurance companies	24	*27.9%*	4	*4.7%*	58	*67.4%*	86
Securities firms	8	*9.4%*	8	*9.4%*	69	*81.2%*	85
Farm credit associations	60	*66.7%*	2	*2.2%*	28	*31.1%*	90
Finance companies specializing in machinery or cars (e.g., John Deere Credit, Ally, Ford)	67	*75.3%*	0	*0.0%*	22	*24.7%*	89
Mortgage companies	18	*21.7%*	15	*18.1%*	50	*60.2%*	83
Other	0	*0.0%*	0	*0.0%*	3	*100.0%*	3

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	42	*49.4%*	1	*1.2%*	42	*49.4%*	85
Larger regional financial institutions	38	*43.7%*	4	*4.6%*	45	*51.7%*	87
Larger nationwide financial institutions	28	*32.9%*	6	*7.1%*	51	*60.0%*	85
Thrifts	22	*26.5%*	2	*2.4%*	59	*71.1%*	83
Credit unions	39	*46.4%*	0	*0.0%*	45	*53.6%*	84
Financial institutions with local presence limited mainly to on-line access	29	*35.4%*	6	*7.3%*	47	*57.3%*	82
Insurance companies	25	*30.9%*	6	*7.4%*	50	*61.7%*	81

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	25	*29.4%*	30	*35.3%*	30	*35.3%*	85
Expected changes in usage of cash management accounts by businesses	12	*14.1%*	31	*36.5%*	42	*49.4%*	85
Effect on overall interest expense	21	*24.4%*	40	*46.5%*	25	*29.1%*	86

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	77	*89.5%*	0	*0.0%*	9	*10.5%*	86
Business demand deposit balances	36	*42.4%*	14	*16.5%*	35	*41.2%*	85
Business CD balances	15	*17.6%*	11	*12.9%*	59	*69.4%*	85
Retail customers average demand deposit balances	22	*26.2%*	12	*14.3%*	50	*59.5%*	84
Retail customers average CD balances	32	*38.1%*	12	*14.3%*	40	*47.6%*	84
Customer use of sweep accounts and repurchase agreements	14	*16.5%*	7	*8.2%*	64	*75.3%*	85
Brokered deposit levels	7	*8.4%*	5	*6.0%*	71	*85.5%*	83
Internet deposits (deposits obtained from online posting services)	13	*16.0%*	1	*1.2%*	67	*82.7%*	81
Federal Home Loan Bank advances	20	*24.4%*	11	*13.4%*	51	*62.2%*	82

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	36	*69.2%*	12	*23.1%*	4	*7.7%*	52
2nd mortgage other than HELOCs	40	*75.5%*	7	*13.2%*	6	*11.3%*	53
Adjustable rate mortgages	43	*79.6%*	10	*18.5%*	1	*1.9%*	54
Nontraditional mortgages	15	*44.1%*	16	*47.1%*	3	*8.8%*	34
Reverse mortgages	3	*14.3%*	12	*57.1%*	6	*28.6%*	21
Online loan applications	21	*45.7%*	24	*52.2%*	1	*2.2%*	46
Electronic bill presentment	34	*68.0%*	16	*32.0%*	0	*0.0%*	50
Electronic bill payment	57	*87.7%*	8	*12.3%*	0	*0.0%*	65
Person-to-person payments	34	*73.9%*	12	*26.1%*	0	*0.0%*	46
Email/wireless banking alerts	26	*53.1%*	23	*46.9%*	0	*0.0%*	49
Mobile banking	17	*37.8%*	28	*62.2%*	0	*0.0%*	45
Check deposit by phone	8	*28.6%*	20	*71.4%*	0	*0.0%*	28
Identity theft protection	26	*63.4%*	15	*36.6%*	0	*0.0%*	41
Stored value/prepaid cards	27	*64.3%*	14	*33.3%*	1	*2.4%*	42
Credit cards	34	*81.0%*	6	*14.3%*	2	*4.8%*	42
Cash management services	22	*61.1%*	13	*36.1%*	1	*2.8%*	36
Corporate/business credit cards	24	*68.6%*	8	*22.9%*	3	*8.6%*	35
Asset management	9	*37.5%*	14	*58.3%*	1	*4.2%*	24
Remote deposit capture	23	*53.5%*	20	*46.5%*	0	*0.0%*	43
Payroll cards	8	*32.0%*	15	*60.0%*	2	*8.0%*	25
No fee ATMs	34	*72.3%*	8	*17.0%*	5	*10.6%*	47
Money remittance services	12	*50.0%*	10	*41.7%*	2	*8.3%*	24
PIN debit cards	70	*95.9%*	3	*4.1%*	0	*0.0%*	73
Signature debit cards	49	*92.5%*	4	*7.5%*	0	*0.0%*	53
Contactless payment cards	2	*11.1%*	15	*83.3%*	1	*5.6%*	18
Health savings accounts	22	*56.4%*	16	*41.0%*	1	*2.6%*	39
Insurance (life, accident and health)	18	*62.1%*	9	*31.0%*	2	*6.9%*	29
Mobile payments	8	*27.6%*	21	*72.4%*	0	*0.0%*	29
Personal financial management tools	8	*34.8%*	15	*65.2%*	0	*0.0%*	23
Reward/discount offers	9	*37.5%*	14	*58.3%*	1	*4.2%*	24

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	6	*7.7%*	36	*46.2%*	34	*43.6%*	2	*2.6%*	0	*0.0%*	78
Commercial real estate loans (income-producing nonfarm nonowner occupied)	2	*2.6%*	27	*35.5%*	42	*55.3%*	4	*5.3%*	1	*1.3%*	76
Commercial real estate loans (construction & land development)	1	*1.3%*	6	*7.8%*	55	*71.4%*	10	*13.0%*	5	*6.5%*	77
Real estate loans 1-to 4-family (retained)	5	*6.3%*	28	*35.4%*	36	*45.6%*	6	*7.6%*	4	*5.1%*	79
Real estate loans 1-to 4-family (sold)	3	*4.4%*	24	*35.3%*	36	*52.9%*	2	*2.9%*	3	*4.4%*	68
Consumer installment loans	10	*12.8%*	35	*44.9%*	33	*42.3%*	0	*0.0%*	0	*0.0%*	78
Home equity loans or lines of credit	5	*7.2%*	16	*23.2%*	42	*60.9%*	4	*5.8%*	2	*2.9%*	69
Consumer credit card loans	3	*5.2%*	6	*10.3%*	46	*79.3%*	0	*0.0%*	3	*5.2%*	58
Farm operating loans	8	*11.1%*	35	*48.6%*	29	*40.3%*	0	*0.0%*	0	*0.0%*	72
Farm land loans	6	*8.2%*	35	*47.9%*	31	*42.5%*	0	*0.0%*	1	*1.4%*	73
Other	0	*0.0%*	0	*0.0%*	1	*100.0%*	0	*0.0%*	0	*0.0%*	1

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)	5	*6.3%*	29	*36.7%*	34	*43.0%*	11	*13.9%*	0	*0.0%*	79
Treasury Securities (relative to total securities)	1	*1.4%*	4	*5.4%*	63	*85.1%*	5	*6.8%*	1	*1.4%*	74
Agency Securities (relative to total securities)	4	*5.3%*	26	*34.2%*	41	*53.9%*	5	*6.6%*	0	*0.0%*	76
Mortgage Backed Securities (relative to total securities)	2	*2.7%*	18	*24.7%*	42	*57.5%*	10	*13.7%*	1	*1.4%*	73
Municipal Securities (relative to total securities)	4	*5.6%*	21	*29.2%*	37	*51.4%*	10	*13.9%*	0	*0.0%*	72
Derivatives (such as futures, forwards or swaps)	1	*1.8%*	0	*0.0%*	54	*94.7%*	0	*0.0%*	2	*3.5%*	57

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	42	*57.5%*	0	*0.0%*	29	*39.7%*	2	*2.7%*	73
Thrifts	12	*17.1%*	1	*1.4%*	36	*51.4%*	21	*30.0%*	70
Credit unions	31	*43.1%*	0	*0.0%*	29	*40.3%*	12	*16.7%*	72
National credit card brands	9	*12.9%*	0	*0.0%*	47	*67.1%*	14	*20.0%*	70
Farm credit associations	44	*60.3%*	1	*1.4%*	19	*26.0%*	9	*12.3%*	73
Larger regional financial institutions	34	*47.2%*	2	*2.8%*	31	*43.1%*	5	*6.9%*	72
Larger nationwide financial institutions	26	*36.6%*	2	*2.8%*	35	*49.3%*	8	*11.3%*	71
Finance companies	16	*23.2%*	4	*5.8%*	38	*55.1%*	11	*15.9%*	69
Other	0	*0.0%*	0	*0.0%*	3	*75.0%*	1	*25.0%*	4

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	5	*7.6%*	39	*59.1%*	22	*33.3%*	66
Change in strategic focus of your institution to develop commercial lending program	10	*15.6%*	21	*32.8%*	33	*51.6%*	64
Replace decrease in commercial real estate development lending	4	*6.3%*	19	*29.7%*	41	*64.1%*	64
Replace decrease in lending on income producing commercial real estate	3	*4.8%*	14	*22.6%*	45	*72.6%*	62
Expect low demand for other loan categories	6	*9.4%*	23	*35.9%*	35	*54.7%*	64
Available deposit funding	6	*9.5%*	27	*42.9%*	30	*47.6%*	63
Availability of capital funds under the federal Small Business Lending Program	2	*3.2%*	12	*19.4%*	48	*77.4%*	62

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	19	*43.2%*	12	*27.3%*	13	*29.5%*	44
Limited commercial loan expertise or resources	8	*19.0%*	17	*40.5%*	17	*40.5%*	42
Deposit funding not available	1	*2.4%*	5	*12.2%*	35	*85.4%*	41
Capital not available	2	*4.8%*	6	*14.3%*	34	*81.0%*	42
Not a strategic focus for our institution	11	*26.2%*	12	*28.6%*	19	*45.2%*	42
Not a need for our customer base	8	*19.5%*	14	*34.1%*	19	*46.3%*	41
Focus on other types of loans	8	*23.5%*	11	*32.4%*	15	*44.1%*	34

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	16	*21.1%*	12	*15.8%*	33	*43.4%*	15	*19.7%*	0	*0.0%*	76
Debit card interchange income	31	*40.8%*	11	*14.5%*	28	*36.8%*	5	*6.6%*	1	*1.3%*	76
Credit card fee income	7	*10.8%*	7	*10.8%*	47	*72.3%*	4	*6.2%*	0	*0.0%*	65
Credit card interchange income	11	*17.2%*	7	*10.9%*	43	*67.2%*	3	*4.7%*	0	*0.0%*	64
Overall noninterest income	19	*25.3%*	17	*22.7%*	18	*24.0%*	18	*24.0%*	3	*4.0%*	75

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	2	*2.7%*	2	*2.7%*	41	*56.2%*	27	*37.0%*	1	*1.4%*	73
Limits on maximum per transaction amounts for debit cards	1	*1.4%*	4	*5.4%*	54	*73.0%*	13	*17.6%*	2	*2.7%*	74
Checking account maintenance, overdraft, and per item fees	1	*1.3%*	4	*5.3%*	28	*36.8%*	38	*50.0%*	5	*6.6%*	76
Proportion of accounts qualified for free checking	10	*13.7%*	16	*21.9%*	39	*53.4%*	7	*9.6%*	1	*1.4%*	73

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

Yes	%	No	%	Total
28	*35.4%*	51	*64.6%*	79

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	4
Avoid compliance costs	33
Other	15

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	36	*56.3%*	20	*31.3%*	8	*12.5%*	64

Rate the effect of this change in the following areas:

	Significant Decrease	%	Modest Decrease	%	No Significant Change	%	Total
Overdraft per item fee	15	*22.4%*	12	*17.9%*	40	*59.7%*	67
Debit card overdraft fee income	19	*27.9%*	15	*22.1%*	34	*50.0%*	68
Overall noninterest income	18	*26.9%*	18	*26.9%*	31	*46.3%*	67

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)	26	*40.0%*	31	*47.7%*	7	*10.8%*	1	*1.5%*	0	*0.0%*	65
Deposit account compliance, including overdraft rules	0	*0.0%*	13	*19.4%*	30	*44.8%*	17	*25.4%*	7	*10.4%*	67
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	2	*3.0%*	23	*34.3%*	31	*46.3%*	11	*16.4%*	67
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	1	*1.5%*	2	*3.0%*	5	*7.6%*	13	*19.7%*	45	*68.2%*	66
Other	11	*39.3%*	7	*25.0%*	3	*10.7%*	2	*7.1%*	5	*17.9%*	28

	Decrease	%	No Significant Change	%	Increase	%	Total
Community Reinvestment Act (CRA)	2	*2.9%*	52	*76.5%*	14	*20.6%*	68
Deposit account compliance, including overdraft rules	0	*0.0%*	14	*20.6%*	54	*79.4%*	68
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	24	*34.3%*	46	*65.7%*	70
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	0	*0.0%*	12	*17.9%*	55	*82.1%*	67
Other (describe)	0	*0.0%*	11	*36.7%*	19	*63.3%*	30

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	42	*55.3%*	28	*36.8%*	6	*7.9%*	0	*0.0%*	76

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	12	*16.4%*	28	*38.4%*	28	*38.4%*	5	*6.8%*	73
Technology software upgrades	18	*25.0%*	45	*62.5%*	9	*12.5%*	0	*0.0%*	72
Outsourcing of internal audit or external consultant fees	20	*27.4%*	33	*45.2%*	19	*26.0%*	1	*1.4%*	73
Training expenses	18	*24.7%*	50	*68.5%*	5	*6.8%*	0	*0.0%*	73

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	19	*26.0%*	49	*67.1%*	3	*4.1%*	2	*2.7%*	0	*0.0%*	73
Expected FTE devoted to compliance **over next three years**	11	*14.7%*	51	*68.0%*	10	*13.3%*	2	*2.7%*	1	*1.3%*	75