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 Oklahoma 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	24	*37.5%*	26	*40.6%*	12	*18.8%*	2	*3.1%*	64
Maintaining or improving credit quality	12	*18.8%*	37	*57.8%*	15	*23.4%*	0	*0.0%*	64
Maintaining or attracting retail deposits	10	*15.6%*	27	*42.2%*	21	*32.8%*	6	*9.4%*	64
Strengthening net interest margin	34	*53.1%*	28	*43.8%*	2	*3.1%*	0	*0.0%*	64
Maintaining or increasing noninterest income	37	*57.8%*	26	*40.6%*	1	*1.6%*	0	*0.0%*	64
Increasing earnings	42	*65.6%*	21	*32.8%*	1	*1.6%*	0	*0.0%*	64
Achieving satisfactory mortgage loan volume	13	*20.3%*	19	*29.7%*	16	*25.0%*	16	*25.0%*	64
Achieving satisfactory business loan volume	19	*29.7%*	26	*40.6%*	9	*14.1%*	10	*15.6%*	64
Achieving satisfactory consumer loan volume	25	*39.1%*	29	*45.3%*	9	*14.1%*	1	*1.6%*	64

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

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Meeting regulatory compliance requirements	51	*79.7%*	11	*17.2%*	2	*3.1%*	0	*0.0%*	64
Maintaining a secure electronic environment	29	*45.3%*	32	*50.0%*	3	*4.7%*	0	*0.0%*	64
Maintaining access to affordable payments services	14	*21.9%*	36	*56.3%*	12	*18.8%*	2	*3.1%*	64
Expanding your investment in technology	14	*21.9%*	43	*67.2%*	7	*10.9%*	0	*0.0%*	64
Attracting and retaining skilled staff and management	26	*40.6%*	23	*35.9%*	14	*21.9%*	1	*1.6%*	64

C. Economic — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%	Total
Population loss	7	*11.1%*	16	*25.4%*	39	*61.9%*	1	*1.6%*	63
Slow growth in your community	13	*20.3%*	26	*40.6%*	24	*37.5%*	1	*1.6%*	64
Weak housing markets	10	*15.6%*	22	*34.4%*	30	*46.9%*	2	*3.1%*	64
Aging customer base	24	*38.1%*	26	*41.3%*	12	*19.0%*	1	*1.6%*	63
Lack of diversification opportunities	19	*29.7%*	24	*37.5%*	19	*29.7%*	2	*3.1%*	64
Decline in the community’s primary industry	8	*12.5%*	20	*31.3%*	31	*48.4%*	5	*7.8%*	64
Other	5	*50.0%*	0	*0.0%*	0	*0.0%*	5	*50.0%*	10

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	55	*85.9%*	7	*10.9%*	2	*3.1%*	64
Merge or sell to another organization or ownership group	2	*3.1%*	14	*21.9%*	48	*75.0%*	64
Acquire other institutions	3	*4.7%*	23	*35.9%*	38	*59.4%*	64
Establish additional branches	5	*7.8%*	21	*32.8%*	38	*59.4%*	64
Reduce number of branches	3	*4.8%*	8	*12.7%*	52	*82.5%*	63
Emphasize internal growth	25	*39.1%*	30	*46.9%*	9	*14.1%*	64

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	23
Increase loans	45
Counter competition from others	17
Diversify assets and risk profile	20
Take advantage of growth opportunities in more vibrant markets	19
Grow assets to make better use of capital base	26
Other	1
Not applicable	10

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

New branches established in market by existing competitors	14
Branch expansion into market by regional, national or global financial institutions	21
More aggressive pricing by existing competitors	43
New focus on small and midsize business customers by regional, national or global financial institutions	21
Other	8

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	27	*46.6%*	4	*6.9%*	27	*46.6%*	58
Larger regional financial institutions	37	*62.7%*	3	*5.1%*	19	*32.2%*	59
Larger nationwide financial institutions	29	*49.2%*	4	*6.8%*	26	*44.1%*	59
Thrifts	12	*21.1%*	9	*15.8%*	36	*63.2%*	57
Credit unions	37	*63.8%*	2	*3.4%*	19	*32.8%*	58
Insurance companies	17	*30.4%*	5	*8.9%*	34	*60.7%*	56
Securities firms	10	*18.2%*	6	*10.9%*	39	*70.9%*	55
Farm credit associations	28	*50.0%*	2	*3.6%*	26	*46.4%*	56
Finance companies specializing in machinery or cars (e.g., John Deere Credit, Ally, Ford)	35	*60.3%*	1	*1.7%*	22	*37.9%*	58
Mortgage companies	13	*22.8%*	9	*15.8%*	35	*61.4%*	57
Other	0	*0.0%*	0	*0.0%*	7	*100.0%*	7

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	31	*52.5%*	6	*10.2%*	22	*37.3%*	59
Larger regional financial institutions	34	*57.6%*	3	*5.1%*	22	*37.3%*	59
Larger nationwide financial institutions	32	*54.2%*	5	*8.5%*	22	*37.3%*	59
Thrifts	14	*25.0%*	5	*8.9%*	37	*66.1%*	56
Credit unions	34	*58.6%*	0	*0.0%*	24	*41.4%*	58
Financial institutions with local presence limited mainly to on-line access	32	*56.1%*	3	*5.3%*	22	*38.6%*	57
Insurance companies	21	*37.5%*	5	*8.9%*	30	*53.6%*	56

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	11	*19.0%*	27	*46.6%*	20	*34.5%*	58
Expected changes in usage of cash management accounts by businesses	14	*23.7%*	24	*40.7%*	21	*35.6%*	59
Effect on overall interest expense	14	*24.6%*	24	*42.1%*	19	*33.3%*	57

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	48	*85.7%*	2	*3.6%*	6	*10.7%*	56
Business demand deposit balances	24	*42.1%*	8	*14.0%*	25	*43.9%*	57
Business CD balances	13	*22.8%*	13	*22.8%*	31	*54.4%*	57
Retail customers average demand deposit balances	23	*40.4%*	7	*12.3%*	27	*47.4%*	57
Retail customers average CD balances	18	*32.1%*	12	*21.4%*	26	*46.4%*	56
Customer use of sweep accounts and repurchase agreements	15	*26.8%*	10	*17.9%*	31	*55.4%*	56
Brokered deposit levels	7	*12.3%*	5	*8.8%*	45	*78.9%*	57
Internet deposits (deposits obtained from online posting services)	14	*25.0%*	3	*5.4%*	39	*69.6%*	56
Federal Home Loan Bank advances	10	*17.9%*	4	*7.1%*	42	*75.0%*	56

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	20	*55.6%*	9	*25.0%*	7	*19.4%*	36
2nd mortgage other than HELOCs	25	*69.4%*	4	*11.1%*	7	*19.4%*	36
Adjustable rate mortgages	27	*71.1%*	6	*15.8%*	5	*13.2%*	38
Nontraditional mortgages	14	*50.0%*	8	*28.6%*	6	*21.4%*	28
Reverse mortgages	1	*7.1%*	8	*57.1%*	5	*35.7%*	14
Online loan applications	20	*46.5%*	22	*51.2%*	1	*2.3%*	43
Electronic bill presentment	21	*53.8%*	18	*46.2%*	0	*0.0%*	39
Electronic bill payment	35	*71.4%*	14	*28.6%*	0	*0.0%*	49
Person-to-person payments	28	*63.6%*	15	*34.1%*	1	*2.3%*	44
Email/wireless banking alerts	22	*53.7%*	19	*46.3%*	0	*0.0%*	41
Mobile banking	15	*34.9%*	27	*62.8%*	1	*2.3%*	43
Check deposit by phone	5	*20.0%*	19	*76.0%*	1	*4.0%*	25
Identity theft protection	21	*52.5%*	19	*47.5%*	0	*0.0%*	40
Stored value/prepaid cards	16	*47.1%*	17	*50.0%*	1	*2.9%*	34
Credit cards	26	*78.8%*	7	*21.2%*	0	*0.0%*	33
Cash management services	17	*56.7%*	13	*43.3%*	0	*0.0%*	30
Corporate/business credit cards	23	*74.2%*	7	*22.6%*	1	*3.2%*	31
Asset management	3	*18.8%*	13	*81.3%*	0	*0.0%*	16
Remote deposit capture	27	*64.3%*	15	*35.7%*	0	*0.0%*	42
Payroll cards	10	*37.0%*	17	*63.0%*	0	*0.0%*	27
No fee ATMs	18	*60.0%*	9	*30.0%*	3	*10.0%*	30
Money remittance services	5	*38.5%*	7	*53.8%*	1	*7.7%*	13
PIN debit cards	39	*88.6%*	5	*11.4%*	0	*0.0%*	44
Signature debit cards	38	*86.4%*	5	*11.4%*	1	*2.3%*	44
Contactless payment cards	0	*0.0%*	13	*100.0%*	0	*0.0%*	13
Health savings accounts	15	*60.0%*	10	*40.0%*	0	*0.0%*	25
Insurance (life, accident and health)	20	*80.0%*	5	*20.0%*	0	*0.0%*	25
Mobile payments	8	*34.8%*	15	*65.2%*	0	*0.0%*	23
Personal financial management tools	9	*40.9%*	13	*59.1%*	0	*0.0%*	22
Reward/discount offers	13	*54.2%*	11	*45.8%*	0	*0.0%*	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	2	*3.8%*	23	*43.4%*	25	*47.2%*	3	*5.7%*	0	*0.0%*	53
Commercial real estate loans (income-producing nonfarm nonowner occupied)	2	*3.8%*	17	*32.1%*	30	*56.6%*	3	*5.7%*	1	*1.9%*	53
Commercial real estate loans (construction & land development)	1	*1.9%*	6	*11.3%*	37	*69.8%*	7	*13.2%*	2	*3.8%*	53
Real estate loans 1-to 4-family (retained)	2	*4.1%*	12	*24.5%*	24	*49.0%*	4	*8.2%*	7	*14.3%*	49
Real estate loans 1-to 4-family (sold)	5	*10.4%*	6	*12.5%*	28	*58.3%*	4	*8.3%*	5	*10.4%*	48
Consumer installment loans	6	*10.7%*	29	*51.8%*	20	*35.7%*	1	*1.8%*	0	*0.0%*	56
Home equity loans or lines of credit	0	*0.0%*	6	*13.6%*	29	*65.9%*	2	*4.5%*	7	*15.9%*	44
Consumer credit card loans	0	*0.0%*	8	*20.0%*	27	*67.5%*	1	*2.5%*	4	*10.0%*	40
Farm operating loans	2	*4.1%*	19	*38.8%*	27	*55.1%*	1	*2.0%*	0	*0.0%*	49
Farm land loans	2	*4.1%*	17	*34.7%*	28	*57.1%*	1	*2.0%*	1	*2.0%*	49
Other	0	*0.0%*	1	*20.0%*	4	*80.0%*	0	*0.0%*	0	*0.0%*	5

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)	3	*5.4%*	17	*30.4%*	28	*50.0%*	8	*14.3%*	0	*0.0%*	56
Treasury Securities (relative to total securities)	0	*0.0%*	6	*12.0%*	42	*84.0%*	1	*2.0%*	1	*2.0%*	50
Agency Securities (relative to total securities)	1	*2.0%*	16	*32.0%*	29	*58.0%*	3	*6.0%*	1	*2.0%*	50
Mortgage Backed Securities (relative to total securities)	2	*4.0%*	11	*22.0%*	32	*64.0%*	2	*4.0%*	3	*6.0%*	50
Municipal Securities (relative to total securities)	2	*3.9%*	19	*37.3%*	27	*52.9%*	2	*3.9%*	1	*2.0%*	51
Derivatives (such as futures, forwards or swaps)	0	*0.0%*	0	*0.0%*	34	*87.2%*	0	*0.0%*	5	*12.8%*	39

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	33	*63.5%*	2	*3.8%*	14	*26.9%*	3	*5.8%*	52
Thrifts	12	*25.0%*	3	*6.3%*	13	*27.1%*	20	*41.7%*	48
Credit unions	31	*59.6%*	0	*0.0%*	11	*21.2%*	10	*19.2%*	52
National credit card brands	15	*30.6%*	1	*2.0%*	17	*34.7%*	16	*32.7%*	49
Farm credit associations	30	*60.0%*	0	*0.0%*	12	*24.0%*	8	*16.0%*	50
Larger regional financial institutions	34	*64.2%*	0	*0.0%*	15	*28.3%*	4	*7.5%*	53
Larger nationwide financial institutions	21	*42.0%*	1	*2.0%*	23	*46.0%*	5	*10.0%*	50
Finance companies	16	*30.8%*	1	*1.9%*	23	*44.2%*	12	*23.1%*	52
Other	0	*0.0%*	0	*0.0%*	1	*20.0%*	4	*80.0%*	5

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	4	*8.5%*	25	*53.2%*	18	*38.3%*	47
Change in strategic focus of your institution to develop commercial lending program	4	*8.3%*	14	*29.2%*	30	*62.5%*	48
Replace decrease in commercial real estate development lending	3	*6.7%*	6	*13.3%*	36	*80.0%*	45
Replace decrease in lending on income producing commercial real estate	1	*2.3%*	12	*27.3%*	31	*70.5%*	44
Expect low demand for other loan categories	5	*11.4%*	17	*38.6%*	22	*50.0%*	44
Available deposit funding	4	*8.5%*	19	*40.4%*	24	*51.1%*	47
Availability of capital funds under the federal Small Business Lending Program	6	*13.3%*	9	*20.0%*	30	*66.7%*	45

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	8	*24.2%*	11	*33.3%*	14	*42.4%*	33
Limited commercial loan expertise or resources	5	*14.7%*	9	*26.5%*	20	*58.8%*	34
Deposit funding not available	2	*5.7%*	5	*14.3%*	28	*80.0%*	35
Capital not available	4	*11.8%*	1	*2.9%*	29	*85.3%*	34
Not a strategic focus for our institution	6	*18.2%*	10	*30.3%*	17	*51.5%*	33
Not a need for our customer base	5	*16.1%*	9	*29.0%*	17	*54.8%*	31
Focus on other types of loans	8	*24.2%*	5	*15.2%*	20	*60.6%*	33

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	*29.6%*	15	*27.8%*	13	*24.1%*	10	*18.5%*	0	*0.0%*	54
Debit card interchange income	25	*46.3%*	17	*31.5%*	5	*9.3%*	7	*13.0%*	0	*0.0%*	54
Credit card fee income	6	*13.6%*	11	*25.0%*	24	*54.5%*	3	*6.8%*	0	*0.0%*	44
Credit card interchange income	9	*20.0%*	11	*24.4%*	23	*51.1%*	2	*4.4%*	0	*0.0%*	45
Overall noninterest income	14	*25.5%*	22	*40.0%*	7	*12.7%*	11	*20.0%*	1	*1.8%*	55

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	3	*6.0%*	1	*2.0%*	22	*44.0%*	24	*48.0%*	0	*0.0%*	50
Limits on maximum per transaction amounts for debit cards	2	*4.2%*	4	*8.3%*	29	*60.4%*	9	*18.8%*	4	*8.3%*	48
Checking account maintenance, overdraft, and per item fees	1	*2.0%*	3	*6.0%*	13	*26.0%*	23	*46.0%*	10	*20.0%*	50
Proportion of accounts qualified for free checking	12	*23.5%*	13	*25.5%*	23	*45.1%*	2	*3.9%*	1	*2.0%*	51

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

Yes	%	No	%	Total
23	*41.8%*	32	*58.2%*	55

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	3
Avoid compliance costs	20
Other	13

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	16	*36.4%*	15	*34.1%*	13	*29.5%*	44

Rate the effect of this change in the following areas:

	Significant Decrease	%	Modest Decrease	%	No Significant Change	%	Total
Overdraft per item fee	7	*14.6%*	10	*20.8%*	31	*64.6%*	48
Debit card overdraft fee income	12	*25.0%*	14	*29.2%*	22	*45.8%*	48
Overall noninterest income	11	*22.0%*	18	*36.0%*	21	*42.0%*	50

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)	15	*31.3%*	28	*58.3%*	5	*10.4%*	0	*0.0%*	0	*0.0%*	48
Deposit account compliance, including overdraft rules	1	*2.0%*	5	*10.0%*	23	*46.0%*	16	*32.0%*	5	*10.0%*	50
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	0	*0.0%*	7	*14.0%*	20	*40.0%*	23	*46.0%*	50
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	6	*12.0%*	2	*4.0%*	10	*20.0%*	11	*22.0%*	21	*42.0%*	50
Other	5	*33.3%*	5	*33.3%*	3	*20.0%*	2	*13.3%*	0	*0.0%*	15

	Decrease	%	No Significant Change	%	Increase	%	Total
Community Reinvestment Act (CRA)	0	*0.0%*	38	*79.2%*	10	*20.8%*	48
Deposit account compliance, including overdraft rules	0	*0.0%*	11	*21.6%*	40	*78.4%*	51
Bank Secrecy Act / anti-money laundering compliance	0	*0.0%*	15	*29.4%*	36	*70.6%*	51
Compliance with mortgage regulations, including RESPA, TILA and Regulation Z	2	*3.9%*	14	*27.5%*	35	*68.6%*	51
Other (describe)	0	*0.0%*	6	*35.3%*	11	*64.7%*	17

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	21	*41.2%*	25	*49.0%*	5	*9.8%*	0	*0.0%*	51

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	11	*21.2%*	22	*42.3%*	12	*23.1%*	7	*13.5%*	52
Technology software upgrades	12	*23.1%*	36	*69.2%*	3	*5.8%*	1	*1.9%*	52
Outsourcing of internal audit or external consultant fees	11	*21.2%*	30	*57.7%*	10	*19.2%*	1	*1.9%*	52
Training expenses	12	*23.1%*	34	*65.4%*	6	*11.5%*	0	*0.0%*	52

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	11	*21.2%*	36	*69.2%*	3	*5.8%*	1	*1.9%*	1	*1.9%*	52
Expected FTE devoted to compliance **over next three years**	4	*7.5%*	30	*56.6%*	16	*30.2%*	3	*5.7%*	0	*0.0%*	53