Survey of Community Depository Institutions

In the Tenth Federal Reserve District

Division of Supervision and Risk Management

Federal Reserve Bank of Kansas City

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Kansas City, Missouri 64198-0001

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About the Survey

The 2014 Survey of Community Depository Institutions in the Tenth Federal Reserve District was conducted from June 9, 2014 to July 3, 2014. 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 1,071 potential respondents, 179 institutions completed the survey, resulting in a response rate of 16.7 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:

Executive Summary

Business Prospects and Challenges

- 83% of respondents rate regulatory compliance as a significant challenge. This has grown from 79% in 2011 and 66% in 2008.
- Risk management around regulatory/compliance risk is a significant concern for over three-fourths of respondents.
- Over 63% of respondents rate increasing earnings as a significant challenge, remaining near 2011 levels. This is driven by challenges strengthening the net interest margin (69% rate as a significant challenge, up from 54% in 2011) and challenges in maintaining or increasing noninterest income (65% rate as a significant challenge, up from 58% in 2011).
- 59% of respondents indicate maintaining a secure electronic environment is a significant challenge, up from 46% in 2011.
- Loan competition is expected to increase primarily from farm credit associations, credit unions, finance companies specializing in machinery/cars, community banks, and regional financial institutions; as indicated by over half of all respondents. In contrast, little change is expected in loan competition from thrifts, business development corporations, payday lenders, and securities firms.
- Over half of respondents expect increased competition for deposits from credit unions, community banks, and regional financial institutions; while little change is expected from thrifts.
- 87% of respondents expect the cost of deposit funding to increase over the next three years.
- Approximately three-fourths of respondents currently mitigate the impact of rising interest rates by funding more adjustable rate loans and shortening average lives of new fixed-rate loans/investments.
- Despite the challenging regulatory environment, 84% of respondents expect to continue under the same ownership over the next three years.
- New products being explored include person-to-person payments, identity theft protection, mobile banking, and remote deposit capture.

Revenue and Expenses

- 47% of respondents expect overall noninterest income to increase over the next three years, led by service charges on deposit accounts, debit card fee income, debit card interchange income, and servicing fees on loans.
- Nearly half of respondents expect to increase checking account maintenance, overdraft, and per item fees over the next three years.
- 68% of respondents expect noninterest expense to increase, led by salary and employee benefits, data processing, and accounting and auditing.

Loans and Investments

- 51% of respondents expect no change in the level of investments over the next three years.
- Roughly half of all respondents expect their emphasis in farm operating loans, farm land loans, and 1-4 family real estate loans (retained) to increase over the next three years.
- Given Ability to Repay and Qualified Mortgage rules, 26% of respondents plan to discontinue offering loans that exceed the debt-to-income ratio over the next three years. In contrast, over 90% plan to continue offering qualified mortgages, and over half anticipate continuing to offer non-qualified mortgages.
- 48% of respondents expect to increase their emphasis in commercial and industrial loans, attributed primarily to expected higher business loan demand and available deposit funding. Weak business loan demand is the main factor cited by those respondents not anticipating increasing business lending.
- Competition for business loans is expected to increase primarily from community banks, regional financial institutions, farm credit associations, and credit unions.
- In commercial loan portfolios, the agriculture and business sectors are the top two exposures, with 43% and 29% of respondents, respectively, indicating an increase in exposure over the next three years.
- Approximately one-third of respondents expect an increase in exposure to the construction sector and the energy, mining and logging sector in their commercial loan portfolio.

Laws, Regulations, and Guidance

- Respondents devote the most full time equivalent staff members to compliance with mortgage regulations, deposit account compliance, and the Bank Secrecy Act. Overall, compliance staffing levels are expected to increase by 51% over the next three years.
- Respondents expect compliance-related expenses to rise, with a total increase of 83% estimated. Most compliance expense is dedicated to mortgage regulations, the Bank Secrecy Act, and deposit account compliance.
- Senior management and board of directors’ attention to compliance is expected to increase over the next three years, as indicated by over 93% of respondents.
- Nearly 90% of respondents anticipate technology software upgrades and training expenses to increase over the next three years.

General Information Regarding the Survey Respondents

Location of home office:

State	**# of Respondents**	**%**
Colorado	18	10.1%
Kansas	50	27.9%
Missouri	21	11.7%
Nebraska	37	20.7%
New Mexico	4	2.2%
Oklahoma	36	20.1%
Wyoming	13	7.3%
Total	*179*	

Entity Type:

Type	**# of Respondents**	**%**
Banks	149	83.2%
Credit Unions	22	12.3%
Savings & Loans	8	4.5%

Asset Size:

Asset Size	**# Respondents**	**%**
Less than $100 Million	79	44.1%
$100 to $500 Million	88	49.2%
$500 Million to $1 Billion	12	6.7%

I. Business Prospects and Challenges

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

A. Performance — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%
Maintaining or increasing capital	44	*24.6%*	84	*46.9%*	51	*28.5%*	0	*0.0%*
Maintaining or improving credit quality	24	*13.4%*	107	*59.8%*	38	*21.2%*	1	*0.6%*
Maintaining or attracting retail deposits	39	*21.8%*	84	*46.9%*	48	*26.8%*	8	*4.5%*
Strengthening net interest margin	124	*69.3%*	47	*26.3%*	7	*3.9%*	1	*0.6%*
Maintaining or increasing noninterest income	117	*65.4%*	51	*28.5%*	10	*5.6%*	1	*0.6%*
Increasing earnings	113	*63.1%*	63	*35.2%*	2	*1.1%*	0	*0.0%*
Achieving satisfactory mortgage loan volume	69	*38.5%*	63	*35.2%*	26	*14.5%*	20	*11.2%*
Achieving satisfactory business loan volume	53	*29.6%*	90	*50.3%*	21	*11.7%*	13	*7.3%*
Achieving satisfactory consumer loan volume	45	*25.1%*	90	*50.3%*	39	*21.8%*	4	*2.2%*

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

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%
Meeting regulatory compliance requirements	148	*82.7%*	26	*14.5%*	5	*2.8%*	0	*0.0%*
Maintaining a secure electronic environment	106	*59.2%*	60	*33.5%*	12	*6.7%*	0	*0.0%*
Maintaining access to affordable payments services	31	*17.3%*	110	*61.5%*	33	*18.4%*	3	*1.7%*
Expanding your investment in technology	58	*32.4%*	99	*55.3%*	22	*12.3%*	0	*0.0%*
Attracting and retaining skilled staff and management	74	*41.3%*	82	*45.8%*	23	*12.8%*	0	*0.0%*
Managing third party vendors	32	*17.9%*	98	*54.7%*	47	*26.3%*	0	*0.0%*

C. Economic — **Magnitude of Challenge**

	Significant	%	Moderate	%	Slight or None	%	Not Applicable	%
Slow economic growth in your community	54	*30.2%*	78	*43.6%*	46	*25.7%*	0	*0.0%*
Weak housing markets	31	*17.3%*	76	*42.5%*	65	*36.3%*	5	*2.8%*
Weak agricultural markets	19	*10.6%*	65	*36.3%*	65	*36.3%*	26	*14.5%*
Population loss	35	*19.6%*	52	*29.1%*	80	*44.7%*	12	*6.7%*
Aging customer base	54	*30.2%*	91	*50.8%*	32	*17.9%*	2	*1.1%*
Lack of diversification opportunities	49	*27.4%*	83	*46.4%*	44	*24.6%*	2	*1.1%*
Decline in the community’s primary industry	18	*10.1%*	54	*30.2%*	95	*53.1%*	10	*5.6%*
Other	3		2		0		13	

Notes: Number of responses = 179
Sum of responses may not equal total number of responses due to missing values

2. Indicate expected levels of risk management concerns for the following items **over the next three years**.

	No Significant Concern	%	Moderate Concern	%	Significant Concern	%
Credit Risk	29	*16.4%*	133	*75.1%*	15	*8.5%*
Interest Rate Risk	12	*6.8%*	94	*53.1%*	68	*38.4%*
Liquidity Risk	65	*36.7%*	89	*50.3%*	20	*11.3%*
Regulatory/Compliance Risk	13	*7.3%*	27	*15.3%*	136	*76.8%*
Information Technology Risk	14	*7.9%*	88	*49.7%*	75	*42.4%*
Operational Risk	35	*19.8%*	122	*68.9%*	20	*11.3%*
Fraud Risk	22	*12.4%*	92	*52.0%*	61	*34.5%*
Strategic Risk (e.g., new business initiatives, succession planning, etc.)	36	*20.3%*	106	*59.9%*	35	*19.8%*
Vendor Management Risk	49	*27.7%*	109	*61.6%*	18	*10.2%*

Notes: Number of responses = 177
Sum of responses may not equal total number of responses due to missing values.

3. Strategic direction: **Over the next three years** you expect your institution to: (Check all that apply.)

	Probable	%	Possible	%	Unlikely	%
Continue under the same ownership and organization structure	150	*84.3%*	15	*8.4%*	13	*7.3%*
Merge or sell to another organization or ownership group	16	*9.0%*	36	*20.2%*	125	*70.2%*
Acquire other institutions	16	*9.0%*	78	*43.8%*	83	*46.6%*
Establish additional branches	17	*9.6%*	60	*33.7%*	99	*55.6%*
Reduce number of branches	5	*2.8%*	23	*12.9%*	148	*83.1%*
Emphasize internal growth	105	*59.0%*	56	*31.5%*	17	*9.6%*

Notes: Number of responses = 178
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4. If you expect to expand operations **over the next three years**, what are the primary drivers and objectives? (Check all that apply.)

Increase deposits	79
Increase loans	132
Counter competition from others	50
Diversify assets and risk profile	49
Take advantage of growth opportunities in more vibrant markets	50
Grow assets to make better use of capital base	62
Achieve better economies of scale	86
Capitalize on technological innovation	67
Other	6
Not applicable	20

5. If you expect to seek to sell to another organization **over the next three years**, what are the primary drivers or objectives? (Check all that apply.)

Local economic/market prospects	13
To realize return on investment	25
Regulatory compliance requirements	36
Estate planning	10
Management succession issues	14
Competitive challenges	14
Pension and healthcare cost pressures	4
Employee payroll expenses	4
Debt	1
Other	5
Not applicable	113

6. Indicate critical factors you expect to affect competition for your institution **over the next three years**. (Check all that apply.)

New branches established in market by existing competitors	20
Branch expansion into market by regional, national or global financial institutions	29
More aggressive pricing by existing bank competitors	127
More aggressive pricing by nonbank competitors	149
New focus on small and midsize business customers by regional, national or global financial institutions	60
Growing access to financial services via the internet	118
Other	11

7. Indicate your expectations for changes in competition for **<u>loans</u>** from these sources **over the next three years**.

Competitor	Level of Competition					
	Increase	%	Decrease	%	Stay the Same	%
Community banks	102	*58.6%*	3	*1.7%*	69	*39.7%*
Regional financial institutions	98	*56.3%*	0	*0.0%*	72	*41.4%*
Nationwide financial institutions	73	*42.0%*	7	*4.0%*	89	*51.1%*
Thrifts	25	*14.4%*	23	*13.2%*	119	*68.4%*
Credit unions	113	*64.9%*	4	*2.3%*	57	*32.8%*
Insurance companies	59	*33.9%*	5	*2.9%*	108	*62.1%*
Securities firms	38	*21.8%*	6	*3.4%*	127	*73.0%*
Farm credit associations	120	*69.0%*	1	*0.6%*	51	*29.3%*
Finance companies specializing in machinery or cars (e.g., John Deere Credit, Ally, Ford)	102	*58.6%*	1	*0.6%*	69	*39.7%*
Mortgage companies	76	*43.7%*	11	*6.3%*	84	*48.3%*
Business development corporations	28	*16.1%*	6	*3.4%*	135	*77.6%*
Payday lenders	37	*21.3%*	25	*14.4%*	107	*61.5%*
Other	4		0		9	

Notes: Number of responses = 174
Sum of responses may not equal total number of responses due to missing values

8. Indicate your expectations for changes in competition for **<u>deposits</u>** from these sources **over the next three years**.

Competitor	Level of Competition					
	Increase	%	Decrease	%	Stay the Same	%
Community banks	98	*56.3%*	1	*0.6%*	75	*43.1%*
Regional financial institutions	88	*50.6%*	4	*2.3%*	79	*45.4%*
Nationwide financial institutions	73	*42.0%*	8	*4.6%*	89	*51.1%*
Thrifts	44	*25.3%*	13	*7.5%*	110	*63.2%*
Credit unions	114	*65.5%*	1	*0.6%*	57	*32.8%*
Financial institutions with local presence limited mainly to on-line access	82	*47.1%*	1	*0.6%*	89	*51.1%*
Money market mutual funds	86	*49.4%*	7	*4.0%*	79	*45.4%*
Insurance companies	66	*37.9%*	5	*2.9%*	102	*58.6%*

Notes: Number of responses = 174
Sum of responses may not equal total number of responses due to missing values

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

	Increase	%	Decrease	%	No Change	%
Cost of deposit funding	149	*86.6%*	2	*1.2%*	21	*12.2%*
Business demand deposit balances	66	*38.4%*	20	*11.6%*	85	*49.4%*
Business CD balances	46	*26.7%*	27	*15.7%*	97	*56.4%*
Retail customers average demand deposit balances	50	*29.1%*	39	*22.7%*	81	*47.1%*
Retail customers average CD balances	68	*39.5%*	38	*22.1%*	64	*37.2%*
Customer use of sweep accounts and repurchase agreements	48	*27.9%*	13	*7.6%*	108	*62.8%*
Brokered deposit levels	27	*15.7%*	10	*5.8%*	131	*76.2%*
Internet deposits (deposits obtained from online posting services)	49	*28.5%*	7	*4.1%*	115	*66.9%*
Federal Home Loan Bank advances	65	*37.8%*	16	*9.3%*	89	*51.7%*
Sales of loans to a third party/securitization	25	*14.5%*	7	*4.1%*	134	*77.9%*

Notes: Number of responses = 172
Sum of responses may not equal total number of responses due to missing values

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

	Currently Offer	*% Currently Offering*	Currently Offer But Plan to Exit Over the Next 3 Years	*% Planning To Exit (As % of Currently Offering)*	Do Not Currently Offer But Plan to Over Next 3 Years	*% Planning To Offer*
Home equity lines of credit	93	*57.1%*	7	*7.5%*	22	*13.5%*
2nd mortgage other than HELOCs	105	*64.4%*	7	*6.7%*	11	*6.7%*
Reverse mortgages	17	*10.4%*	7	*41.2%*	27	*16.6%*
Online loan applications	74	*45.4%*	3	*4.1%*	46	*28.2%*
Online bill presentment	78	*47.9%*	1	*1.3%*	40	*24.5%*
Online bill payment	141	*86.5%*	0	*0.0%*	12	*7.4%*
Online account statements	149	*91.4%*	0	*0.0%*	14	*8.6%*
Person-to-person payments	66	*40.5%*	2	*3.0%*	62	*38.0%*
Email/wireless banking alerts	89	*54.6%*	1	*1.1%*	48	*29.4%*
Mobile banking	88	*54.0%*	0	*0.0%*	53	*32.5%*
Remote deposit capture	82	*50.3%*	2	*2.4%*	52	*31.9%*
Identity theft protection	57	*35.0%*	2	*3.5%*	57	*35.0%*
Stored value/prepaid cards	59	*36.2%*	5	*8.5%*	45	*27.6%*
Credit cards	105	*64.4%*	8	*7.6%*	12	*7.4%*
Cash management services	63	*38.7%*	2	*3.2%*	32	*19.6%*
Corporate/business credit cards	80	*49.1%*	3	*3.8%*	20	*12.3%*
Third party payment processing	30	*18.4%*	2	*6.7%*	30	*18.4%*
Asset management	15	*9.2%*	1	*6.7%*	32	*19.6%*
Payroll cards	22	*13.5%*	2	*9.1%*	32	*19.6%*
Deposit Advance Program	12	*7.4%*	4	*33.3%*	32	*19.6%*
No fee ATMs	93	*57.1%*	2	*2.2%*	14	*8.6%*
Free Checking	137	*84.0%*	5	*3.6%*	9	*5.5%*
Overdraft Protection	99	*60.7%*	4	*4.0%*	10	*6.1%*
Money remittance services	23	*14.1%*	3	*13.0%*	22	*13.5%*
PIN debit cards	157	*96.3%*	0	*0.0%*	3	*1.8%*
Signature debit cards	121	*74.2%*	2	*1.7%*	5	*3.1%*
Contactless payment cards	8	*4.9%*	4	*50.0%*	36	*22.1%*
Health savings accounts	84	*51.5%*	1	*1.2%*	17	*10.4%*
Insurance (life, accident and health)	58	*35.6%*	4	*6.9%*	24	*14.7%*
Trust Activities	33	*20.2%*	1	*3.0%*	19	*11.7%*
Mobile payments	57	*35.0%*	0	*0.0%*	48	*29.4%*
Personal financial management tools	23	*14.1%*	1	*4.3%*	38	*23.3%*
Reward/discount offers	37	*22.7%*	4	*10.8%*	31	*19.0%*

Notes: Number of responses = 163

11. Indicate the likelihood for each of the following strategies you expect to utilize to mitigate the impact of rising interest rates at your bank **over the next three years**.

Strategy	Currently Employing	%	Not Currently Using and Not Very Likely to Over Next 3 Years	%	Not Currently Using and Somewhat Likely to Over Next 3 Years	%	Not Currently Using and Highly Likely to Over Next 3 Years	%
Lock in long-term fixed-rate funding	59	*38.1%*	52	*33.5%*	30	*19.4%*	12	*7.7%*
Increase use of wholesale funding to fill funding gaps	43	*27.7%*	71	*45.8%*	21	*13.5%*	5	*3.2%*
Fund more adjustable rate loans	118	*76.1%*	18	*11.6%*	14	*9.0%*	5	*3.2%*
Shorten average lives of new fixed-rate loans and investments	114	*73.5%*	21	*13.5%*	10	*6.5%*	4	*2.6%*
Move AFS securities to HTM to limit unrealized losses	13	*8.4%*	86	*55.5%*	22	*14.2%*	9	*5.8%*
Sell longer-term fixed-rate assets	23	*14.8%*	83	*53.5%*	17	*11.0%*	8	*5.2%*
Utilize derivatives to offset interest rate risk exposure	4	*2.6%*	99	*63.9%*	13	*8.4%*	13	*8.4%*
Other	2		1		0		1	

Notes: Number of responses = 155
Sum of responses may not equal total number of responses due to missing values

II. Loans and Investments

12. 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	%
Commercial and industrial loans	11	*6.6%*	68	*41.0%*	77	*46.4%*	4	*2.4%*	1	*0.6%*
Commercial real estate loans (income-producing nonfarm non-owner occupied)	3	*1.8%*	56	*33.7%*	93	*56.0%*	4	*2.4%*	1	*0.6%*
Commercial real estate loans (income-producing nonfarm owner occupied)	8	*4.8%*	63	*38.0%*	85	*51.2%*	4	*2.4%*	0	*0.0%*
Commercial real estate loans (construction & land development)	1	*0.6%*	41	*24.7%*	101	*60.8%*	11	*6.6%*	2	*1.2%*
Commercial real estate loans (multi-family)	1	*0.6%*	43	*25.9%*	106	*63.9%*	5	*3.0%*	1	*0.6%*
Real estate loans 1-to-4 family (retained)	5	*3.0%*	77	*46.4%*	60	*36.1%*	10	*6.0%*	10	*6.0%*
Real estate loans 1-to-4 family (sold)	16	*9.6%*	52	*31.3%*	71	*42.8%*	7	*4.2%*	7	*4.2%*
Consumer installment loans	11	*6.6%*	65	*39.2%*	82	*49.4%*	8	*4.8%*	0	*0.0%*
Home equity loans or lines of credit	7	*4.2%*	35	*21.1%*	100	*60.2%*	8	*4.8%*	7	*4.2%*
Consumer credit card loans	6	*3.6%*	21	*12.7%*	103	*62.0%*	8	*4.8%*	3	*1.8%*
Farm operating loans	11	*6.6%*	73	*44.0%*	66	*39.8%*	3	*1.8%*	2	*1.2%*
Farm land loans	9	*5.4%*	73	*44.0%*	67	*40.4%*	3	*1.8%*	2	*1.2%*
Other (describe)	1		1		7		0		0	*0.0%*

Notes: Number of responses = 166
Sum of responses may not equal total number of responses due to missing values

13. Indicate the extent to which your institution's plans include changing the relative mix of investments **over the next three years**.

	Significant Increase	%	Moderate Increase	%	No Change	%	Moderate Decrease	%	Significant Decrease	%
Level of investments (relative to assets)	1	*0.6%*	31	*18.9%*	84	*51.2%*	45	*27.4%*	3	*1.8%*
Treasury Securities (relative to total securities)	1	*0.6%*	19	*11.6%*	126	*76.8%*	11	*6.7%*	3	*1.8%*
Agency Securities (relative to total securities)	0	*0.0%*	40	*24.4%*	104	*63.4%*	17	*10.4%*	3	*1.8%*
Mortgage Backed Securities (relative to total securities)	0	*0.0%*	29	*17.7%*	103	*62.8%*	20	*12.2%*	5	*3.0%*
Municipal Securities (relative to total securities)	4	*2.4%*	41	*25.0%*	90	*54.9%*	21	*12.8%*	2	*1.2%*
Corporate Securities (relative to total securities)	0	*0.0%*	8	*4.9%*	118	*72.0%*	8	*4.9%*	5	*3.0%*
Derivatives (such as futures, forwards or swaps)	0	*0.0%*	9	*5.5%*	111	*67.7%*	2	*1.2%*	6	*3.7%*

Notes: Number of responses = 164
Sum of responses may not equal total number of responses due to missing values

14. **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	%
Community banks	114	*67.9%*	0	*0.0%*	50	*29.8%*	4	*2.4%*
Thrifts	34	*20.2%*	4	*2.4%*	75	*44.6%*	49	*29.2%*
Regional financial institutions	111	*66.1%*	1	*0.6%*	46	*27.4%*	8	*4.8%*
Nationwide financial institutions	78	*46.4%*	3	*1.8%*	67	*39.9%*	18	*10.7%*
Credit unions	107	*63.7%*	1	*0.6%*	44	*26.2%*	13	*7.7%*
Farm credit associations	111	*66.1%*	1	*0.6%*	36	*21.4%*	18	*10.7%*
Finance companies	60	*35.7%*	1	*0.6%*	83	*49.4%*	21	*12.5%*
National credit card brands	59	*35.1%*	1	*0.6%*	76	*45.2%*	25	*14.9%*
Other	4		0		13		3	

Notes: Number of responses = 168
Sum of responses may not equal total number of responses due to missing values

15. If your institution plans to **increase business lending over the next three years**, rate the significance of the following drivers:

	Highly Significant	%	Moderately Significant	%	Not Applicable	%
Expect higher business loan demand in market area	21	*13.9%*	87	*57.6%*	43	*28.5%*
Change in strategic focus of your institution to develop commercial lending program	12	*7.9%*	51	*33.8%*	83	*55.0%*
Expect low demand for other loan categories	9	*6.0%*	42	*27.8%*	95	*62.9%*
Available deposit funding	15	*9.9%*	63	*41.7%*	64	*42.4%*
Other	0		0		12	

Notes: Number of responses = 151
Sum of responses may not equal total number of responses due to missing values

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

	Highly Significant	%	Moderately Significant	%	Not Applicable	%
Weak business loan demand in market area	18	*18.6%*	34	*35.1%*	45	*46.4%*
Limited commercial loan expertise or resources	8	*8.2%*	25	*25.8%*	60	*61.9%*
Deposit funding not available	5	*5.2%*	13	*13.4%*	76	*78.4%*
Capital not available	9	*9.3%*	7	*7.2%*	75	*77.3%*
Not a strategic focus for our institution	9	*9.3%*	12	*12.4%*	71	*73.2%*
Not a need for our customer base	9	*9.3%*	20	*20.6%*	64	*66.0%*
Focus on other types of loans	17	*17.5%*	16	*16.5%*	53	*54.6%*

Notes: Number of responses = 97

Sum of responses may not equal total number of responses due to missing values

17. Rank your institution's top 5 exposures among the following industries in your commercial loan portfolio: (1=largest exposure, 5=smallest exposure), and indicate the change in exposure you expect **over the next three years**.

Commercial Sector	Rank 1	%	2	%	3	%	4	%	5	%	Total
Agriculture	66	*58.9%*	10	*8.9%*	9	*8.0%*	12	*10.7%*	15	*13.4%*	112
Prof. & business	16	*16.3%*	33	*33.7%*	21	*21.4%*	15	*15.3%*	13	*13.3%*	98
Construction	19	*20.4%*	16	*17.2%*	19	*20.4%*	22	*23.7%*	17	*18.3%*	93
Retail trade	7	*7.9%*	22	*24.7%*	28	*31.5%*	18	*20.2%*	14	*15.7%*	89
Manufacturing	6	*10.7%*	14	*25.0%*	16	*28.6%*	9	*16.1%*	11	*19.6%*	56
Leisure and hospitality	5	*10.4%*	7	*14.6%*	11	*22.9%*	10	*20.8%*	15	*31.3%*	48
Transp., ware., & utilities	0	*0.0%*	11	*29.7%*	8	*21.6%*	6	*16.2%*	12	*32.4%*	37
Health and social assist.	2	*5.9%*	2	*5.9%*	9	*26.5%*	10	*29.4%*	11	*32.4%*	34
Energy, mining, & logging	5	*14.7%*	9	*26.5%*	2	*5.9%*	5	*14.7%*	13	*38.2%*	34
Wholesale trade	1	*4.8%*	2	*9.5%*	6	*28.6%*	1	*4.8%*	11	*52.4%*	21
Finance	1	*5.3%*	1	*5.3%*	4	*21.1%*	7	*36.8%*	6	*31.6%*	19
Information	0	*0.0%*	1	*5.6%*	4	*22.2%*	4	*22.2%*	9	*50.0%*	18
Other	3	*21.4%*	1	*7.1%*	1	*7.1%*	2	*14.3%*	7	*50.0%*	14

Commercial Sector	Change in Exposure: Decrease	%	No Significant Change	%	Increase	%	Total
Agriculture	3	*2.7%*	60	*54.1%*	48	*43.2%*	111
Prof. & business	1	*1.0%*	71	*69.6%*	30	*29.4%*	102
Construction	5	*5.0%*	59	*58.4%*	37	*36.6%*	101
Retail trade	7	*7.4%*	66	*70.2%*	21	*22.3%*	94
Manufacturing	3	*4.5%*	46	*68.7%*	18	*26.9%*	67
Leisure and hospitality	3	*4.9%*	45	*73.8%*	13	*21.3%*	61
Energy, mining, & logging	5	*10.2%*	28	*57.1%*	16	*32.7%*	49
Health and social assist.	4	*8.5%*	35	*74.5%*	8	*17.0%*	47
Transp., ware., & utilities	2	*4.5%*	32	*72.7%*	10	*22.7%*	44
Finance	1	*2.9%*	30	*85.7%*	4	*11.4%*	35
Wholesale trade	1	*2.9%*	28	*82.4%*	5	*14.7%*	34
Information	0	*0.0%*	27	*90.0%*	3	*10.0%*	30
Other	0	*0.0%*	11	*84.6%*	2	*15.4%*	13

III. Revenue and Expenses

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

	Significant Decrease	%	Moderate Decrease	%	No Significant Change	%	Moderate Increase	%	Significant Increase	%
Overall noninterest income	5	*3.3%*	28	*18.3%*	48	*31.4%*	69	*45.1%*	3	*2.0%*
Debit card fee income	2	*1.3%*	15	*9.8%*	70	*45.8%*	63	*41.2%*	1	*0.7%*
Debit card interchange income	5	*3.3%*	20	*13.1%*	64	*41.8%*	60	*39.2%*	2	*1.3%*
Credit card fee income	0	*0.0%*	12	*7.8%*	110	*71.9%*	17	*11.1%*	1	*0.7%*
Credit card interchange income	1	*0.7%*	17	*11.1%*	100	*65.4%*	21	*13.7%*	2	*1.3%*
Fiduciary Activities	0	*0.0%*	1	*0.7%*	116	*75.8%*	15	*9.8%*	1	*0.7%*
Service charges on deposit accounts	1	*0.7%*	19	*12.4%*	68	*44.4%*	62	*40.5%*	2	*1.3%*
ACH	0	*0.0%*	5	*3.3%*	94	*61.4%*	46	*30.1%*	1	*0.7%*
Third Party Payments Processing Fees	0	*0.0%*	4	*2.6%*	109	*71.2%*	26	*17.0%*	0	*0.0%*
Brokerage	0	*0.0%*	2	*1.3%*	108	*70.6%*	18	*11.8%*	0	*0.0%*
Insurance Activities	1	*0.7%*	2	*1.3%*	99	*64.7%*	27	*17.6%*	2	*1.3%*
Servicing fees on loans	1	*0.7%*	5	*3.3%*	79	*51.6%*	53	*34.6%*	4	*2.6%*
Gain on sale of loans	0	*0.0%*	3	*2.0%*	103	*67.3%*	23	*15.0%*	4	*2.6%*
ATM fees	1	*0.7%*	12	*7.8%*	93	*60.8%*	38	*24.8%*	1	*0.7%*
Other	0		0		8		1		0	

Notes: Number of responses = 153
Sum of responses may not equal total number of responses due to missing values

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

	Significant Decrease	%	Moderate Decrease	%	No Significant Change	%	Moderate Increase	%	Significant Increase	%
Overall noninterest expense	0	*0.0%*	16	*10.4%*	30	*19.5%*	100	*64.9%*	5	*3.2%*
Salary and employee benefits	0	*0.0%*	9	*5.8%*	19	*12.3%*	116	*75.3%*	8	*5.2%*
Expenses of premises and fixed assets	0	*0.0%*	10	*6.5%*	87	*56.5%*	53	*34.4%*	4	*2.6%*
Data processing	0	*0.0%*	13	*8.4%*	40	*26.0%*	83	*53.9%*	16	*10.4%*
Advertising and marketing	0	*0.0%*	10	*6.5%*	97	*63.0%*	44	*28.6%*	3	*1.9%*
Legal fees	4	*2.6%*	22	*14.3%*	97	*63.0%*	28	*18.2%*	1	*0.6%*
FDIC deposit insurance	2	*1.3%*	16	*10.4%*	79	*51.3%*	51	*33.1%*	3	*1.9%*
Accounting and auditing	1	*0.6%*	6	*3.9%*	69	*44.8%*	72	*46.8%*	6	*3.9%*
Consulting and advisory	1	*0.6%*	5	*3.2%*	79	*51.3%*	57	*37.0%*	10	*6.5%*
Other	0		0		3		1		1	

Notes: Number of responses = 154
Sum of responses may not equal total number of responses due to missing values

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

	Significant Decrease	%	Moderate Decrease	%	No Significant Change	%	Moderate Increase	%	Significant Increase	%
ATM surcharges	1	*0.6%*	3	*1.9%*	113	*72.9%*	37	*23.9%*	1	*0.6%*
Limits on maximum per transaction amounts for debit cards	0	*0.0%*	5	*3.2%*	112	*72.3%*	31	*20.0%*	0	*0.0%*
Checking account maintenance, overdraft, and per item fees	0	*0.0%*	6	*3.9%*	72	*46.5%*	71	*45.8%*	3	*1.9%*
Proportion of accounts qualified for free checking	7	*4.5%*	28	*18.1%*	92	*59.4%*	25	*16.1%*	1	*0.6%*

Notes: Number of responses = 155
Sum of responses may not equal total number of responses due to missing values

IV. Laws, Regulations, and Guidance

21. Indicate the number of full time equivalent (FTE) staff members devoted to total compliance activities and whether you expect the number of FTEs dedicated to compliance matters to increase **over the next three years**. If possible, estimate the number of FTEs dedicated to each of the following specific compliance areas.

Compliance Related Areas	2013 FTE	Expected FTE Over Next 3 years	FTE Change	% Change
Total Compliance Activities	307.0	463.3	156.3	*50.9%*
Community Reinvestment Act (CRA) performance	83.4	94.3	11.0	*13.1%*
Deposit account compliance, including overdraft rules, Regulation E, and Regulation CC	142.7	173.8	31.1	*21.8%*
UDAP/Fair lending	110.0	142.3	32.3	*29.3%*
Non-mortgage Consumer lending regulations (including deposit advance)	100.6	145.9	45.3	*45.0%*
Bank Secrecy Act / anti-money laundering compliance	120.5	147.8	27.3	*22.6%*
Compliance with mortgage regulations, including RESPA, HMDA, and Regulation Z (i.e. QM/QRM, ATR, SAFE Act)	146.7	200.4	53.8	*36.7%*
IT Compliance (including social media and mobile banking)	104.5	133.4	28.9	*27.6%*
Basel III capital rules	72.2	85.8	13.7	*18.9%*
Other	1	1	0	*0.0%*

Notes: Only depicting values from those respondents that reported both 2013 FTE and Expected FTE Over Next 3 Years

22. Indicate the amount of expenses attributed to total compliance activities in 2013 (including fees from consultants and third party vendors) and the expected average annual compliance expense **over the next three years**. If possible, estimate the amount of expenses attributed to each of the following specific compliance areas.

Compliance Related Areas	2013 $ Expense	Expected $ Expense Over Next 3 years	$ Expense Change	% Change
Total Compliance Activities	12,394,651	22,596,522	10,201,871	*82.3%*
Community Reinvestment Act (CRA) performance	378,782	593,933	215,151	*56.8%*
Deposit account compliance, including overdraft rules, Regulation E, and Regulation CC	1,012,674	2,022,969	1,010,295	*99.8%*
UDAP/Fair lending	833,849	1,674,571	840,722	*100.8%*
Non-mortgage Consumer lending regulations (including deposit advance)	435,205	933,999	498,794	*114.6%*
Bank Secrecy Act / anti-money laundering compliance	1,104,024	2,108,159	1,004,135	*91.0%*
Compliance with mortgage regulations, including RESPA, HMDA, and Regulation Z (i.e. QM/QRM, ATR, SAFE Act)	2,010,682	3,835,611	1,824,929	*90.8%*
IT Compliance (including social media and mobile banking)	647,305	1,299,824	652,519	*100.8%*
Basel III capital rules	160,532	367,435	206,903	*128.9%*
Other (describe)	-	-	-	

Note: Only depicting values from those respondents that reported both 2013 $ Expense and Expected $ Expense Over Next 3 Years

23. Is 1-to-4 family mortgage lending a significant business line for your organization?

Yes	100
No	47

If yes, how will the Ability to Repay and Qualified Mortgage rules affect the loans you will offer **over the next three years**?

	Have Not Offered as a Regular Product	%	Offered But Plan to Exit Over Next 3 Years	%	Will Continue to Offer Over the Next 3 Years	%
Qualified mortgages	6	*6.1%*	3	*3.0%*	90	*90.9%*
Non-Qualified Mortgages	27	*27.3%*	15	*15.2%*	56	*56.6%*
Interest-only loans	79	*79.8%*	8	*8.1%*	10	*10.1%*
Loans that exceed the debt-to-income ratio	50	*50.5%*	26	*26.3%*	20	*20.2%*
Loans that exceed the limits on fees and points	73	*73.7%*	16	*16.2%*	7	*7.1%*

Notes: Number of responses = 99
Sum of responses may not equal total number of responses due to missing values

24. Indicate how you expect senior management and board of directors' 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	54	*36.2%*	85	*57.0%*	10	*6.7%*	0	*0.0%*	149

25. Estimate the budget impact of each of the following strategies your institution expects to incur **over the next three years**.

Strategy	**Budget Impact**							
	Significant Increase	%	Increase	%	No Change	%	Not Applicable	%
Hire staff with compliance subject matter expertise	41	*27.5%*	72	*48.3%*	34	*22.8%*	1	*0.7%*
Technology software upgrades	34	*22.8%*	100	*67.1%*	15	*10.1%*	0	*0.0%*
Outsourcing of internal audit or external consultant fees	36	*24.2%*	72	*48.3%*	39	*26.2%*	2	*1.3%*
Training expenses	44	*29.5%*	86	*57.7%*	14	*9.4%*	1	*0.7%*

Notes: Number of responses = 149
Sum of responses may not equal total number of responses due to missing values

26. Please list your most compelling reasons for optimism about the future of community depository institutions.

- Tradition (waning)
- I am not optimistic. An increase in competition, too many new regulations and compliance requirements for small community banks.
- Agility, responsiveness, resilience
- Community banks meet the needs of small businesses better than do national banks or non-banks. If we adapt, and we do our job well, we will survive and thrive.
- Things move in cycles. I have been in banking for 31 years. We are moving up from the bottom of the economic cycle, regulation is at the highest point in the cycle (second time it has reached this point in my career and has to begin heading the other way soon).
- Strong bank with excellent staff
- We have stood the test of time and consumers enjoy the "community" of community banking
- Manufacturing and farming are expected to increase in our trade area. Offering new retail product due to technology investments
- Loyal customers in small communities.
- Personal Service and Contact with customer, not a number
- Community banks continue to provide the service many people require.
- Consumers want to be "known" by their banker. We focus on great customer service and value relationship banking. Many ag customer relationships span not just careers, but generations.
- We are a hardworking and resilient bunch
- The long successful history
- Our small & rural communities need and depend on their community bank to remain viable in the future. We are here to provide banking services and fulfill that need.
- Solid customer base and good local economy
- Get the CFPB to regulate/examine the unregulated banks/credit offerings instead of piling on the traditional banks and spanking the wrong child.....! That is what was proposed originally to bankers to accept.
- Community banks play a strong role in the economy of each community they are serving. Our products and services are needed and trusted
- As a $53 Million bank, we still matter to the communities we serve. However, having just returned from DC, it appears few understand the community banking model and for those that do, they appear to be a quiet voice in the crowd. It appears no meaningful action is being taken to relieve the regulatory pressure on community banks. The end result would appear to be merger or sale for many.
- The basic need for financial services and our products.
- There are no reasons to be optimistic other than the continued loyalty of our customers.
- Our communities need us.
- Loyalty of bank customers to small independent banks.
- True community banks will prevail in competing with other types of financial entities, due to relationship banking.
- Hard to find any, sorry.
- Local reputation is sound. Management and community involvement good. Local economy sound with oil and agriculture.
- We provide a more customer friendly atmosphere for our customers and are more community oriented and interested in trying to supply their needs
- We are resilient. There seems to be a demand for our services.
- They are the lifeblood of the community!

- Knowledge of local markets
  Relationships with customers
  Ability to implement technology at a moderate cost
- Person to person relationships with electronic convenience
- The increase in our customer base tells me we are on the right track serving the needs of our community through relationship banking.
- Not optimistic under current regulatory environment.
- Moving into nearby, but new market with opportunities.
- By adapting technology through the use of mobile and internet banking and person-to-person relationship building to win customers over to community banks
- None
- Pro service from the big banks.
- Many people still want to speak to a personal banker.
- We understand and do business in communities that would be ignored by larger, consolidated banks.
- The election in 2014 and 2016. We need a change.
- None. One size fits all regulation will decrease the number of financial institutions.
- We still have many opportunities to leverage strong management and provide superior customer service to attract and maintain strong relationships with our customer base.
- Bigs not doing well serving small communities
- Customer service and relationship focus that exceeds the levels delivered by corporate institutions.
- Economic recovery and increased loan demand.
- We are invested in the communities we serve. We take the time to know our customers and provide products / services they need.
- Community Banks remain a key component of our rural Market & the community seems to embrace the local banks--community banking still works in eastern Oklahoma
- By understanding local needs and having personal relationships we can better shape our offerings verses outside competitors.
- Personal service demand greater than rate sensitivity, however, rate sensitivity/pricing greater demand currently
- The need of communities for strong local community institutions
- I have no optimism. I believe there is a definite plan for regulators to reduce the number of community banks. This will be done by increasing the regulatory burden beyond the ability of small banks to comply. Recent evidence has proven what small community bankers have known all along. Testimony by examiners has indicated their superiors have said that if they did not find violations their are not doing their job.
- Community banks are still vital for the local economy.
- Our structure is still the best to respond to the changes in our industry. However, this is very dependent on good leadership.
- I am not sure I have any optimism at the current time. We are just a small community bank. Your survey was not for the small banks. It seems like it just gets harder to be a banker. The tech. is changing. The people are changing. The younger generation wants everything in the way of tech. and they want it free. There is nothing free in this world. Someone has to pay for it.
- There is going to be fewer of us around.
- Community banks know their customers, and community bank employees have a vested interest in the success of their community.
- Difficult, other than we love our community and want to do our best to remain a viable part of it.
- Having difficult time being very optimistic if the regulatory burden doesn't change
- The personal interaction and service that the large institutions cannot provide
- Have none! There will be a significant number disappear.

- In certain markets regional and national organizations don't want to invest and it provides the opportunity for smaller community banks to compete and provide the financial services to rural communities.
- There is a great and growing demand for the community banking model. Ask someone who banks here.
- Decreases in regulations.
- We seem to offer what people want.
- Unless we get regulatory relief for small community banks optimism is gone
- We are able to serve our community as no one else can as we know the needs and can quickly respond to those needs.
- People to people business. Customers like interaction with those they know.
- Community banks provide service, trust and convenience to customers which is not possible to obtain from large impersonal competitors.
- After 20 years in banking with massive increases (completely unnecessary in the small community bank arena) in regulation; red tape & burden, I find it very hard to be optimistic about the future. Too big to fail is more entrenched than ever & small banks are being forced out either intentionally or through complete mismanagement of regulation at the Federal level. Maybe it is just a cycle & as banks get bigger & service to customers fall, a new crop of denovo's & small institutions will re-emerge??
- The need for customer service and meeting product and service demands of customers
- We know our customers and can tailor products and services to meet their needs.
- Small business lending impact is very important to our national economy, without community banks there would be a significant gap in small business opportunities.
- We have good location in growing community. Customers like the personal service and relationships of a community bank.
- I think that community banks that are located in more populated areas of the country will do well. Community Banks can provide the customer service that the consumer is demanding
- Community banks are an endangered class. If we can be one of the survivors, we can be unique in our area.
- Community banking continues to be the primary funding source for rural community development. We have our finger on the pulse of the local economy and do our best to stimulate development of that economy.
- I'm lacking in any optimism for community banks other than the community themselves understand the need for such banks.
- Person to person service
- The public generally still prefers the community bank model vs. the TBTF model.
- Community banks are in demand from the public and seem to have the ability to succeed in spite of absurd regulatory demands.
- Community Banks have and always will be better equipped to serve the needs of their local markets and give back and reinvest in them. We know our markets and customers better than the national and regional players and serve them better.
- Ability to grow and adapt to changing environment. People want to do business with people they know.
- Loan demand is strong. Service offerings are well received by our members and potential members.
- Expect the local economy to improve, as unemployment has dropped
- People respond to relationships
- Consumers will continue to go to community depository institutions that will provide them with the right mix of services they want.
- I have no optimism.
- better personal relationships with members vs. big institutions
- Not much as long as the bigger institutions keep squeezing out the smaller operations.
- Home grown and thriving, I believe we've got a good story to tell and consumers want to deal locally, with financial institutions that are giving back to the community both in time and dollars
- That government will realize the current and future damage to the overall economy with over-regulation and GSEs

- Resilient industry with entrepreneurial attitude. Our community and America needs us to survive.
- I believe there will be an increase in local small business startups that will depend on local Financial Institutions for lending.
- 1. Despite the fact that this is the most aggressively hostile regulatory environment in the past 30 years, community banks still provide one thing the others banks who control this country (the big 20 banks) can't provide: freedom--people are less free when banking with large banks. We are the average person's conduit to the levers of economic power, and many consumers value the access they have to actual decision makers.
  2. At some point in many people's lives, they are abused or left out in cold by their big bank. They discover the need for a bank who creates a program tailored to their particular situation. Many people are discovering that now with the new QM rules.
- Customer preferred business model
- The Big Banks cannot deliver the products the way we can, and never will, so there will always be niche for us...
- People do not trust large institutions. They like smaller home grown institutions.

27. Please list the most significant challenges community depository institutions must overcome to be successful in the future.

- Too Big to Fail, Compliance
- Regulations, compliance
- Regulatory scope and demands, market share
- Increased capital requirements that make it difficult to attract capital in a community bank. Regulatory burden that does not differentiate between institutions of different sizes.
- Getting the politics to a lower level in business. The environment been all driven by public money. Policy needs to change to allow for the private sector to participate in the recovery.
- Regulations
  Interest rate spread
- Compliance issues, TBTF, and a slow recovering economy
- Keeping up with technology and regulatory changes. Adapting to the needs of younger generations. Dealing with an aging population.
- Tolerate the excessive, unneeded, burdensome over-regulation. In a $75,000,000 bank like ours the regulations we have do not benefit our customers at all. The things the regs are designed to protect customers against we would never think about doing, and never did before all the consumer protection was put in place.
- Capital
  Regulation Costs
  Loan Volume
- Cost of funding, cost of technology and cost of compliance
- Regulatory Compliance rules continue to grow at a pace that causes community banks to struggle.
- Regulatory and compliance management
- Regulatory compliance making it harder to inform and service our customer base. With more disclosures required our customers read and understand less and the cost is higher causing our customer less service at a higher cost to them.
- Over regulation & compliance with current regulations.
- Regulatory burdens that neither benefit customers or the safety and soundness of the bank.
- adapting to excessive regulation and micro management
- Regulations and overzealous Regulators....
- Regulations are an overkill and most are unnecessary.
- Identifying and attracting capable management and staff
  Meeting and managing the regulatory burden
  Having sufficient size (economies of scale) to offset the fixed costs of the increasing regulatory burden and technology
  Margin compression
  Ability to attract quality loans
  Unfair, non-bank competition (Farm Credit & Credit Unions)
- Competitive pricing to keep the business. Finding ways to address regulations without having to staff up.
- Regulators that have no concept of the day to day business of the industry they regulate.
- Regulations
- Compliance-Compliance-Compliance
- The most significant challenges exist in the Regulatory Compliance area.

- Regulation, regulation, regulation
- Compliance with a growing multitude of regulations that should not be in place for small banks, ie. we have ceased making home loans. Can't justify the effort and regulatory concerns. Bad situation in small banks with limited staff.
- Increasing competition from non-bank sources. Increased regulation costs and demand on time. Loan volume.
- Regulation and compliance requirements that continue to demand more and more time of our employees rather than providing community banking services.
- Continued expertise to keep up with the changing and challenging regulatory environment.
- Excessive regulation!!!!! Specifically, this mortgage regulation will/has already made it more difficult for good people who are in unusual circumstances, to get a mortgage.
- Regulatory compliance issues
  Being able to offer competitive products
  Dealing with interest rate risk
- Regulatory environment
- Regulatory concerns created largely by the mega bank leaders, and a few "bad egg" bankers
- EXCESSIVE REGULATORY ISSUES
- Regulations, regulations and more regulations.
- Federal regulatory, fiscal, monetary, tax and social policies are destabilizing, poorly managed, and depress confidence and thus cloud the future.
- Community banks in large metropolitan areas will vanish in 10 years.
- This survey was too long.
- Overcome increasing compliance cost and manage investment cost in technology (mobile and internet banking) to get the expected return in revenue that it creates from technology
- Increased regulations and resulting burden on resources, central bank interference in market(s), costs surging faster than income not only for the bank and but its customers.
- Regulation that was designed to protect the customer that is in fact hurting them.
- Having to pay for the on slot of compliance regulations and being able to recoup cost.
- Maintaining a large enough capital and asset base to meet the needs of a constant increase in consolidation of core business.
- The burden of over regulation that one size fits all.
- Regulation Changes
- Increased regulation and easy monetary policy has kept net interest margins compressed and non-interest expense high.
- Compliance costs and net interest margin pressure
- Increasing costs associated with providing newly evolving services and need to provide them in order to compete with larger institutions.
  Non-bank competition.
- Non-bank competition. Continued low interest rates. Net margin spreads when rates do increase.
- Over-regulation. Too many regulators. Bankers must be better connected to our customers and prospective customers to earn their trust and business and yet comply with an overwhelming load of new regulations. Attracting / developing /retaining bank talent is always on my radar as well.
- Regulatory compliance that is " one size fits all " and capital mandates that are not reflective of our own bank

- 1. Dealing with the cost of regulatory compliance.
  2. Employing technology for both cost reductions and product offerings.
  3. Attracting talent and developing leadership,
- Regulatory Cost Burden - Forced to grow to achieve economies of scale and greater earnings to fund Regulatory Burden.
- Regulatory burden
- Regulatory burden and the increased emphasis on finding violations by examiners. Compliance examiners now have a definite "guilty until proven innocent mentality". At one compliance exam I had the EIC brag that he had never rated a bank "one" on compliance and never would. The recent emphasis on using a recently created legal term--disparity-- proves the point. The whole idea of that is that it is impossible to prove a negative.
- Regulations that continue to make it difficult to generate enough income to justify staying in small markets.
- Hiring and keeping good, talented employees.
  Compliance burden is crushing many community banks.
  Developing new sources of non-interest income.
- 1. Competing with the Credit Unions. They don't pay fed. income taxes. 2. Competing with the FSA. a gov. organization lending money at a much cheaper rate. Being able to attract new customers and keeping up with the cost and compliance of the tech. that they will demand.
- Regulation by democrats
- Overcome the crushing regulatory burden coming out of Washington D.C., and contend with the economies of scale too big to fail institutions employ in technology.
- Keeping up with compliance and retain pride in the composite rating of the bank and ability to serve community.
- Regulatory burden and the increased costs attributed to the changes and compliance activities.
- Finding and retaining talent
- Compliance Risk
- Meeting the regulatory and compliance requirements required to be able to provide products and services to customers on a competitive basis without requiring higher lending rates to business and consumers to support products and services needed to attract and retain deposit customers.
- Access to capital
- Being over regulated
- Dodd Frank and Basel III rules
- Over reaching regulation. Consolation of the banking business.
- Politicians and regulators, most of which have little economic knowledge or understanding.
- Dodd Frank two idiots made a law and it hurts community banks and we didn't cause the problems with home loans
- Regulatory compliance in smaller institutions is causing us to exit certain business lines thus we are no longer able for fully serve our community (i.e., 1-4 family residential)
- Regulation is killing the incentive and affordability to move to rural towns. We must have access to housing funding to encourage move to our community. Additionally, Net Interest Margin continues to be challenged, and competition from bank and non-bank for our best customers is ever increasing.
- Over-regulation by the Federal government.
- Regulation; regulation; regulation (excessive & burdensome). Keeping up with technology & being efficient, given their lack of economies of scale.
- Regulations and competition
- regulation & rising interest rates

- Regulations limit our ability to tailor products and services to our customers-want everything to "fit into a box". Cost of compliance gives bigger institutions an advantage because they have more volume to spread those costs.
- Continued increase in regulation requirements. Difficult to survive as a viable business when a larger portion of your bottom line is allocated to new regulations and the threat of higher taxation.
- The compliance burden is costly and biggest concern by far. Next concern is Basal III capital rules and complexity.
- I really believe that a bank needs to be at least $250MM in total assets to be able to support the rising cost of consumer compliance and technology.
- Costs of necessary IT services plus required regulatory oversight requires us to become a larger institution in order to spread the costs. That is a difficult hurdle
- Regulatory compliance is a continual burden that is increasing at an exponential rate. The additional regs often do not improve the customer's financial relationship with the bank but only serve to reduce financial products available to them. Our bank has decided to exit mortgage lending and consumer lending in the last few years due to increasing regulatory scrutiny. Three of the four communities we serve are less than 1000 in population. How do increased regs better serve these community members?
- Regulatory overburden. The "size and scope" of an institution in relation to the amount of regulatory requirements is expensive and burdensome. I foresee stockholders finding if they are not getting a return on an investment that is desirable they would be wise to divest themselves of such an investment.
- Credit union encroachment
- Compliance. A 2-tier regulatory system must evolve.
- Creating a dynamic compliance management system
Competing against Credit Unions and Farm Credit System
Managing Basel III Capital requirements
- The compliance burden continues to increase annually which redirects resources from our primary mission of serving our communities.
- Regulatory burden and government interference with the market place. Out of touch Washington. Compliance regulations that simply add to costs and do not add value or protection to the consumer. Slow economy and huge government debt having a very negative impact on capital markets and employment.
- Deposit growth and the unrelenting challenge of new and expanded regulations.
- Competition from nontraditional financial institutions such as online banks and PayPal.
- Regulatory interference at a micro level nit picking details instead of looking at the regulatory purpose and judging the result
- Continued uncertainty with regulations and compliance.
- Compliance and government regulations.
- To obtain loans and new membership
- Time spent on audits, examinations and compliance that increases expenses and takes away from the activities that expand or grow business and service to the customer.
- New payments systems from non-bank entities. We've got to find a way to collaborate either with them or as an industry to remain competitive. If we don't were out...
- Taxpayer subsidized competition that nobody has the courage to take on from a political standpoint
- TBTF banks, tax-favored credit unions and regulatory system that favors larger institutions.
- Depends on the final version of the Risk Based Capital rules set into place.

- 1. The cumulative burden of ineffective regulation. Community banks are like pack mules walking on the road and each mile they travel a rug is put on their back--the weight of each rug is light but eventually the cumulative burden affects the mule and his ability to keep moving. Each rug is a regulation--and no rugs ever get removed from our backs. The rules on the Federal Flood Act, the Qualifying Mortgage Rules, Privacy Notices, Escrow Regulations, changes in Employment Regulations, ACA requirements, BSA, the government providing significant tax advantages to competitors and not to us (Farm Credit who pays virtually no income tax and we pay full income taxes to a government who competes with us in a retail setting), endless stress testing of loans, investments, liabilities (all of which, surprise, will have limited value to accurately predict risk--if you think I'm wrong, wait til the next crisis and the nice shiny reports of the banks which fail will show a prudently managed risk profile), and a host of other regulations that are producing inefficiency and little or no benefit to the consumer.
  2. The more powerful a government is, the less free its people are. We have a government which becomes more powerful each passing year. The fewer banks we have, the less free our citizens become.
  3. With more and more frequency, our bankers sit across the table with customers and the customer wants something and we want to provide it to them, but the government enters the room (metaphorically, of course) and says that we can't do it--the government has made so many possible transactions illegal--all for the customer's own good, so-called--but it doesn't work out that way--I see actual people who are actually hurt by government regulation. For instance, no one can deny that home ownership is less attainable today than 5, 10 or 20 years ago--solely due to government regulatory action. It is sad, but what is really sad is how most Americans think they are powerless to do anything about it--most prefer to watch American Idol or The Voice and forget about the loss of freedom they are enduring--who can blame them--no one listens and no one cares.
- Too big to fail banks competitive advantage. Outsized percentage of costs to comply.
- Government sponsored competition, Farm Credit, Credit Unions, and of course compliance.
- COMPLIANCE!! OVER REGULATION!! It is not difficult to figure out that regulation is going to continue to squeeze out the community and regional financial institutions. We always here that regulators are on the side of small financial institutions, there actions do not match what they are saying. If we continue on the path that we have "To Big to Fail" institutions will be the norm.
- Net margin compression.
  Compliance burden.
  Industry and non-industry competition.