2014 ICBA Community Bank Lending Survey

Executive Summary

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Independent Community Bankers of America®

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In 2014, ICBA conducted a survey of community banks on their lending activities. The survey provides a valuable benchmark to help gauge community banks' outlook toward areas of lending in the year ahead, real-world data to help policymakers assess the impact of recent rulemaking and insights into barriers that are preventing community banks from better serving their communities.

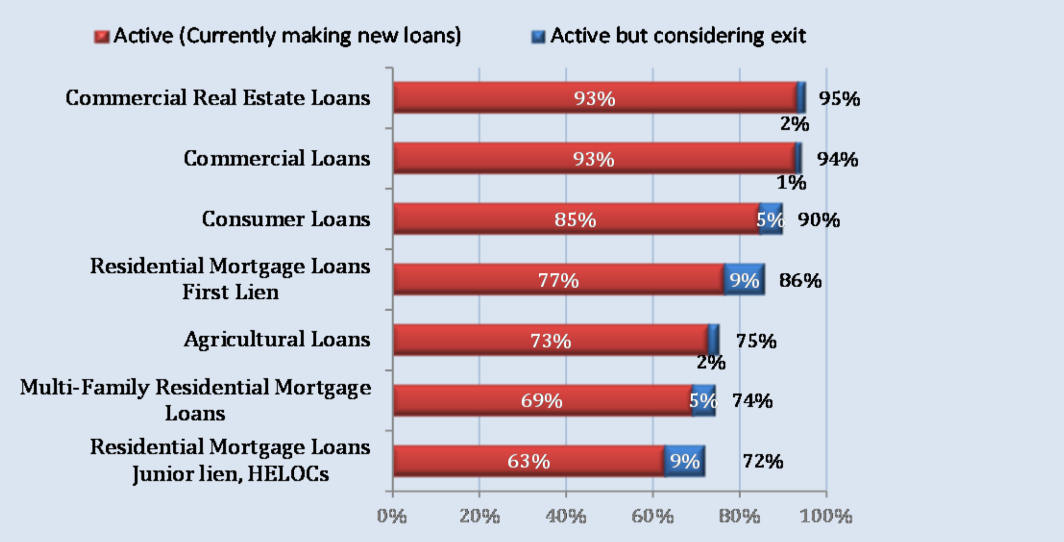
Key Findings:

- Most community banks are full-service lenders, providing many different types of loans to meet their customers' needs.
- Despite challenges, community banks maintain a positive outlook towards most areas of lending.
- The regulatory burden is putting pressure on community banks' residential mortgage lending activities.
- Exemptions from the Consumer Financial Protection Bureau Qualified Mortgage (QM) rule for small and rural creditors are too narrow and risk limiting consumer access to mortgage credit.
- Community banks perceive making non-QM mortgages as a significant risk and are reluctant to do so.
- Community banks' loan underwriting trended towards tighter standards across all lines of lending.

Analysis:

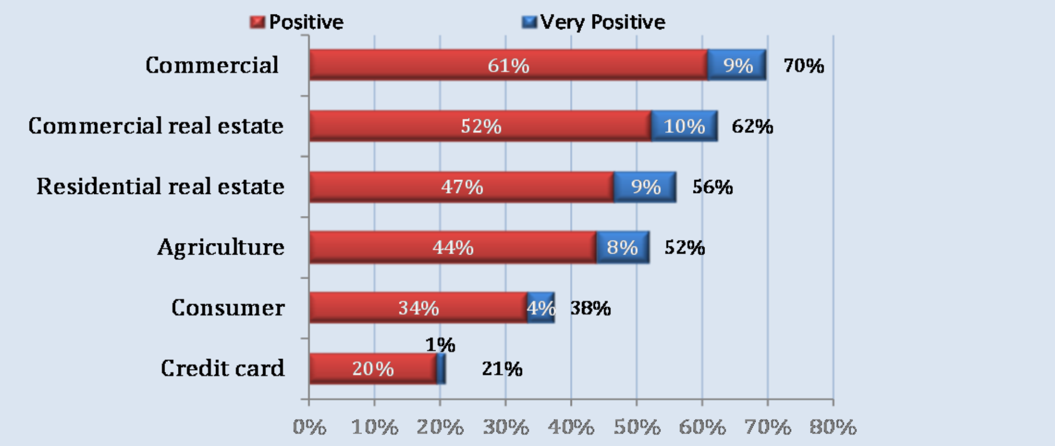
Most community banks are full-service lenders, providing many different types of loans to meet their customers' needs. Almost all banks are active in the area of commercial real estate (95%), commercial, (94%) and consumer lending (90%, Figure 1).

Figure 1: Community Bank Lending Activity in 2013-14 – Active Lending Areas



Despite many challenges, community banks maintain a positive outlook towards most areas of lending over the next two years. The most positive outlook was for commercial lending (70%) and commercial real estate lending (62%). Fewer respondents, though still a majority, had a positive outlook for residential real estate (56%) and agriculture (52%) loans. Only a minority of respondents had a positive outlook for consumer loans and credit cards (Figure 2).

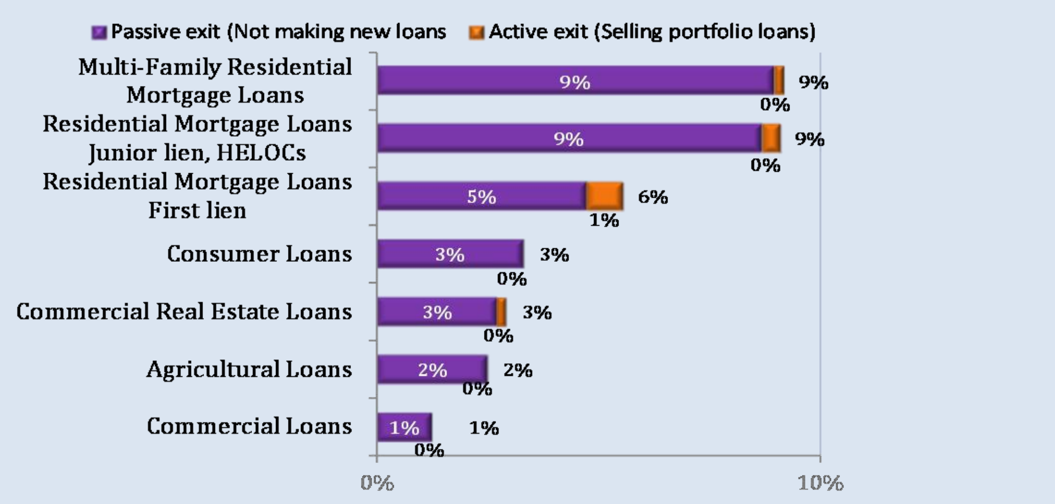
Figure 2: Community Bank Lending Outlook by Area – Positive



Regulatory burden is putting pressure on community banks' residential mortgage lending activities. The regulatory burden of new rules and requirements was the most cited (73%) barrier to making more residential mortgage loans (Figure 5). (Relatively few banks cited this factor for consumer (26%) or commercial (21%) lending.) Additionally, while most banks (86%, Figure 1) remain active residential mortgage lenders, a significant percentage are considering an exit (9%), are exiting from this line of lending (6%, Figure 3) or are not active (9%, Figure 4). A majority of banks reported tighter underwriting in residential mortgage lending (57%) and many reported decreases in originations (44%). Most community banks reported having increased staffing for lending compliance in the last five years (78%).

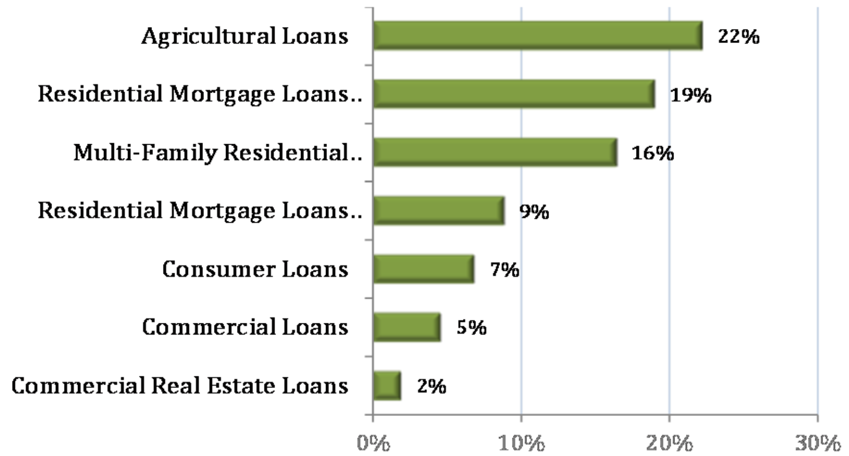
Exemptions from the Consumer Financial Protection Bureau Qualified Mortgage (QM) rule for small and rural creditors are too narrow. Though they meet the asset threshold test of $2 billion or less, two-thirds of banks with $500 million to $2 billion in assets make too many loans (more than 500 a year) to qualify (66%). Half of banks that serve rural areas do not qualify for the "rural" exception (50%).

Figure 3: Community Bank Lending Activity in 2013-14 – Exit Lending Areas



Community banks perceive making non-QM mortgages as a significant risk and are reluctant to do so. Only one-quarter of community banks routinely make non-QM loans (25%). Two-thirds of community banks simply do not make non-QM mortgage loans (44%) or only do so in special cases (22%).

Figure 4: Community Bank Lending Activity in 2013-14 – Inactive Lending Areas

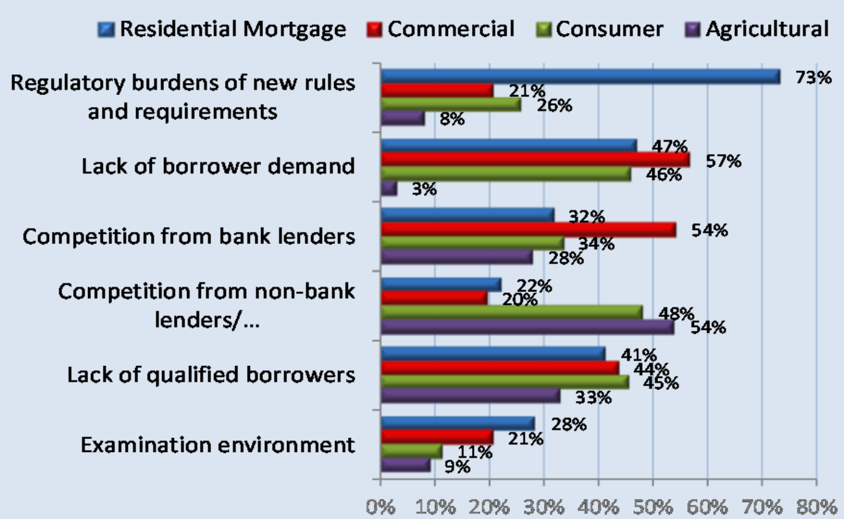


While most community banks reported underwriting standards remained unchanged in 2013-14 compared to the previous two-year period, many more banks reported tighter underwriting standards than looser. About one-in-three banks reported tighter underwriting standards in commercial real estate (38%), commercial loans (32%), agricultural loans (32%) and consumer loans (30%). Less than 1 in 20 reported looser underwriting for any type of lending.

The majority of banks reported increased loan originations in 2014 compared to the previous year for commercial loans (52%), commercial real estate (52%) and agricultural loans (51%). In contrast, a significant number of community banks experienced decreases in consumer loan originations (27%).

Market factors prevented community banks from making more commercial and consumer loans. Lack of borrower demand was cited by a majority of respondents for commercial loans (57%). Just under half of respondents cited this factor for mortgage (47%) and consumer lending (46%). Lack of qualified borrowers was cited by more than four-in-ten banks for consumer (45%), commercial (44%) and mortgage lending

Figure 5: Factors Preventing Community Banks from Making More Loans



(41%, Figure 5).

Competition from other banks, non-banks and government agencies is also an important limiting factor in community bank lending. Competition from non-bank lenders was the top factor preventing banks from making more consumer loans (48%) and competition from bank lenders was the second most cited factor in commercial loans (54%). Agricultural lenders cited competition from the Farm Credit System as the top factor (54%, Figure 5).

Survey Methodology:

The ICBA Community Bank Lending Survey was distributed by email to 6,500 community banks. Between September 15 and October 3, 2014, 519 unique responses were collected on a one response per bank basis, for a response rate of 8.0%. Most responses (79%) came from either the bank president and CEO (59%) or the chief lending officer (20%).

The survey sample slightly over-represents community banks between $50 million and $500 million in assets and under-represents community banks above $500 million in assets compared to the industry below $10 billion in assets. In terms of regulator, charter and ownership type, survey respondents closely reflect the make-up of the industry below $10 billion in assets. When asked to indicate the types of geographic areas they served (multiple selections were allowed), 20% of respondents indicated urban areas, 39% suburban areas and 76% serve rural areas.