

## **Ben S Bernanke: Brief welcoming remarks – “Community Banking in the 21st Century”**

Remarks by Mr Ben S Bernanke, Chairman of the Board of Governors of the US Federal Reserve System, at the “Community Banking in the 21st Century”, a conference co-sponsored by the Federal Reserve System and the Conference of State Bank Supervisors, St. Louis, Missouri, 2 October 2013.

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I would like to welcome everyone to the inaugural Community Banking Research and Policy Conference, co-sponsored by the Federal Reserve System and the Conference of State Bank Supervisors (CSBS). I particularly want to thank the Federal Reserve and CSBS staff members who worked hard to organize this event. By bringing together community bankers, bank regulators, and researchers from academic institutions and government agencies, the conference will help us all to better understand the issues that are most important to the future of community banking. You may have noticed that I referred to this as the “inaugural” conference. Although firm plans have not yet been made, I do hope this will be the first of many joint Federal Reserve System and CSBS conferences that focus on community banking research and policy.

The U.S. banking system has undergone significant consolidation over the past two decades or so, with very large banking organizations increasing their market shares. Nevertheless, community banks (which we typically define as banking institutions with assets of \$10 billion or less) continue to provide vital financial services to households, small businesses, and small farms in communities across America.

Community banking is fundamentally a local, relationship-based business. Community bankers live in the localities they serve; their customers are their neighbors and friends. Their direct, personal knowledge of the local economy enables them to tailor products and services to meet their communities’ needs. They can look beyond credit scores and other model-based metrics to make lending decisions in part based on more qualitative information that large regional or national financial institutions are less well suited to consider. Community bankers recognize that their own success depends on the health of the communities they serve, which is why so many community bankers contribute locally as citizens and leaders as well as in their capacities as lenders and providers of financial services. The photos that you see around the conference center do a very nice job of capturing the spirit of community banking and illustrating the contributions of community bankers.

Although community banks have some natural advantages, such as local knowledge and relationships, they also face significant challenges. As battle-scarred survivors of a financial crisis and deep recession, community bankers today confront a frustratingly slow recovery, stiff competition from larger banks and other financial institutions, and the responsibility of complying with new and existing regulations. Some observers have worried that these obstacles – particularly complying with regulations – may prove insurmountable. My colleagues at the Federal Reserve and I understand these concerns, and we are committed to crafting supervisory policies and regulations that are appropriately scaled to banks’ size and complexity. And we have confidence that the remarkable resilience of America’s community bankers will enable them not only to survive, but also to thrive in the years ahead.

The best way to understand the challenges that community bankers face is to talk to the bankers themselves, and we at the Federal Reserve do that regularly. For example, to ensure that we remain mindful of the unique characteristics of community banks, the Federal Reserve Board established the Community Depository Institutions Advisory Council. This council is composed of representatives of community banks, thrifts, and credit unions from each of the 12 Federal Reserve Districts. Members of the council meet with the Board twice a year, bringing to us the views and concerns of their colleagues back home. Our meetings

with the council have been extremely informative and have improved our ability to understand and respond to community bank concerns.

Of course, understanding those concerns is of limited value unless we use what we have learned in the process of rulemaking. To make that connection, we also established a subcommittee of the Board that reviews all regulatory and supervisory proposals for their potential effects on community banks. The subcommittee also has worked toward communicating more effectively with the industry regarding the extent to which new rules and guidance do, or do not, apply to community banks. I hope those efforts are helping community bankers avoid spending time trying to understand rules that do not apply to them.

One of the strengths of the Federal Reserve System is the quality of the research done by our economists and other professionals. The research we do on community banking helps guide our thinking on regulatory matters and on broader economic trends. In particular, the Board's subcommittee on community banking is regularly briefed on relevant research being conducted across the System. Thus, research findings inform policy, and policy concerns guide research. In fact, after learning about several research projects, the subcommittee suggested that the staff hold a community banking research conference – a suggestion that brought all of us to St. Louis today.

The range of topics that will be covered over the next day and a half is impressive. The first research session this afternoon will focus on the role of community banks in our financial and economic system. Papers in this session examine whether community banks influence new-firm survival, whether equipment finance is a potential growth area for community banks, how community bank failures affect local economic performance, and whether community bank lending relationships in rural areas are fundamentally different from those in urban areas.

Two research sessions are scheduled for tomorrow morning. The first will consider community bank performance, with papers looking at the effect of financial derivatives on community bank profitability, the characteristics of community banks that recovered from significant financial distress, the effect of distance between merging banks on postmerger performance, and the determinants of differences in profitability across community banks. The second session will consider issues of bank supervision and regulation, with papers discussing variations in the stringency of bank examination standards over time and their effect on lending, the effects of the Dodd-Frank Act on community banks, the relationship between community bank capital ratios and the likelihood of failure, and an approach for rationalizing bank supervision and regulation.

As you can see, the papers at this conference cover a variety of important topics, and I expect they will provoke spirited discussions among the many experts in attendance. I must say that I am encouraged to see so many researchers from a wide range of academic and government institutions working on issues of great interest to both community bankers and their regulators.

To close the conference, CSBS Chairman Charles Vice will present a report summarizing information gathered from more than 1,500 community bankers attending town hall sessions across the country over the past several months. In addition, a panel of community bankers will share their own views on the state of community banking and prospects for the future.

Thank you for being here. I wish you an enjoyable and productive conference.