

Michael S Barr: Community banking - the cornerstone of building communities

Speech by Mr Michael S Barr, Member of the Board of Governors of the Federal Reserve System, at the 2025 Community Banking Research Conference, St Louis, Missouri, 8 October 2025.

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Thank you for the invitation to speak to you today.¹ I value the opportunity to spend time with community bankers and fellow federal and state bank regulators. This conference, now in its 13th year, is always a great forum for those interactions. All of us benefit from the research presented here, which helps us understand the opportunities for banks to strengthen communities, and the challenges that community banks face. So, I want to thank the researchers presenting. Thank you also to the Federal Deposit Insurance Corporation (FDIC) and the Conference of State Bank Supervisors (CSBS) for co-sponsoring this gathering, and to the Federal Reserve staff who each year do their part to bring it about. More broadly, I very much appreciate the close and longstanding collaboration between the Federal Reserve, the CSBS, and the FDIC.

Throughout my career, a major focus of my work has been building stronger communities. To do much of that building, households and small businesses need access to credit, and I have known for a long time that community banks and community bankers play an indispensable role in the towns, rural areas, and cities they serve. Stronger community banks mean stronger communities.

Community banks, sometimes the only banking option in a community, offer a consequential difference in customer experience. Even in communities that may also have local branches of larger banks, there is often a considerable, and I think meaningful, differentiation in the customer satisfaction at a community bank. At branches of larger banks, the customer experience can be subject to layers of authorizations involving phone calls and approvals (or denials) from people who are not part of the community and may lack a deep understanding of local industries and conditions. Much of this relates to the understandable need for larger institutions to adopt more standardized and centralized processes, powered by technology, to boost efficiency and lower costs. It is easier than ever before to apply for an increasing variety of loans online, and this is something that community banks are taking advantage of as well. But this is where the benefit that community banks provide really shows.

Community bankers are part of their communities. They know and care about their customers. They have an inherent advantage in understanding the needs and the challenges of local businesses and households. This is not just a matter of being friendly and welcoming to customers. Beyond the numbers on a loan application, what community bankers understand about their neighbors is "soft information" that can be used to make better credit decisions. Relationship banking, especially with local business owners, is critical for those businesses-but also for community banks-because it gives them an ongoing edge in the ever-intensifying competition from larger banks and nonbank lenders. Knowing your customer is also crucial in preventing crime, such as fraud, which remains a top concern for community bankers.

The pressure of competition is a very real challenge for community banks, but the advantages I speak of are real as well. I know you heard yesterday from several banks, including those that are modestly sized and have competed very effectively with much larger banks. Community banks have earned the trust and the business of people in their communities because of an understanding that the banks' successes depend on their communities succeeding. Those common interests are a powerful force that drives customer retention amid all the competition.

What is the future of community banking? I note that the session immediately after my remarks today is "Innovation and Technology in Small Business Lending." Indeed, technology is a big part of this year's conference, so you won't be surprised to hear me say that I believe it is a big part of what will determine the future of community banking. I know you've already gotten the results of this year's Annual Survey of Community Banks by CSBS, where "technology and related costs" ranked second as a concern, behind only cybersecurity, which is itself largely about technology. Most respondents said that the adoption of new or emerging technologies was very or extremely important, and not a single banker said it wasn't important at all.

Until fairly recently, the big technological disruption in banking came from fintech and an onslaught of new lending from nonbanks. This year's CSBS survey reported the largest-ever increase in respondents who saw heightened competition from nonbank payment services firms. Larger banks are also competing with community banks online. Increased choice for small businesses and consumers is a good thing, but community banks have had to continue to innovate to compete. Community banks often turn to third-party service providers to help them offer products and services to compete with larger banks and fintechs. Managing the risks related to these third-party arrangements has been a considerable job for community banks. The Fed and other regulators have offered guidance about this task, to serve as a resource and to make the supervisory implications of third-party risk management as predictable as possible.

As with many of the big questions facing community banking, technology represents risk and opportunity. It allows community banks to reach customers more effectively and to offer new products and services, but it also demands investment and vigilance. One of the challenges for community banks is to adopt technologies or form partnerships that allow them to deepen customer relationships but not attenuate or replace them. In interactions with Federal Reserve supervisors about third-party services, banks tell us that they hear a lot of sales pitches for algorithmic lending, outsourcing customer service, and the like, when what they are really looking for is an app that can enhance relationship banking: their natural advantage.

Any discussion about technological advances has to give prominent attention to artificial intelligence, and I note that later this morning a paper on the use of AI technology will be part of an upcoming session. Before I get into what AI might mean for community banking, let me say that AI has been of particular interest to me, and I have spoken about it several times this year, because of the technology's potential to transform both our economy, and in other fundamental ways, how we live and interact with each other in society.² While there is high uncertainty about these outcomes, I believe that the speed at which AI is being implemented means that we should all be thinking about the full range of possibilities and be prepared for any one of them to come to pass, perhaps sooner than we think.

AI was included for the first time in the CSBS survey in 2024, when AI for customer support was an important focus for 31 percent of respondents, a share that jumped to 47 percent in this year's survey. Of course, earlier forms of AI have been used by larger banks in customer service for many years, and the big development for community banks seems to be that newer forms of GenAI could be lowering costs and expanding access enough to make it cost-effective for smaller institutions.

Customer service is one obvious area where AI could change community banking, but there are others. Cybersecurity and fraud have been and continue to be leading concerns for community bankers, and AI represents new opportunities for addressing these concerns. It is my understanding that automated fraud detection, in particular, hasn't been cost effective for some community banks, which haven't been able to compete with larger banks that have the economies of scale to deploy these services. But the huge buildout in AI capacity now underway, along with the explosion in the number of firms seeking to get into AI-based services, may have the potential for driving down costs enough to make AI-based fraud detection more feasible for community banks.

Yet, AI represents new risks as well as new opportunities.³ In addition to community banks worrying about criminals defrauding them or their customers with forgeries on checks or in credit card transactions, they face a new threat from entirely forged identities, with so-called "deepfakes." Deepfakes use GenAI to recreate voices and images of real people, allowing fraudsters to hold convincing conversations using simulated voices that sound like the individual they are impersonating, responding in ways that person might realistically respond. Using only a brief sample of audio and access to information about individuals on the internet, criminals employing GenAI can impersonate a close relative in a crisis or a high-value bank client seeking to complete a transaction at their bank. What was once the stuff of movies is now a reality, and a lot is at stake. The direct and indirect costs of all cybercrimes have already grown from 1 percent to 10 percent of global gross domestic product.⁴ The use of deepfakes in cybercrime is growing very quickly. According to one source, there has been a twentyfold increase in deepfake attacks over the last three years.⁵

Community bankers also need to be aware of the potential for AI to affect customers' livelihoods. I tend to be an optimist about the potential for AI to make workers more productive, raise living standards, and create more jobs in new industries, but I am realistic in my expectation that it could cause considerable dislocation of workers and businesses, at least in the short run.⁶ Communities dependent on a small number of employers or a single industry that is significantly affected by AI could experience these dislocations. At the same time, the large investments underway in data centers, many of them in remote or rural areas where electricity is less expensive, could bring new business for community banks. For example, during the most recent Community Advisory Council (CAC) meeting, the Federal Reserve Board heard about a major data center built in Ellendale, North Dakota, a community of less than 1,500 people. The CAC member noted that the addition of a major data center had vastly increased the community's needs for services. At this point it is hard to tell how much AI will truly transform the economy and banking, but I think that community bankers will need to be prepared to change, as ever, if your communities are affected.

I have covered a couple topics so far today. I have spoken about the advent of fintech, and the way it is transforming banking and competition between community banks and larger banks-risks and opportunities. I have spoken about technology more generally, and specifically about how artificial intelligence may change the economy and banking. Many of these uncertainties echo those that most workers and businesses are facing in our fast-evolving economy. One group of people that I believe have dealt very effectively with a changing economy are community bankers. Considering the changes that have swept over our banking and financial system over the decades, if you are a community banker sitting here today, that itself is a testament to your ingenuity, resilience, and adaptability. But I would be remiss if I didn't discuss a further challenge to community banks in this regulatory environment-deregulation of large banks.

As community bankers well know, it was not community banks that fueled the 2008 financial crisis-it was the largest, most complex firms whose excessive risk-taking nearly brought down the system. In the years since, strong reforms-higher capital, tougher liquidity requirements, and rigorous stress testing-have helped to safeguard our economy. Yet recent proposed rollbacks in capital standards for the largest banks, in the supervisory framework for large financial institutions, and in the rigor of stress testing of large banks threaten to erode those protections. These shifts would not make the system safer; they would leave community banks once again exposed to the fallout if the largest players stumble. Because we cannot afford to repeat those mistakes, I have spoken out against weakening standards for large banks, and I will continue to do so.

In closing, I'll note my admiration for community bankers who know how to confront uncertainty, to sort out the risks and the opportunities, and make the decisions and investments that have allowed community banks to continue to play the indispensable role you serve for your customers and communities. We all share an interest in responsible regulation, which means promoting the safety and soundness of community banks and compliance with applicable law but also ensuring that regulation is appropriate to the size, business model, and risk profile of regulated institutions. We all want community banks to succeed and continue to play their important role in the communities they serve. One reason that I believe community banking has a bright future is that all the people here today recognize the unique and essential function of community banks in our financial system and are helping to support community banking.

Thank you.

¹ The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board and the Federal Open Market Committee.

² See Michael S. Barr, "[Artificial Intelligence and the Labor Market: A Scenario-Based Approach](#)," speech delivered at the Reykjavík Economic Conference 2025, Central Bank of Iceland, Reykjavík, Iceland, May 9, 2025.

³ See Michael S. Barr, "[Deepfakes and the AI Arms Race in Bank Cybersecurity](#)," speech delivered at the Federal Reserve Bank of New York, New York, NY, April 17, 2025.

⁴ International Monetary Fund, *Global Financial Stability Report*, Chapter 3 (October 2024). See also, "[Why We Need Global Rules to Crack Down on Cybercrime](#)," World Economic Forum, January 2023.

⁵ "Fraud attempts with deepfakes have increased by 2137% over the last three years," Signicat, February 20, 2025, <https://www.signicat.com/press-releases/fraud-attempts-with-deepfakes-have-increased-by-2137-over-the-last-three-year>.

⁶ See Michael S. Barr, "[Artificial Intelligence and the Labor Market: A Scenario-Based Approach](#)."