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](image-url)
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).

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%).

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%).

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

Figure 5: Factors Preventing Community Banks from Making More Loans
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.