THE RISK MANAGEMENT ASSOCIATION'S MISSION

RMA is a member-driven professional association whose sole purpose is to advance sound risk management principles in the financial services industry. RMA helps our members use sound risk management principles to improve institutional performance and financial stability, and enhance the risk competency of individuals through information, education, peer sharing, and networking.
2019 Community Bank Survey Results

Contents

Executive Summary .......................................................................................................................... 2

Key Findings ................................................................................................................................ 2

Risk Management .......................................................................................................................... 2

Regulatory Compliance ............................................................................................................... 2

Consumer/Retail Compliance ...................................................................................................... 3

Examinations ............................................................................................................................... 3

Current Expected Credit Loss (CECL) Model ........................................................................... 3

Lending and Service Products ................................................................................................... 3

Other ....................................................................................................................................... 3

Survey Synopsis .......................................................................................................................... 4

Risk Management .......................................................................................................................... 4

Regulatory Compliance ............................................................................................................... 7

Consumer/Retail Compliance ...................................................................................................... 9

Examinations ............................................................................................................................... 12

Current Expected Credit Loss (CECL) Model .......................................................................... 16

Lending and Service Products ................................................................................................... 17

Other ..................................................................................................................................... 18

Demographic Information ......................................................................................................... 20
EXECUTIVE SUMMARY

In winter 2019, The Risk Management Association (RMA) surveyed community bankers across the United States to identify the trends and issues in risk management affecting community banks. Community bankers whose institutions have assets under $9 billion were invited to respond to the online survey via Verint. The survey collected 129 responses from both RMA members (92%) and nonmembers (8%) from March 5 through March 29, 2019. The responses identified trends and issues critical to community bankers and their organizations.

The survey questions—developed by the Community Bank Council of RMA—focused on:

- Risk management and factors that most threaten a bank’s success.
- Government regulations and their impact on the banking environment.
- The examination process.
- Issues surrounding the current expected credit loss (CECL) model.
- Lending and service product plans.
- And other issues, such as M&A activity and fintech collaboration.

The survey also collected demographic information about the respondents’ functional roles, their institution’s assets, and the region of the country in which their institution is based. The questions were designed to provide value during conversations with regulators and Community Bank Council members.

KEY FINDINGS

| RISK MANAGEMENT | • Survey respondents ranked cybersecurity risk (68%), credit risk (66%), and IT risk (65%), as the most important risk areas. |
| REGULATORY COMPLIANCE | • CECL (60%) and HMDA data collection rules (43%) were cited most often as being unclear or difficult to implement.  
• Increased costs for customers (70%) was the most cited impact of regulation. |
### KEY FINDINGS (CONT.)

| **CONSUMER/RETAIL COMPLIANCE** | • Survey respondents most frequently indicated CRA (65%), equal credit (44%), fair credit reporting (44%), and denials (44%) as areas that prompted increased discussions with regulators.  
• Survey respondents indicated that the biggest challenge for HMDA data collection was training (53.9%), followed by new government monitoring information requirements (53.2%), and then data integrity (46.1%). |
| **EXAMINATIONS** | • 53% of survey respondents whose last exam was done by the FDIC indicated that the FDIC cleared citings in a timely manner.  
• 50% of survey respondents whose last exam was done by the Federal Reserve indicated that the Federal Reserve cleared citings in a timely manner.  
• 52% of survey respondents whose last exam was done by the OCC indicated that the OCC cleared citings in a timely manner. |
| **CURRENT EXPECTED CREDIT LOSS (CECL) MODEL** | • 31% of survey respondents indicated that they are in the early stages of data gathering and 31% indicated that they were in the mid-stage; 4% were ready for CECL implementation. |
| **LENDING AND SERVICE PRODUCTS** | • 70% of survey respondents indicated that they plan to increase small business lending.  
• 49% of survey respondents plan to increase SBA lending. |
| **OTHER** | • 53% of survey respondents said they plan to participate in mergers and acquisitions.  
• New market expansion opportunities (69%) and shareholder return (49%) were cited most often as the catalysts for M&A activity.  
• 58% of survey respondents said they have no plans to collaborate with a fintech. |
SURVEY SYNOPSIS

RISK MANAGEMENT

Survey respondents rated the importance of 12 risk areas in the current banking environment. Responses were based on a scale of 1 to 5, with 1 being the most important and 5 being the least important. Respondents ranked cybersecurity risk, credit risk, and IT risk as the most important risk areas. These three risk areas were ranked as most important in the 2018 survey as well. Reputation risk is seen as the least critical risk area in the current banking environment; in the 2018 survey, capital risk was ranked as the least critical risk area.

The combined rankings in order of importance are:

1. Cybersecurity risk
2. Credit risk
3. IT risk
4. Operational risk
5. Regulatory compliance risk
6. Interest rate risk
7. Liquidity risk
8. Market risk
9. Strategic risk
10. Concentration risk
11. Capital risk
12. Reputation risk

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When we compare 2019’s combined survey results with those of 2017 and 2018, we see that concerns in nearly all risk categories have grown, with the major concerns in the areas of cybersecurity risk, credit risk, IT risk, regulatory compliance risk, and operational risk. (See the following chart.)

All risks, except for reputation risk and regulatory compliance risk, rose in importance compared to the previous year’s survey. Cybersecurity risk has remained relatively unchanged from the 2018 survey.
In response to questions about factors (internal or external) that most threaten the bank’s success in the next 12 months, respondents most frequently cited:

1. IT risk/data security/cybersecurity.
2. Deposit gathering/funding.
3. Net interest margin.
4. Talent attraction and retention
5. Bank competition.

According to respondents, the top five factors that most threaten success were found to be more worrisome in 2019 than they were in 2018.

Note: “Talent attraction and retention” and “bank competition” did not rate in the top five obstacles in the 2018 survey.
REGULATORY COMPLIANCE

The survey results indicate that respondents often perceive existing regulations to be confusing or difficult to implement. Respondents ranked eight regulations based on a scale of 1 to 5, with 1 being the most unclear or difficult to implement. When we combine the No. 1 and No. 2 ranked responses, CECL (60%) and HMDA – data collection rules (43%) were cited most often as being unclear or difficult to implement. Respondents in the 2018 survey also indicated Residential Mortgage Regulations, HMDA – data collection rules, and Information Security Expectations were highly confusing or difficult to implement. CECL was not ranked in the 2018 survey.

The YOY comparison chart below shows that the regulations continue to cause confusion/difficulty, though, in the 2019 survey, fewer respondents indicated confusion/difficulty than in the 2018 survey for seven of the eight categories. CECL was ranked for the first time in the 2019 survey and was cited as the most unclear/difficult to implement by 60% of the survey respondents.
Survey respondents were asked how these regulatory demands have affected customers. Increased costs for customers was the most cited impact of regulation in 2017, 2018, and 2019.

**Impact of Regulations on Customers**

- **Increased costs**: 20% (2017), 60% (2018), 70% (2019)
- **Difficulty explaining regulations to customers resulting in lack of understanding**: 18% (2017), 50% (2018), 69% (2019)
- **Slower response time to meet customer requests**: 17% (2017), 59% (2018), 66% (2019)
- **Less product flexibility to meet individual customer needs**: 19% (2017), 64% (2018), 61% (2019)
- **More intrusion into customer privacy**: 14% (2017), 24% (2018), 49% (2019)
- **Fewer products offered to the market**: 12% (2017), 34% (2018), 37% (2019)
CONSUMER/RETAIL COMPLIANCE

RESIDENTIAL MORTGAGE MARKET

We asked survey participants if their bank had exited the residential mortgage market in the last three to five years. Seventeen percent of respondents said “yes.” Their reasons for exiting this market were mainly due to increased costs (38%).

Twenty percent of respondents indicated that their bank plans to offer residential mortgages, while 28% of respondents indicated that their bank plans to offer residential mortgages using HELOC.
EXAM FOCUS

We asked survey participants to indicate the areas of examiners’ focus. Respondents most frequently indicated CRA (65%), equal credit (44%), fair credit reporting (44%), and denials (44%) as areas that prompted increased discussions with regulators. Respondents most often indicated increased citations for CRA (4%), Fair Credit Reporting (3%), and Redlining (3%).

In 2018, survey respondents indicated overdraft protection (45%), equal credit (43%), and denials (43%) as areas that prompted increased discussion.
HMDA Data Collection

We asked survey participants what challenges they face related to HMDA data collection requirements that became effective January 1, 2018, for loans secured by residential property. The biggest challenge was training (53.9%), followed by new government monitoring information requirements (53.2%), and then data integrity (46.1%). Training also was the biggest challenge in our 2018 survey.
EXAMINATIONS

Fifty percent of respondents said that the FDIC was the most recent examiner of their bank.

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<thead>
<tr>
<th>Most Recent Examiner</th>
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<tbody>
<tr>
<td>FDIC</td>
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<tr>
<td>Federal Reserve Bank</td>
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<tr>
<td>OCC</td>
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FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

In the 2017 survey, we asked participants whether or not their last exam was a fair assessment of their bank. In the 2018 and 2019 surveys, we broke this question into parts that included the exam experience for safety and soundness, compliance, IT and security, wealth/trust, and CRA. Compared to last year’s surveys, the 2019 survey respondents’ exam experience was more positive in regards to the exam being a fair assessment; the 2018 experience was less positive than in 2017. In 2019, fewer respondents indicated that the FDIC was focusing on the correct areas than in 2017 and 2018.

FDIC Exam Assessment
Percentage of Respondents with Positive Experience

<table>
<thead>
<tr>
<th>Current exam is a fair assessment*</th>
<th>Focusing on correct areas for bank</th>
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<tbody>
<tr>
<td>86%</td>
<td>83%</td>
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<tr>
<td>76%</td>
<td>83%</td>
</tr>
<tr>
<td>80%</td>
<td>78%</td>
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</table>

*Composite of fair assessment of safety and soundness, compliance, IT and security, wealth/trust, and CRA.
Fifty-three percent of survey respondents indicated that the FDIC cleared citings in a timely manner.
Federal Reserve

In the 2017 survey, we asked participants whether or not their last exam was a fair assessment of their bank. In the 2018 and 2019 surveys, we broke this question into parts that included the exam experience for safety and soundness, compliance, IT and security, wealth/trust, and CRA. Compared to last year’s surveys, the 2019 survey respondents’ exam experience was the same in regards to the exam being a fair assessment; the 2018 experience was less positive than in 2017. In 2019, more respondents indicated that the Federal Reserve was focusing on the correct areas than in 2018.

Fifty percent of survey respondents indicated that the Federal Reserve cleared citings in a timely manner.
In the 2017 survey, we asked participants whether or not their last exam was a fair assessment of their bank. In the 2018 and 2019 surveys, we broke this question into parts that included the exam experience for safety and soundness, compliance, IT and security, wealth/trust, and CRA. Compared to last year’s surveys, the 2019 survey respondents’ exam experience was less positive in regards to the exam being a fair assessment; and the 2018 experience was less positive than in 2017. Additionally, in 2019, fewer respondents indicated that the OCC was focusing on the correct areas than in 2018.

Fifty-two percent of survey respondents indicated that the OCC cleared citings in a timely manner.
CURRENT EXPECTED CREDIT LOSS (CECL) MODEL

We asked survey participants how they were preparing for CECL. Thirty-one percent of respondents to the 2019 survey indicated that they are in the early stages of data gathering and 31% indicated that they were in the mid-stage; 4% were ready for implementation. The percentage of banks ready for CECL implementation is up slightly over 2018.

Eighteen percent of respondents indicated that they are considering outsourcing, while 45% have already decided on a third-party vendor. Twenty-three percent of respondents indicated that they will handle CECL requirements in-house.

For those who plan to outsource, 34% indicated a lack of internal resources as the primary reason. Other reasons include:

- Lack of expertise (19%).
- Lack of clear guidance (17%).
- Lack of available data (7%).
- Other (13%).

We asked respondents what CECL calculation methodology they were considering. Thirty-five percent said they were still exploring and had not decided on a methodology. Thirty-four percent of respondents indicated that they would use the expected loss method.
Survey respondents reported that their lending plans for credit products in the next 24 months include increasing/decreasing lending in certain areas. Plans for increased lending were reported most frequently for small business lending (70%) and SBA (49%). Survey respondents indicated that the biggest decreases will be in retail (13%), highly leveraged transactions (13%) and hospitality (12%).
OTHER

MERGERS/ACQUISITIONS

We asked respondents if they have any merger/acquisition plans. Fifty-three percent of respondents said that they have plans to participate in mergers and acquisitions—either as an acquirer (48%) or seller (5%)—within the next 24 months.

Compared to the 2018 survey, we see that plans to participate as an acquirer have increased and plans to participate as a seller have decreased.

The reasons for participating in merger/acquisition activity are multifold, but new market expansion opportunities and shareholder return were cited most often as the catalysts for M&A activity in the past three surveys.
FINTECH COLLABORATION

We asked survey participants if their banks were considering collaborating or were currently collaborating with fintechs to gain efficiencies in the following areas:

- Small business loans.
- Consumer loans.
- Cash management services
- Other areas.

Fifty-eight percent of respondents said they have no plans to collaborate with a fintech; 19% are already collaborating with a fintech, and 16% are considering collaboration. Respondents who are currently collaborating with a fintech do so mostly in the consumer loans area (10%). Respondents who are considering collaborating with a fintech plan to do so mostly in the areas of small business loans and cash management services (15%).
DEMOGRAPHIC INFORMATION

The survey respondents represented a cross section of the United States, with the majority of the respondents’ institutions headquartered in the Midwest (26%), the Northeast (23%), and the Southeast (21%). The remaining 30% of respondents represented institutions headquartered in the Northwest, West, and Southwest regions of the country.

Respondents’ functional roles varied, but, as in previous years’ surveys, the majority of the responses came from C-suite executives.

As in previous surveys, more than half of respondents work at banks with under $1 billion in assets.