Spring 2024

Community Banking

Will Holland
wholland3@murraystate.edu

Community Banking

A Backbone In The Financial Infrastructure

By

Will Holland

Project Submitted in partial fulfillment of the

requirements for the

Bachelor of Integrated Studies Degree

April 18th , 2024

Abstract

This research paper is going to go in depth of the definition and characteristics of community banks and their significance in the United States economy. Starting with the historical parts of the banks and when they started becoming popular and leading to how the evolution and growth of these banks over time has had a huge importance in what they are today. This goes into how they create jobs for small communities and help with local employment. Local banks provide services for communities that don’t have access to larger banks. Compared to larger banks, they are always more available and helpful when it comes to personal needs. Community banks are very helpful with local needs because they aren’t automated. Large banks in today's society make it hard to figure out simple problems. This ties in with how the banks highly contribute to community projects and with this, community banks give economic stability for areas that need it. Talking about stability for surrounding areas leads to the roles that they play in economic downturns. Community banks give a diverse landscape in the financial world, which leads to the impact on the overall economic health. Being small, these community banks run into a lot of struggles. There is a lot of competition with these banks, which leads to many regulatory challenges, technological advancements, and opportunities for adaptation.

To sum it all up, this paper will go into a recap of the crucial role that the community banks play, and recognize and support their continued importance in the United States Economy.

Table of Contents

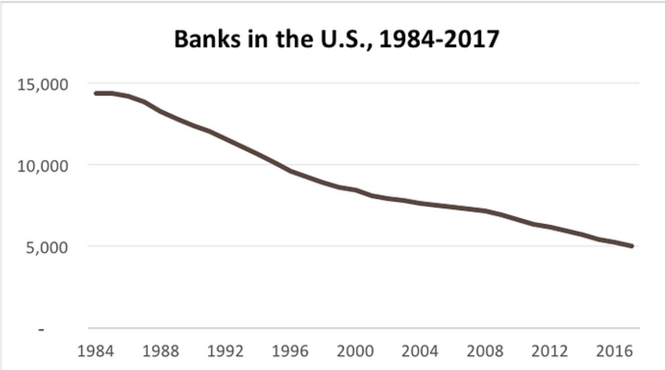
Introduction

Community banks are a backbone in today’s world. A community bank is a commercial bank that derives funds from and lends to the community where it operates, and is not affiliated with a multibank holding company. Since they are a smaller type of bank, they normally don’t have nearly as many branches or the types of products compared to a larger bank. There is technically no definition for "community bank.” They are usually just smaller banks that serve customers in a specific geographic area (Investopedia, 2022). “Community banks play a vital role in the functioning of the U.S. financial system and the broader economy, from lending to small business owners and farmers to providing critical banking services in small towns and rural communities across the nation. As the lead federal regulator for community banks, the FDIC monitors industry trends and provides technical assistance in a variety of ways, including training videos, research, and workshops,” (Community Banking Research Program, 2023). Over time, using dollar figures to define a community bank becomes hectic. Inflation and industry growth make these numbers a lot less meaningful. The term “community bank” is used more loosely for marketing reasons. It is still very common for a larger depository institution to describe itself as a "community bank" (Investopedia, 2022). What sets community banks apart from large institutions is the help they provide in a community. Unlike larger banks that may take deposits in one state and lend in others, community banks focus their loans to the neighborhoods where their depositors live and work; doing this helps local businesses and communities thrive (ICBA, 2024). According to the Independent Community Bankers of America’s research, they found that community banks provide 60% of all small business loans, and 80% of all agricultural loans. They also found that 81% of community bank loan applicants were satisfied with their experience, compared with 68% at large banks, 62% at finance companies, and 48% at online lenders. Community banks' net satisfaction score of 77% topped large banks by 15 points, finance companies by 25 points, and online lenders by 48 points (ICBA, 2024).

Historical Context

The roots of community banking can be traced back to the early 19th century when independent banks were established to help the financial needs of local businesses and individuals. These banks were very involved in the communities they served. During this period, community banks were a turning point in financing local agriculture by contributing to the economic development of their respective areas. The relationships between bankers and their clients were built on trust, personal connections, and a shared commitment to the community. "Way back in 1889 my family started a small, community bank in Somerset, a quaint little town tucked away in the Laurel Highlands of southwestern Pennsylvania. For some context, at that time, there were roughly 63 million people in the United States and approximately 11,000 banks to serve them. Fast forward to 2017 and our population has exploded to more than 320 million yet the number of banks has plummeted to less than 5,000 nationwide, fewer than half the number of banks we had 125 years ago." (George Cook, 2020).

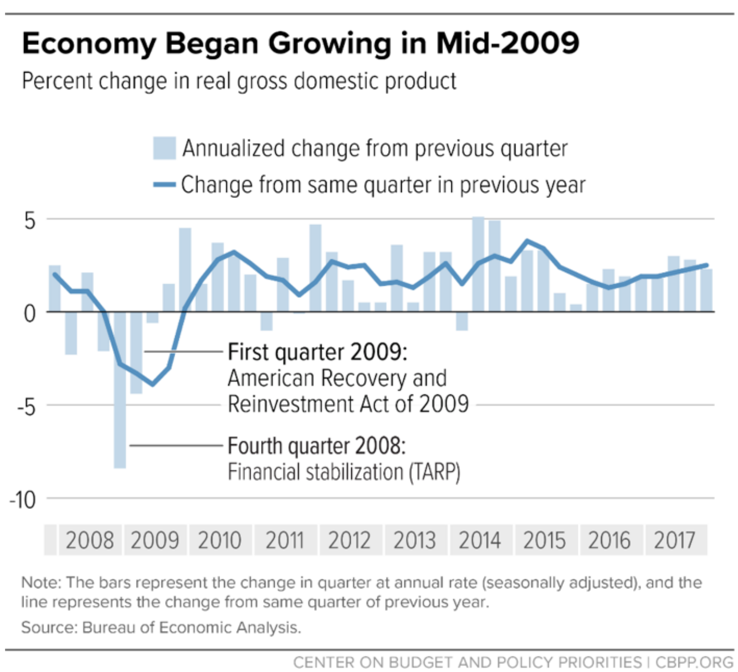
Over the last few decades, the number of banks in the United States has been based on the health of the economy, the regulatory landscape, and other economic factors.



Source: Federal Reserve Bank of St. Louis - https://fred.stlouisfed.org/series/USNUM (2020).

The Provident Institution for Savings in Boston was the first savings bank to be built in the United States. The bank was founded by James Savage, and other prominent Bostonians including William Elery Channing, Josiah Quincy, Elisha Ticknor, Thomas Dawes, Samuel Elliot, and Thomas Handasyd Perkins among others. The institution was predicated on the idea that savings banks would encourage thrift and self-improvement of the poor of Boston without subjecting them to the so-called moral corruption associated with outright charity. By offering their customers dividends on savings, the Provident would encourage them to keep their money in the bank for longer periods of time, rather than spend as they earned it. During the 19th century, this bank kept growing. They started investing in real estate, which helped them expand so much more. The Provident became a subsidiary of Hartford National Corporation in 1986 and continued to operate as the Provident Institution until it was merged with Shawmut Bank in 1992 (Database news, 2020).

As the 21st century unfolded, community banks faced new challenges from globalization, increased competition, and rapid technological changes. The rise of online banking and fintech showed both threats and opportunities for community banks. While some struggled to keep pace with technological advancements, others embraced innovation to brighten customer experiences and operations. The 2008 financial crisis, originating in the housing market, had a big impact on the banking sector as a whole. Community banks were often stronger than their larger counterparts due to their conservative lending practices and focus on relationship banking. The crisis showed the importance of community banks in maintaining financial stability at the local level. The main cause of the 2008 crisis was the falling house prices in the United States and a rising number of borrowers that were unable to repay their loans. House prices in the United States hit their highest around the middle of 2006, following with a rapidly rising supply of newly built houses in areas. As the house prices began to decline, the share of borrowers that failed to make their loan repayments began to rise. Loan repayments were very sensitive to house prices in the United States because the proportion of US households with large debts had gone up a lot during the boom and was higher than in other countries (Reserve Bank of Australia, 2019). In September 2008, Lehman Brothers, a major investment bank that was heavily involved in the mortgage market, declared bankruptcy. This event sent shockwaves through the global financial system, causing a loss of confidence in other financial institutions.



Source: https://www.cbpp.org/economy-began-growing-in-mid-2009

Economic Impact

Community banks play a vital role in shaping and sustaining local economies, serving as building blocks that support small businesses, individuals, and community development. Their unique characteristics and commitment to local financial services are a huge contributor to economic growth and stability. One of the most notable contributions of community banks to the economy is their support for local businesses. Unlike larger financial institutions, community banks possess a personal understanding of the economic landscape within these service areas. This local knowledge allows them to tailor financial products and services to meet the specific needs of small businesses, helping them thrive and contribute to the overall economic vitality. Community banks, deeply familiar with the local economic landscape, consider community needs in their lending decisions. In contrast to larger national banks that may rely strictly on quantitative analysis, community banks leverage their understanding of local market dynamics to approve more business loans. Notably, community banks account for 36 percent of all small business loans, which is twice their proportion of total loans within the banking sector. (Hailey Palmer, 2023). Community banks are more likely to provide small business loans to local entrepreneurs who may face challenges accessing credit from larger banks. These loans help small businesses to expand, create jobs, and improve economic activity. By offering financial support and guidance to entrepreneurs, these banks produce the creation of new businesses that bring new ideas and services to the local economy.

Community banks are known for their personal approach to banking, helping them to build strong relationships with local people and businesses. This relationship-oriented banking creates an environment where business owners can seek advice, share ideas, and form partnerships. “Employees of community banks pride themselves on the value they put on their clients as individuals. Many of them know their clients on a first-name basis and consider them neighbors. Because these relationships are important to them, employees of community banks tend to have a higher quality of service and flexible decision-making. Community banks thus have lower turnover rates than the megabanks” (Crews bank & Trust, 2023). Community banks play a crucial role by providing banking services to individuals and communities that may be underserved by larger institutions. These banks are more likely to offer affordable checking and savings accounts, as well as mortgage and personal loans. Additionally, community banks often invest in community development projects, further helping the overall improvement of the local economy. Whether through funding for affordable housing, infrastructure projects, or community initiatives, these banks are constantly participating in shaping the economic landscape of the areas they serve. “Community banks conduct business at a higher standard of ethics because they themselves are members of the community. Understanding that their behavior and practices directly affect their community, their assets are invested in small, local businesses rather than national or international industries, which is common among megabanks” (Crews Bank & Trust, 2023).

Lessons Learned

Farmers State Bank of Alto Pass (FSB), founded in January of 1910, is an independently owned, community bank located in southern Illinois with four branch locations. In 1994, Thomas W. Franks of Harrisburg, IL purchased Farmers State Bank of Alto Pass. Mr. Franks had been blessed in his business endeavors with coal mining but, because of the unpredictability of the industry, decided to diversify. He saw a great opportunity for growth in the banking industry in southern Illinois and in 1994, Franks purchased Farmers State Bank of Alto Pass. Franks maintains an active role in the bank as Chairman of the Board, along with his son, Ryan Franks, Vice Chairman of the Board, and son-in-law, Charles M. Holland, CEO of FSB. The family does not hold a passive interest in the decision-making process, but instead is heavily invested in all aspects of the bank. When Charles was elected CEO in early 2017, he had his work cut out for him. Earnings were down, company culture was diminishing, and selling the bank wasn't out of the question for the Franks family. Charles quickly recognized these detrimental issues and knew if he didn't address them immediately, someone else's name would be on Farmers State Banks' door. Thankfully, in August of 2017, FSB enrolled with the Emmerich Group under Mr. Holland's direction. In banking, standing still or not growing often means your competitors are going to pass you up and growing for growth's sake isn't necessarily a wise business decision. Farmers State Bank experienced massive growth between 2017 and 2023, and it has been the right kind of growth; organic growth. By looking at the numbers, one can witness proof of this growth. Their ROA has seen a phenomenal increase from 0.91% in 2017 to 1.96% in 2023. This correlates to their ROE increasing from 9.15% in 2017 to 22.57% in 2023. Not to mention their asset size increasing to $194,525,000 to $329,764,914.87 today. To say the present and future of Farmers State Bank is bright is an understatement.

Who They Serve

Their customers are served from four locations including Harrisburg, Marion, and Alto Pass, Illinois. Alto Pass is a village in Union County, Illinois and is home to the flagship location of Farmers State Bank. FSB has 94 employees who are members of the community, many who have been with them their entire careers. Farmers State Bank has seen a huge transformation when it comes to the people we serve and how they serve them, especially their top 100 customers and prospects. In 2017, Farmers State Bank had a total of $150,456,000 in loans, and $174,914,000 in deposits. They were seeing growth, but nothing that would make them the number one bank in the area, so they changed their approach. With new systems and standards in place, they began to deliver a greater value to their customers which resulted in $186,085,000 in total loans, which was a record breaking number for FSB. Due to this growth, Farmers State Bank was announced the number one mortgage lender in the greater southern Illinois region for 2020, 2021, and 2022. They also saw their total deposits grow to $298,815,473.31. “This is a number we are extremely proud of considering FSB was looking to purchase other banks solely to acquire their deposits five years prior.” (Charles Holland)

Their Culture

Farmers State Banks’ culture wasn’t always as healthy or as strong as it is today. When they initially enrolled in the Emmerich Group, there were several people on the team who did not fully buy into their culture change. It has been a slow process, but as of the summer of 2023 every employee at the bank is fully on board with our new ways of being and in the appropriate position at the bank. The shift is extremely noticeable and is easily recognized in their numbers as well as the employees’ attitudes. The team loves spending time together and our morale is the highest it’s ever been. In previous years during their quarterly celebrations and staff events, employees would come, put in their required time, and leave. Now they look forward to the next celebration and it’s difficult to make them leave. They have created a culture with employees that not only love to work together, but also one where everyone knows how they contribute to our bottom line. Everyone has three employee-specific goals that are measurable and directly tied to profit. These are reviewed and revised every quarter and it is always made clear where an employee stands. They believe that is why their culture survey scores have gone from a 5.1 in 2017 to a 6.7 out of 7 in 2023.

Financial Literacy

Farmers State Bank believes the only way it will continue to be a successful institution is through the success and financial health of our community. In a society that has made money complicated and intimidating, they strive to make money easy and approachable. One way they do this is through their partnership with Zogo Finance, a gamified and interactive mobile app that makes financial education more fun and engaging for young adults. Zogo teaches various aspects of personal finance in a way that allows people to go at their own pace and receive rewards, such as gift cards, for advancing to the next level. In 2021, they hosted a monthly webinar series known as the MyFSB Small Business Success Series. They hired nationally known speakers to present to their customers over Zoom on their area of expertise. Topics included Business Valuation and Succession Planning, Hotel Valuation, Profit First, Navigating Workers Compensation, Improv for Business, How to Pitch, 5 Ways to Increase Revenue in the Next 90 Days, and How to Hire the Best.

Another way they make financial literacy more approachable is through their bank-led community mastermind class. FSB offers four free mastermind sessions throughout the year, each touching on a different financial topic, for their customers. The small group meets weekly over lunch hour at a neutral location and fosters a safe environment for its members to be vulnerable about where they stand financially, ask questions, and speak to financial experts including accountants, financial advisors, personal bankers, etc. Their goal is to create a safe space for their customers to learn and walk away with a full assessment of where they stand financially, along with a plan on how to live out their financial dreams.

Philanthropy

Farmers State Banks' philanthropic efforts are deeply rooted in their love and faith in their community. Not only do they give to the schools, churches, and other organizations but they find new ways to volunteer and give something more important than money, our time. Over the course of the year, a Farmer State Bank employee can be found at just about any fundraising event that takes place in our community. The Farmers State Bank/Franks Family Scholarship funds over $10,000 in scholarships annually to local High School students through the Southeastern Illinois College (SIC) Foundation. These scholarships are used to help students with tuition, fees, and books associated with attending SIC.

Customer Service

Farmers State Banks' philosophy is simple: No one serves you better. They have made customer service a number one priority and are dedicated to upholding this standard. They know companies live and die by first impressions and that having good customer service is no longer good enough. They must be extraordinary if they want to survive. To do this, they had to take extreme measures to hold everyone on their team accountable. No longer is their customer seen as a transaction, but a relationship with specific needs that must be met in order for them to be placed in the right account or take out the right loan. This view is learned through the 7 Step

Sales Process their team has practiced and perfected over time. Interactive weekly trainings are held with all tellers and new account representatives where they role-play, review phone etiquette, questions and product information. Farmers State Bank was voted #3 Best Bank in Southern Illinois for the 2022 Southern Illinoisan Readers' Choice Awards. This award is not something to look at lightly since it is voted on by the people living in the community. Employees are mystery shopped on our standards and those who receive a "10" are recognized and celebrated by our executive team. Our mystery shopping remains at an average score of 90%. FSB implemented a new Customer Relationship Management (CRM) system in 2022 helping to bridge communication gaps with employees internally and our customers externally. It has extremely enhanced our already incredible customer service by allowing us to track interactions with customers and share that information across the entire bank. Innovative Approaches Farmers believes in meeting customers where they are. They understand people live busy lives, so we have invested in creating ways to make banking more convenient for them.

During the financial crisis in 2020-2021 due to COVID-19, Farmers State Bank was a leader in assisting small businesses in need of financial support through the PPP loan process. As an approved SBA 7(a) lender, Farmers State Bank is well-known for its guaranteed lending department and was extremely prepared to take on the high volume of loan requests from customers seeking relief in our community and throughout the country. In total, the team successfully processed loan applications from over 1,486 small businesses, amounting to approximately $93 million that will help keep over 3,955 jobs in their region.

Challenges Community Banks Face

Community banks face a unique set of challenges in today's financial world. Compliance with regulatory standards remains a challenge for community banks, especially in the later parts of the world financial crisis. Heightened regulatory scrutiny, stringent capital adequacy requirements, and compliance costs cause big problems for smaller institutions, making it a lot harder to innovate and compete effectively. The rapid pace of technological advancement shows both opportunities and threats to community banks. While advancements in digital banking offer ways for enhancing customer experience, streamlining operations, and expanding market reach, they also add more to the competition and heighten cybersecurity risks. Community banks need to invest in digital infrastructure, fintech partnerships, and cybersecurity measures to remain relevant in an increasingly digitized financial ecosystem while still preserving the personalized touch that distinguishes them from larger institutions. Community banks are constantly trying to keep up with their security, compared to larger institutions. People are familiar with and are always going to be concerned with these threats.

During the 2020 COVID-19 pandemic, many community banks across the United States shut down most of their branches. Doing this led to many banks switching more so to services such as mobile banking, remote deposit capture, and electronic bill payment (Federal Reserve Bank of Minnesota, 2022). "As banks shift toward digital solutions and become more reliant on technologies and third parties, they are increasingly vulnerable to cyberattacks. According to Federal Reserve System information reported by supervised financial institutions, the top threats currently impacting the financial sector are ransomware, phishing, external-facing application vulnerabilities, system misconfigurations, and Distributed Denial of Service attacks, which often result in the disruption of services." (Dane Scofield, 2022).

Below is a summary of steps that community banks should take, according to CISA and the Federal Financial Institutions Examination Council (FFIEC):

1. **Review the information security program.**

"The FFIEC Information Security booklet states that a comprehensive information security program should identify, measure, mitigate, monitor, and report on cybersecurity-related risks. Banks need to ensure full compliance with core cybersecurity hygiene measures such as using multi factor authentication that help with backing up critical data, and applying security updates as they are released. Banks with remote employees must use a combination of a virtual private network, MFA, and strong passwords before allowing access to internal bank networks. Bank-owned devices, such as laptops and cell phones, should contain appropriate security software that will lock down or wipe the devices if they are lost, stolen, or compromised."

2. **Provide routine cybersecurity awareness training for all employees.**

"Since community banks heavily rely on employees as their first line of defense, banks need to practice periodic phishing exercises and test whether employees will open attachments or click embedded links in fake emails. They need to add additional training for all employees who fail multiple tests, which is crucial for minimizing the risk of future phishing attacks."

3. **Confirm that the organization's entire network is protected by multiple security tools.**

"Banks need to establish defined processes and oversight to monitor security operations. Because phishing is one of the most common initial attack vectors, banks need to ensure that email filtering blocks spam, known malicious indicators, and suspicious Internet Protocol (IP) addresses. Banks should also scrutinize password-protected ZIP files and disable macro scripts for documents transmitted via email to prevent ransomware delivery. A properly configured endpoint detection and response solution can proactively address real-time threats before they cause damage."

4. Enforce a robust patch management program.

"A robust patch management program should identify, prioritize, and deploy available software patches to ensure all network components, such as firewalls, computers, and mobile devices, are updated timely. Banks or their third parties must conduct frequent scanning and penetration testing to identify and remediate critical and high-severity findings in a timely manner. Banks should prioritize patching of Internet-facing servers where known exploits exist and automate updates where possible to expedite routine tasks throughout the patching process."nk

5. Protect, segregate, and routinely test backups.

"Many ransomware variants attempt to find and delete any accessible backups, so it is essential that banks maintain multiple copies of critical data. Banks should ensure backup keys are encrypted, stored in multiple geographical locations, and periodically tested to ensure they work when needed. Banks using cloud-based backups should ensure access rights to these cloud-based copies are restricted to employees that need it."

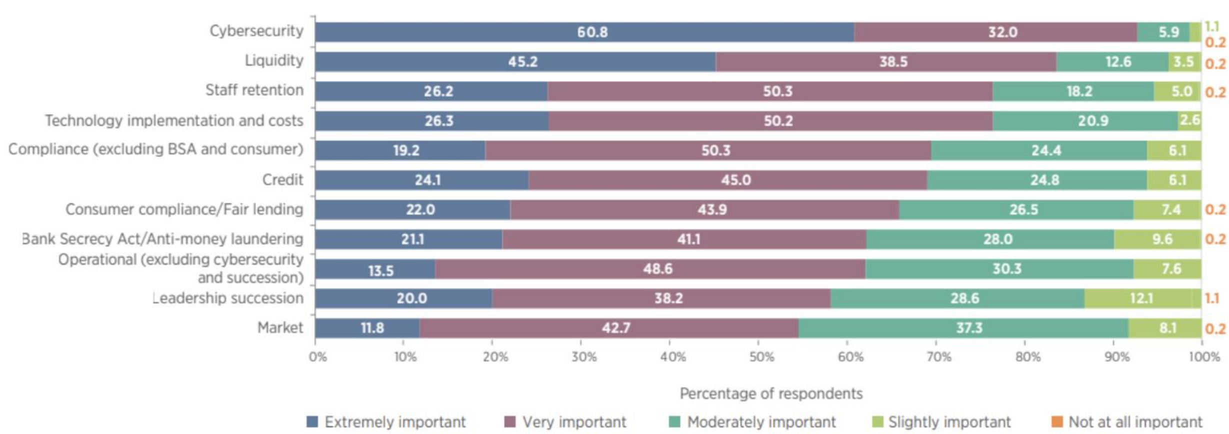
6. Evaluate critical vendor contracts and security controls.

"It's important that banks monitor and review all connections between third-party vendors and the bank's internal network for suspicious activity. Banks should enforce MFA with third parties when possible and confirm that critical service providers have appropriate cybersecurity controls in place to maintain essential services, protect critical customer data, and preserve customer confidence during extended outages. For cloud service providers, banks should ensure that any sensitive information exchanged is encrypted and recoverable within the time frames established by contract service-level agreements."

7. **Review, update, and test the incident response plan.**

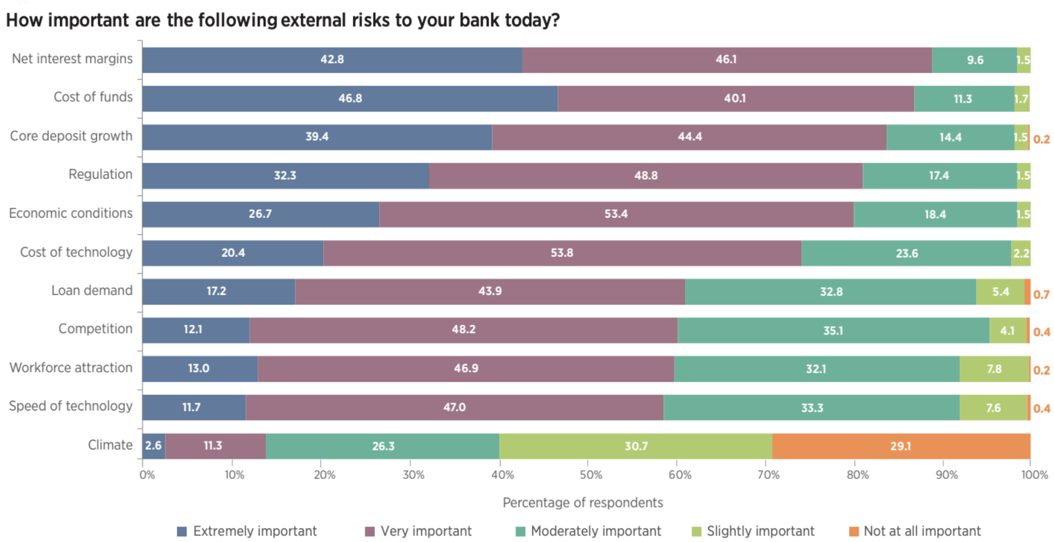
"Major cybersecurity incidents can be chaotic and time consuming, and they can require strong collaboration among bank staff, law enforcement, regulators, and service providers. These incidents can result in significant disruption and can be costly to an organization. CISA strongly recommends using the Joint CISA and Multi-State Information Sharing & Analysis Center (MS-ISAC) Ransomware Guide to respond to ransomware attacks. Bank leaders should designate an internal crisis response team to discern and document incidents as they occur and promote an efficient response with other internal and external stakeholders. Bank staff should also participate in annual tabletop exercises to ensure that they understand how to manage major cyber incidents."

Source: 2023 CSBS Annual Survey of Community Banks (PDF).



Bankers voted cybersecurity as the top internal risk, with almost 92% voting it as either "extremely important" or "very important". Even though this is high, this number is down from about 96% in 2022. Liquidity was ranked number two most important internal risk. To put it into a historical perspective, the CSBS report said liquidity was shown as the highest internal risk in the 2019 annual survey. Dylan Clarkson said, “Liquidity is, of course, a concern for all of us,” he also mentions, “As best we can, we must make sure that we’ve got ample sources of liquidity and a stable core deposit base.” Banks also face external risks, such as cost of funds, loan demand, and economic conditions. Below is a chart showing these risks and how important they are to community banks across the nation (Federal Reserve Bank of St. Louis, 2023).

Source: 2023 CSBS Annual Survey of Community Banks (PDF).



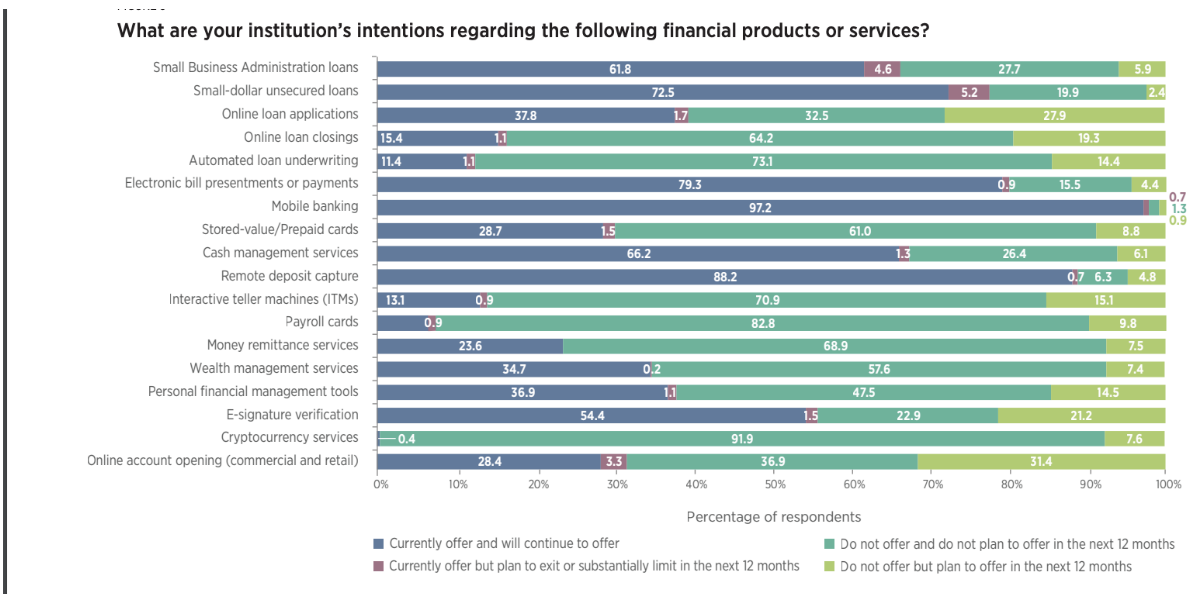
This figure shows that the largest percentage of bankers listed net interest margins as either “extremely important” or “very important.” Cost of funds was shown as the second most important external risk. Almost 86% of bankers classified it as either “extremely important” or “very important.” (Federal Reserve Bank of St. Louis, 2023).

Community Engagement

Community engagement plays a vital role in helping with sustainable development and prosperity within local communities. Community banks have a unique way to facilitate and strengthen community engagement efforts. They often engage with their local communities through various activities, such as sponsoring local events, supporting local charities, and participating in community outreach programs. They may also host financial literacy workshops, offer scholarships, and actively involve employees in volunteer activities to strengthen their ties with the community. Building personal relationships and understanding the unique needs of the community are key aspects of community bank engagement. Farmers State Bank of Harrisburg held a large community event to educate the citizens on estates, wills and retirement. They go into the schools and universities semi-annually to teach financial education. They sponsor most all community activities in the markets they serve, and they sponsor soup kitchens, homeless shelters, sports, theater, and band. Employees of Farmers State Bank are on local boards, serve at community events, coach youth activities, and serve in churches.

Community banks prioritize personalized service. They take the time to understand each customer's different financial situation, preferences, goals, and needs. This personalized approach helps them to provide specific solutions and advice that align with the customer's specific needs (Midwest One Bank). Over a certain period of time, community banks will develop trust and familiarity with their customers. Consistent interactions, reliable service, and a deep understanding of the customer's financial history are some of the things that help build this trust. Customers will feel more comfortable talking about their financial means and seek guidance from professionals they know and trust (Midwest One Bank, 2023). By keeping an ongoing relationship, community banks can find their customers' ongoing financial needs. Through regular communication and connection, community banks can suggest appropriate products or services, provide guidance, and give financial advice that helps customers achieve their long-term goals (Midwest One Bank, 2023). Community banks often have a local presence and are easily accessible to their customers. This proximity enables quick responses to inquiries, efficient problem-solving, and a higher level of customer service with a personalized resolution to their concerns (Midwest One Bank, 2023). Community banks are deeply rooted in the local communities they serve and provide for. They have an understanding of the different challenges and opportunities within the community and participate in its growth and development. By supporting local organizations and activities, community banks contribute to the overall growth and well-being of their customers and the community as a whole (Midwest One Bank, 2023). Attached is a survey that lists some of the products and services that community banks offer and their importance. These services contribute greatly to how much they engage with the community and their needs.

Source: 2023 CSBS Annual Survey of Community Banks (PDF).



Social Media and digital marketing is another primary tool that community banks use to engage with the community. Banks use tools to segment audiences based on their demographics, behaviors, and needs. For example, if someone has a loan with a bank but not a checking account, they can target an ad encouraging them to open a checking account through their website. The more personalized they can be in their messaging the higher the chance the customer will interact with them. Creating detailed customer personas helps the bank understand the pain points, needs, and motivations of the different types of customers. Banks can engage with their customers using social media polls, Surveys, and quizzes. This not only helps the bank receive positive feedback, but can help make the customers feel involved. Educational content through social media is also a great way to drive up community Engagement. Farmers State bank has a podcast called “Isn’t That Rich” where they help educate their customers on financial issues. A great thing about this podcast is that it helps build a sense of community with their listeners. Within this online community, they can engage with each other and with the bank through the comment section. Showcasing their expertise in financial topics helps build trust with their followers, leading to more engagement as they view them as a trusted source of financial wisdom. Within each episode, they have a call to action that encourages their listeners to either check out their website, join a mailing list, follow them on social media, or leave them a review. Banks also feature other local businesses on their social media. This helps humanize the brand of the bank. Sharing stories helps create compelling narratives that customers want to engage with the post. Sharing stories can help create nostalgia or deeper curiosity for that customer.

Another way a bank can create community engagement is by mailing gifts or personalized letters to their customers. This is a great way to get customers to interact with them. By giving our customers a personalized gift or letter, they are more likely to respond with a thank you, a phone call, or even transfer their business over to them.

Job Creation and Employment

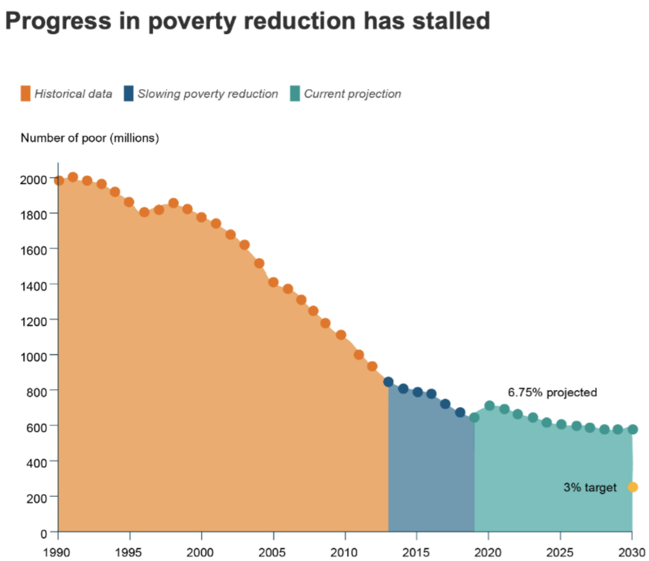
Community banks play a crucial role in the economic development of local communities, especially in creating job opportunities and employment. Unlike larger banks, community banks understand the unique needs of local businesses and residents. Community banks are known for their emphasis on lending to small businesses. These businesses are often the staple of local economies, providing goods and services while creating employment opportunities. Community banks, with their personalized approach to lending, often extend credit to small businesses that may not meet the requirements of larger banks. By providing capital to these enterprises, community banks facilitate their growth and expansion, which in turn leads to the creation of new jobs within the community. One of the main ways that banking can boost job creation is by providing businesses with access to capital. Bank loans can help companies purchase new equipment, expand their facilities, and hire more workers (Faster Capital, 2022). Community banks are constantly investing in local development projects. This includes affordable housing initiatives, infrastructure improvements, and community facilities. These projects not only enhance the quality of life for residents, but it helps generate employment opportunities in various scenarios. When doing this, jobs like construction, real estate, and retail are produced.

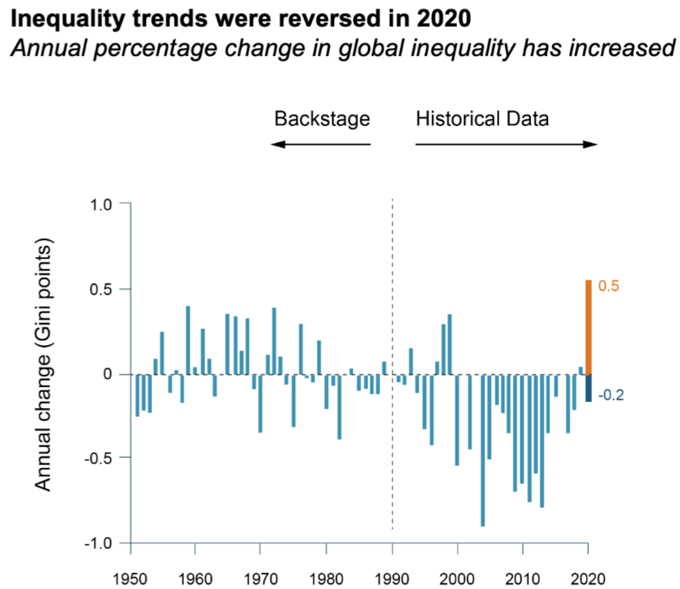
Community banks will often get together with local governments and nonprofit organizations to identify and fund projects that align with the community's needs. Community banks can recognize the importance of investing in human capital to help drive economic growth and development. They can often provide training and development opportunities for their employees, equipping them with the skills and knowledge needed to excel in their roles. Community banks prioritize hiring local talent, creating employment opportunities for individuals within the community. Community banks play an active role in local networking events, business associations, and community gatherings. By fostering connections between businesses, entrepreneurs, and job seekers, community banks help facilitate job matches and promote economic growth. Additionally, community banks often sponsor events and initiatives that showcase local talent and promote job opportunities within the community. “Community banks are more than just financial institutions. They are economic catalysts, community builders, and educators. They underpin local economies, support small businesses, promote inclusivity, and invest in their communities. They are not just about transactions; they're about relationships, service, and community growth. As we navigate the financial future, the value and importance of community banks to the economic and social fabric of our communities remain clear. They continue to be essential contributors to the vibrancy and resilience of our local economies across the United States” (Tess Bower, 2023).

Financial Inclusion

Financial inclusion is the effort to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Financial inclusion works to decrease the limitations that exclude people from participating in the financial sector and using these services to improve their lives (Webinar Network). Financial inclusion is crucial for fostering economic growth and reducing inequality within communities.

Community banking plays a big role in promoting financial inclusivity by providing accessible and personal financial services to underprivileged populations. Despite significant advancements in global finance, many people, particularly in underprivileged communities, still lack access to basic banking services. Community banking is a crucial part of filling this void, offering localized and personalized financial solutions to those who are often overlooked by traditional banks. “In recent years, the world has faced many unprecedented shocks and stresses that have exacerbated existing development challenges, all of which have disproportionate impacts on the most vulnerable, especially women and girls. People living in poverty constantly juggle an evolving set of risks and crises in their daily lives. However, the additional challenges posed by the COVID-19 pandemic, inflation, climate change, conflicts, and other shocks have intensified poverty and inequality.” (Sophie Sirtaine, 2023). Many underserved communities lack physical access to banking. This limits their ability to utilize banking services. A big portion of the population remains unaware of the benefits and services offered by community banks. This leads to underutilization of available resources. Regulatory requirements and compliance costs often pose challenges for community banks, limiting their capacity to serve marginalized populations profitably.

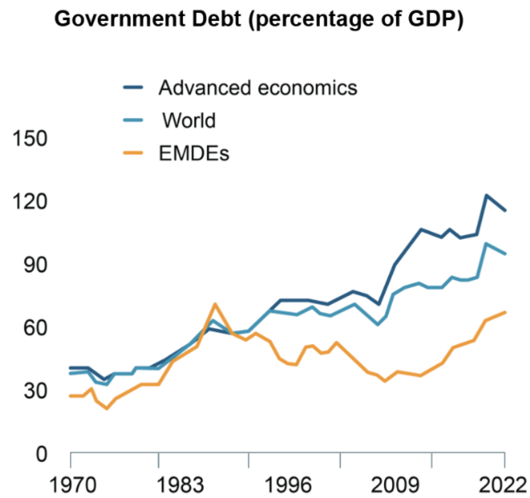




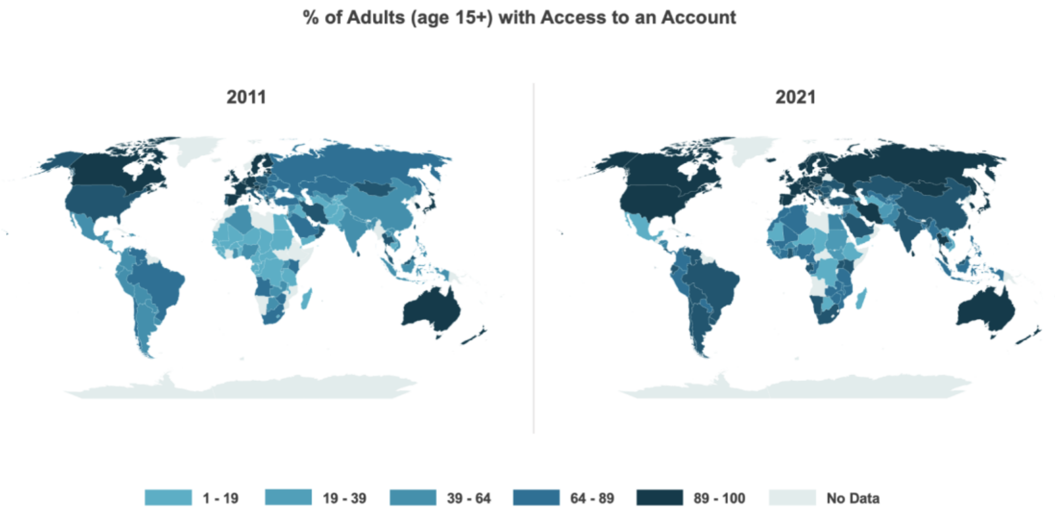
Sources: World Bank estimates based on Mahler, Yonzan, and Lakner,forthcoming; World Bank, Poverty and Inequality Platform, https://pip.worldbank.org; World Bank, Global Economic Prospects database, https://databank.worldbank.org/source/global-economic-prospectsSources: World Bank estimates based on Mahler, Yonzan, and Lakner,forthcoming; World Bank, Poverty and Inequality Platform, https://pip.worldbank.org; World Bank, Global Economic Prospects database, https://databank.worldbank.org/source/global-economic-prospects

The World Bank now projects that 7% of the world's population, more than half a billion people, will remain in extreme poverty in 2030 (Sophie Sirtaire, 2023). Meanwhile, record-high debt levels constrain the ability of countries to respond to these challenges, with the total external debt of low-income countries growing from 17% of gross national income in 2011 to 48.5% in 2021 (Sophie Sirtaire, 2023).

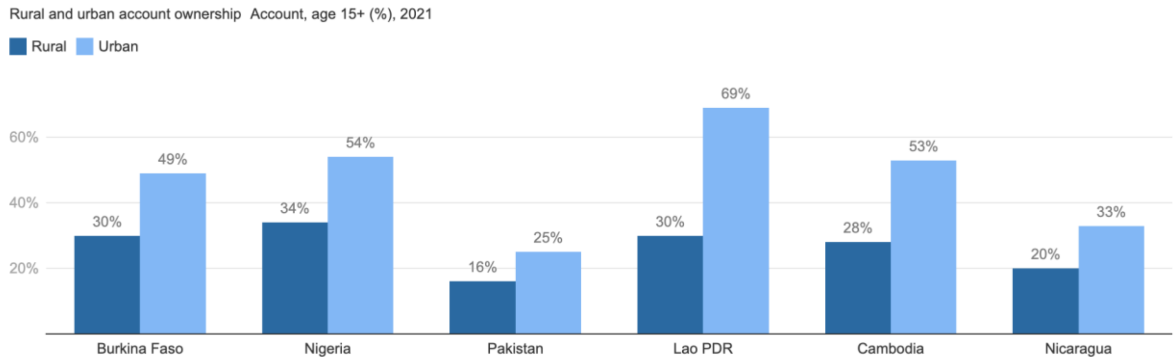
Source: Source: Guénette, Justin Damien, M. Ayhan Kose, and Naotaka Sugawara (2022). *Is a Global Recession Imminent?" Equitable Growth, Finance, and Institutions Policy Note No. 4, World Bank, Washington, DC.



Against the backdrop of such a hard global context, financial inclusion is vital for the foundation of building a more inclusive, resilient, and green world. Without access to finance, people sometimes can't safely save to invest in the education of their children or in other life-enhancing strategies; micro and small entrepreneurs struggle to invest in their businesses to make them grow and increase the income of their households; unemployed youth struggle to build futures as self-employed entrepreneurs; and women cannot exercise full agency and decision-making. Without access to finance, low-income households and Micro and Small Enterprises struggle to build financial buffers or buy protection against the shocks they may face throughout their lives. And, without access to finance, they often cannot participate in a green transition, adapt to climate change autonomously, or take advantage of green technologies (Sophie Sirtaire, 2023).



"However, while access to accounts has increased significantly globally, there remain significant regional differences: access remains lower in Central America, most of Africa, the Middle East, and in the poorest countries in South and East Asia. In fact, in 45 developing countries, access remains below 50%, and in another 23 countries, access is above 50%, but usage is below 50%. In fragile states, access is even lower, with only 37% of adults having access to an account" (Sophie Sirtaire).There are some in the world who are still excluded from financial services. Women lag behind men and the gender gap in financial access has increased in all regions of the world, except in the Middle East and North Africa region and in Europe and Central Asia. In 41 countries, there is still a 10% gap between men and women in access to finance. In countries affected by fragility, conflict, or violence, women are 37% less likely than men to have access to an account. Similarly, the gap in access to finance between rural and urban areas is significant in many countries (CGAP Leadership Essay Series, 2023).



Source: Global Findex

Progress has been much more limited in terms of the depth of financial inclusion. As measured in 2021, only 25% of adults in Lower and Middle Income Countries saved money at a financial institution or using a mobile money account, compared with 58% in High-Income Countries. Only 23% of this same population borrowed money from a financial institution or used a mobile account, compared with 56% in HICs (Global Findex, 2022). Getting back into community banking, they should engage in outreach efforts to raise awareness about their services and educate underserved populations about financial literacy and management. Embracing technology, such as mobile banking and digital payment solutions, can expand the reach of community banking services and improve accessibility for remote communities. Community banks can collaborate with local organizations, government agencies, and fintech companies to leverage resources and expertise in addressing the unique needs of marginalized communities. Policymakers should explore regulatory reforms that reduce compliance burdens on community banks while ensuring consumer protection and financial stability. Offering affordable and accessible banking services ensures that unbanked and underbanked individuals can participate in the formal financial system. Offering no-frills savings accounts and low-cost transaction accounts enables financial inclusion at the grassroots level. This promotes financial saving and enforces financial security (Investopedia, 2024).

Stability and Resilience

Stability in community banking has many different meanings, including financial stability, operational stability, and regulatory stability. Financial stability is the ability of community banks to maintain capitalization, liquidity, and asset quality to uphold the market conditions. Operational stability is the efficiency and effectiveness of internal processes, risk management practices, and technology infrastructure. Regulatory stability is compliance with regulatory requirements and adherence to banking practices to mitigate risks and ensure long-term viability.

Several factors that influence the stability of community banks are market dynamics, regulatory environment, technological advancements, and risk management practices. Market dynamics such as interest rate fluctuations, competition from larger financial institutions, and shifts in consumer preferences can impact the profitability and sustainability of community banks. Regulatory environment plays a big role in the operating environment for community banks, with compliance requirements and oversight influencing their stability and resilience. Technological advancements show both opportunities and challenges for community banks, opening up innovation in service delivery while also investments in cybersecurity and digital infrastructure. Some of the effective risk management practices are credit risk assessment, asset-liability management, and liquidity risk management, which are essential for maintaining stability in community banking. The downfall of First Republic Bank shows ways for community banks to manage risks the right way. Later on, JPMorgan Chase received the bulk of First Republic's assets (Lambert.com). To get away from the vulnerability like First Republic

Bank experienced, community banks need to mix up their deposit baseline by getting attention from new customers. This can be obtained through specific services or products and marketing strategies that are directed to specific customers. In addition, keeping a different portfolio decreases the impact of economic problems and helps promise long-term stability. Banks need to have a balance of their investments. (Lambert.com). To dampen the impact of interest rate inflations, banks need to watch their interest rate exposure by looking into their asset-liability composition. Looking at interest rate risk management strategies can help against uncertain rate inflations. Banks also need to keep an even balance between floating and fixed rate assets. Constant stress testing and scenario analysis can help with having an idea of the potential impact that interest rate changes on the bank's financial health and profitability (Lambert.com). Transparent communication is really important for keeping and building a customer's confidence and ability to trust a bank. Banks need to give constant updates on their customers' financial status. To add to this, speaking one-on-one with larger depositors can lead to success in addressing specific concerns and locating where they could run into financial problems. Banks also need to interact with customers through community events and customer feedback channels to talk about any potential concerns (Lambert.com). Community banks have a significant opportunity to expand their operations by tailoring financial solutions for high-net-worth individuals and businesses. To thrive in this sector, these banks must analyze the shortcomings of their peers and emulate the strategies of industry frontrunners. A critical takeaway is the necessity of delivering personalized services to affluent clients. While technology plays a crucial role in enhancing efficiency and providing tailored advice, it should not undermine the personalized touch that clients value. Banks that neglect to offer superior service and attention may find it challenging to maintain client loyalty. Furthermore, it is vital for banks to ensure one-size-fits-all approaches and instead offer financial solutions that address the specific needs and objectives of each client. Given that wealth management and services for high-net-worth individuals are subject to stringent regulations, banks need to keep abreast of legal changes and ensure their operations comply with industry norms. Lastly, it is important for banks to judiciously select fintech collaborations that resonate with their core values and objectives. By learning from past mistakes and implementing industry best practices, community and regional banks can effectively leverage opportunities within the wealth management and high-net-worth client sectors. (Lambert.com). Community banks should seize the opportunity to utilize new federal programs for devising plans and resolution strategies. The recent collapse of First Republic Bank underscores the importance of having robust plans to restore financial stability and maintain essential operations during periods of distress. By participating in the BTFP, banks can access various emergency liquidity facilities, which help prevent the need to rapidly sell securities at a loss. Furthermore, banks ought to develop thorough recovery and resolution plans that incorporate strategies for capital and liquidity replenishment, as well as effective communication methods with stakeholders. Regularly testing and updating these plans is critical to ensure banks are equipped to handle unexpected difficulties and mitigate potential disruptions to their services and customers. By adopting a proactive stance on contingency planning and resolution strategies, community and regional banks can enhance their resilience and success when faced with unforeseen challenges. (Lambert.com). Community banks can gain valuable insights by incorporating the lessons from the failure of First Republic Bank into their strategic planning. By analyzing the factors that led to the bank's downfall and assessing their own susceptibility to similar risks, banks can make well-informed choices concerning their growth strategies, risk tolerance, and resource distribution. This proactive strategy helps banks to identify and strengthen potential vulnerabilities while seizing opportunities, thus securing their long-term success in the competitive and ever-changing financial services industry (Lambert.com).

Strategies for Long-term Resilience

1. **Diversify Investments**:A crucial element of developing financial resilience involves diversifying one's investment portfolio. Allocating investments among different types of assets, including stocks, bonds, real estate, and alternative options like cryptocurrencies, helps reduce the risk tied to market volatility. For example, in the 2008 financial crisis, portfolios that were well-diversified generally performed better than those focused predominantly on one type of asset. (Fastercapital.com).

2. **Create an Emergency Fund**: An emergency fund acts as a cushion in times of unforeseen financial difficulties. Most financial advisors suggest setting aside between three to six months' worth of expenses in an account that is both liquid and easy to access. This fund can support individuals through periods of unemployment, health crises, or other sudden expenditures, preventing the need to depend on costly debt. (Fastercapital.com).

3. **Develop a Financial Plan**: Developing a detailed financial strategy is essential for sustained financial stability. It's important to think about aspects such as budgeting, managing debt, and saving for retirement. Consulting a financial advisor to devise a personalized plan that fits your goals is a wise step.(Fastercapital.com).

4. **Continuous Learning and Adaptation**: The financial landscape is constantly evolving. Keeping up-to-date with market trends, investment options, and financial planning tactics is essential. Participating in workshops, engaging with financial publications, and exploring online courses can enhance your financial understanding. The ability to modify your financial approach as needed signifies resilience. (Fastercapital.com).

5. **Risk Management**: Grasping your risk tolerance and managing it effectively is crucial. Investments with higher risks might yield higher returns but are also more volatile. It is vital to find an equilibrium between risk and reward that suits your financial objectives and risk comfort level. Utilizing mechanisms such as stop-loss orders can help minimize losses in more volatile investments. (Fastercapital.com).

6. **protect Your assets**: Insurance plays a pivotal role in financial resilience. Policies such as home, auto, health, and disability insurance are essential. They protect assets and offer financial security during unforeseen events. For example, homeowners' insurance can cover property damage resulting from natural disasters, ensuring financial protection. (Fastercapital.com).

7. **Debt Management**: Another key aspect of financial stability is managing and minimizing debt. High-interest debt can undermine your financial base. Employing strategies such as debt consolidation or the snowball method can help clear debts more effectively. Lightening your debt load can also liberate funds for savings and investment opportunities. (Fastercapital.com).

8. lo**plan for retirement**: Building long-term financial resilience includes planning for retirement. Making consistent contributions to retirement accounts such as 401(k)s or IRAs is crucial for securing your financial future. The benefits of compounding interest can greatly enhance your retirement savings over the years, helping ensure a comfortable retirement. (Fastercapital.com).

9. **Estate Planning**:

Estate planning is a critical, yet frequently neglected component of long-term financial resilience. It's important to draft a will, appoint powers of attorney, and think about establishing trusts to make sure that your assets are handled and allocated according to your desires in unexpected situations. (Fastercapital.com).

10. **Network and seek support**: Creating financial resilience is not a lone journey. It's beneficial to connect with financial communities, seek guidance from professionals, and network with

peers who have similar objectives. Exchanging knowledge and experiences can offer useful perspectives and emotional backing in difficult times. (Fastercapital.com).

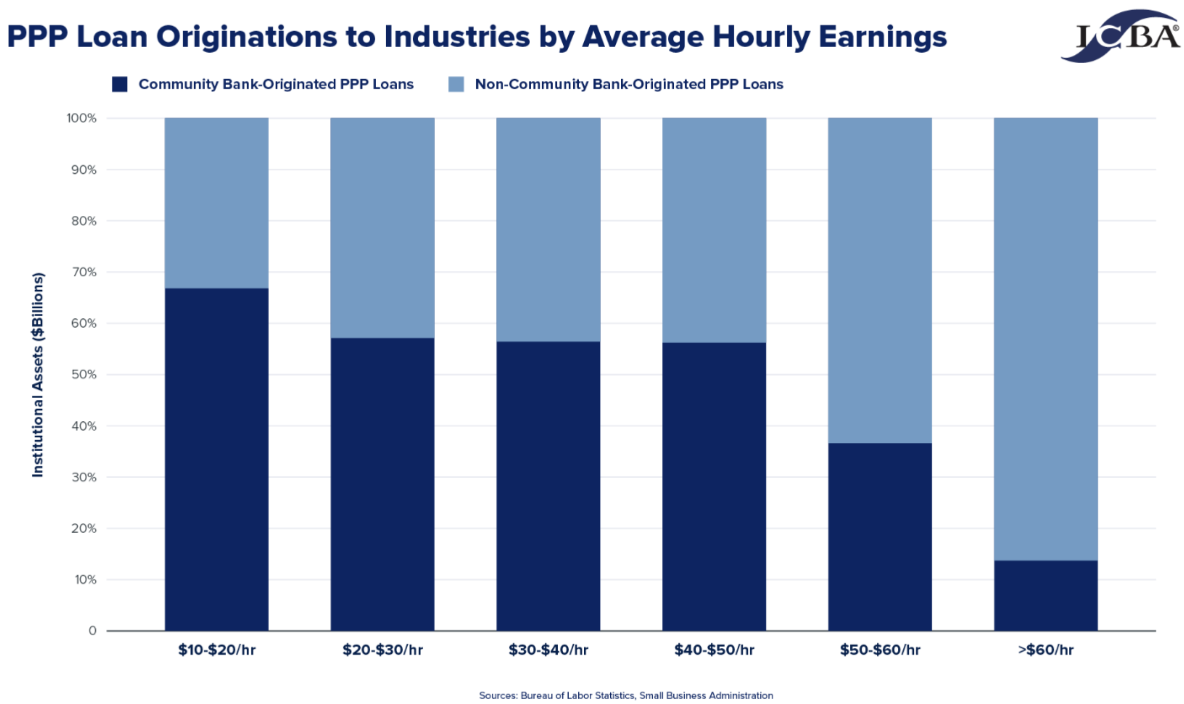
https://fastercapital.com/content/Financial-stability--The-Emergency-Banking-Act-and-Long-term-Resilience.html

The Importance of Community Banking in Paycheck Protection Program Lending

The Paycheck Protection Program has been a huge contributor of relief efforts for businesses during times of economic distress, especially during the COVID-19 pandemic. Community banks have played a vital role in facilitating PPP lending compared to larger institutions. The Paycheck Protection Program, established under Section 1102 of the Coronavirus Aid, Relief, and Emergency Services Act, allocated $659 billion in potentially forgivable loans to small businesses. These funds could cover up to 24 weeks of eligible salaries, payroll expenses, and benefits, along with other approved costs like mortgage interest, rent, and utilities. Banks forgive the entirety of the loan if 60 percent of the money is spent on these specified expenses. The loans are guaranteed by the SBA, which also compensates banks for the forgiven amounts and any accrued interest, as outlined in Section 1106 of the CARES Act. (FDIC Quarterly, 2020).

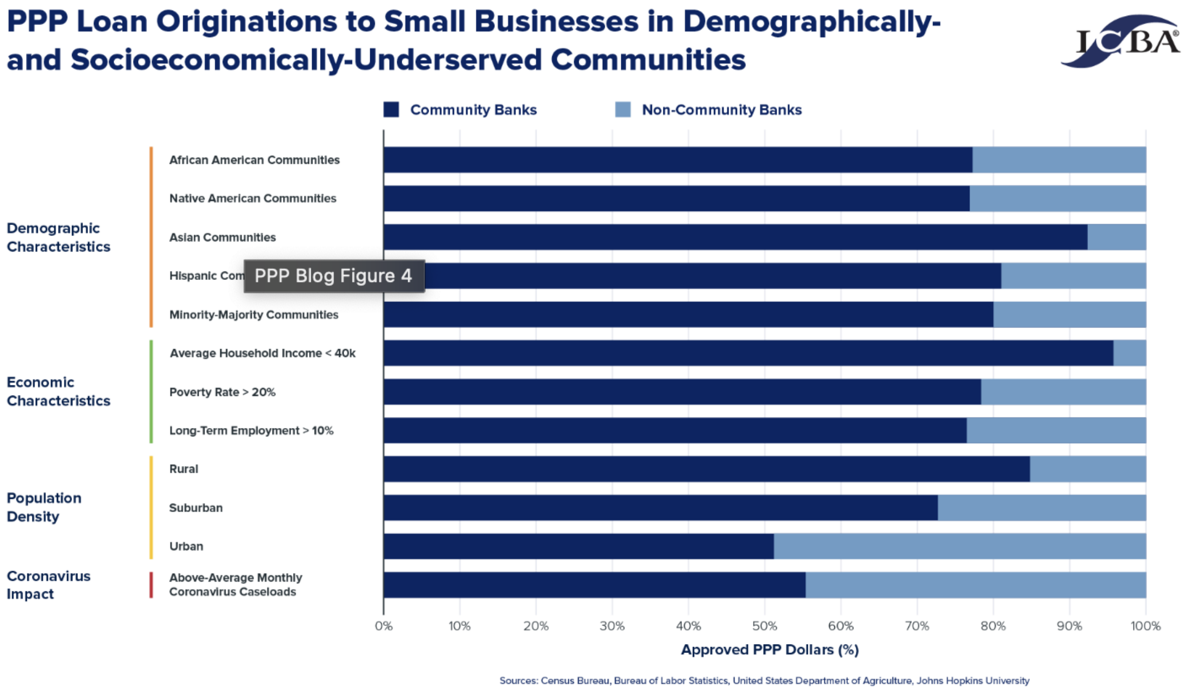
Loan applications under this program were open from April 3, 2020, to August 8, 2020, during which over $525 billion in loans were issued. These loans were capped at $10 million, carried a 1 percent interest rate, and had a repayment period of two years, although this was extended to up to five years for loans issued from June 5, 2020, onwards. Lenders received an origination fee ranging from 1 to 5 percent, based on the loan amount. The process for applying for loan forgiveness through the SBA started on August 10, 2020. (FDIC Quarterly, 2020). Community banks gave a lot of their PPP loans to businesses with a lower average hourly earnings and low-income workers that faced economic troubles during the coronavirus pandemic (ICBA, 2021).

As this chart shows, community banks provided 67 percent of PPP loans to businesses with average hourly earnings of $10 to $20 per hour. They also provided over 50 percent of all PPP loans to businesses with average hourly earnings between $20 and $50 per hour.



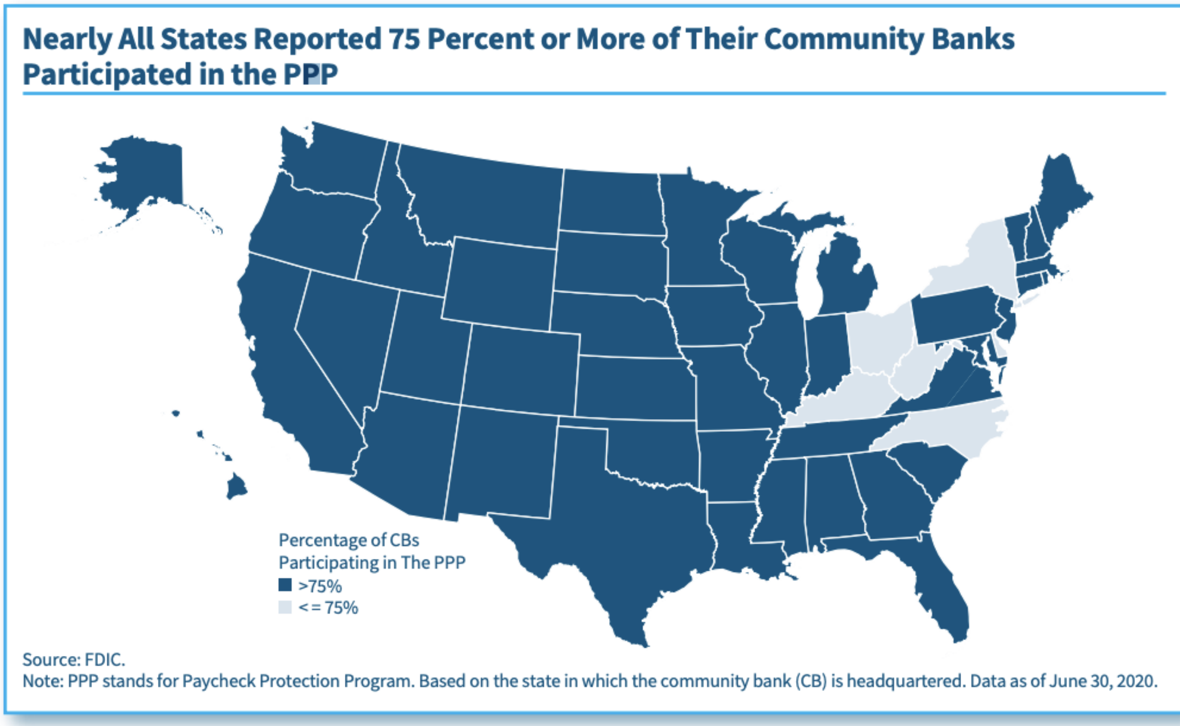
(source: Bureau of Labor Statistics, Small Business Administration)

The following data shows that community banks issued more than 75 percent of PPP loans to predominantly minority communities. Additionally, they delivered over 90 percent of PPP loans to areas where the average household income was below $40,000 annually. Furthermore, they provided more than 75 percent of PPP loans to communities experiencing at least a 20 percent poverty rate and long-term unemployment rates exceeding 10 percent. (ICBA, 2021).



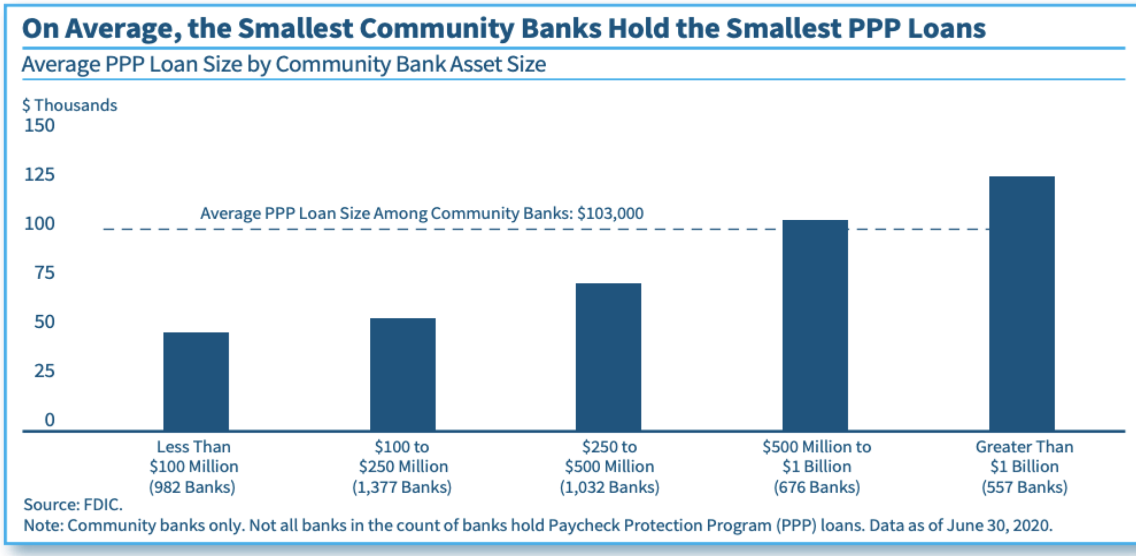
(sources: Census Bureau, Bureau of Labor Statistics, United States Department of Agriculture, Johns Hopkins University)

PPP loans were created to assist small businesses in keeping their payroll intact during periods of reduced operations or temporary closures caused by pandemic-related stay-at-home orders. Across all 50 states, community banks played a crucial role in providing these loans to small enterprises. By June 30, 2020, data showed that nearly every state and five territories had at least 75 percent of their community banks actively participating in the program. (FDIC Quarterly, 2020). This map provided shows these states:



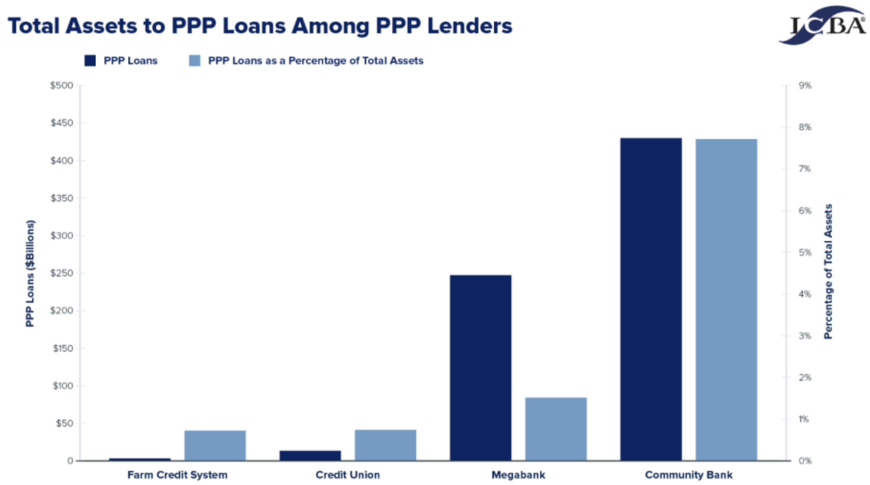
(Source: https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2020-vol14-4/article1.pdf)

Almost all community banks, regardless of their asset size, participated in the PPP. Smaller community banks typically issued smaller loans, whereas larger community banks handled larger loans. The average loan size in the PPP varied from $50,000 to $129,000. Community banks participated in the PPP in proportion to their share of the total commercial and industrial (C&I) loans within the community banking sector. Banks on the smaller end of the spectrum account for about 1.5 percent of the total dollar volume of community bank C&I loans. Conversely, community banks with total assets exceeding $1 billion manage 59 percent of the total dollar volume of community bank C&I loans and accounted for 57 percent of the dollar volume of PPP loans issued by community banks. (FDIC Quarterly, 2020). The following chart shows these numbers:



(Source: https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2020-vol14-4/article1.pdf)

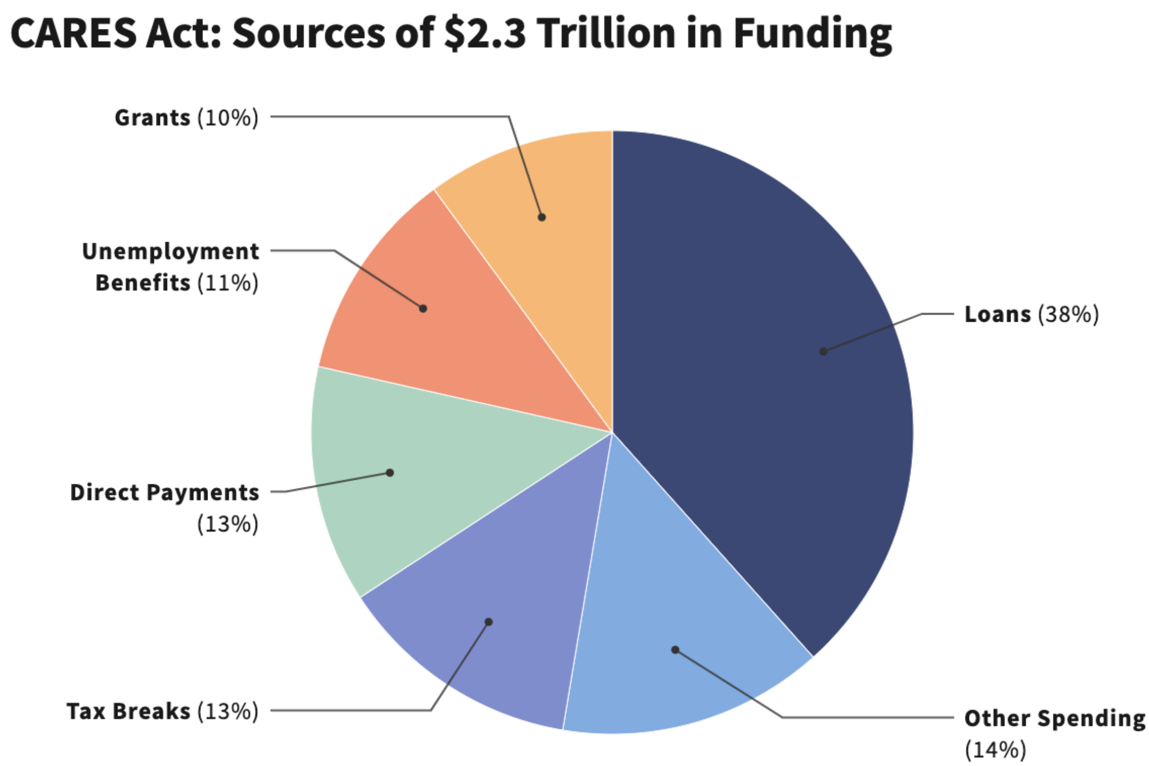
During this time period, all that the lenders had was a guarantee from the Small Business Administration that PPP loans to eligible small businesses would be forgiven if certain conditions were met. Even though there were many reasons regarding the forgiveness process or how the recession would proceed, the following data points show community banks led the industry in ensuring all willing small-business clients could receive assistance (Noah Yosif, 2021).



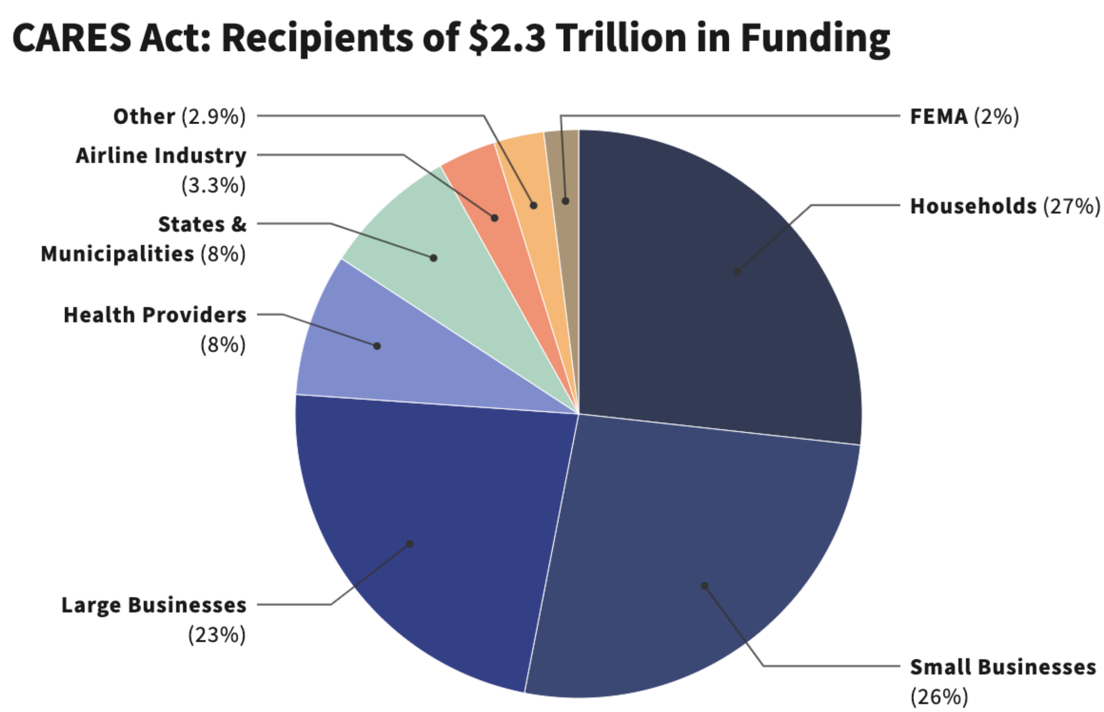
(source: Federal Deposit Insurance Corporation, National Credit Union Administration, Farm Credit Administration, Small Business Administration)

Effects of COVID-19 in Community Banking

The COVID-19 pandemic had a huge effect on communities as a whole. Financial strain was a huge factor to why community banks struggled. Many people and small businesses faced financial strain due to lockdowns, reduced economic activity, and job losses. This led to increased demand for loans, loan modifications, and other financial assistance from community banks. Most banks closed their lobbies, allowing access to safe deposit boxes only by appointment. Customers were served through drive-through facilities. Doing so, the use of online banking had increased intensely. This made it to where institutions provide deposit and loan services while maintaining the regulated distancing. Inside the banks, employees usually wore masks where they couldn’t be socially distanced from other employees. As banks started to reopen their lobbies, a lot of them installed plexiglass shields between the tellers and their customers (Federal Reserve System, 2022). For the consumer and commercial customers, banks set in place programs to accompany the customers needs. These programs include deferral of payments, loan term modifications, or other programs that are consistent with guidance of the CARES Act (The Independent Bankers Association of Texas, 2020). The CARES Act, officially named the Coronavirus Aid, Relief, and Economic Security Act, is a $2.2 trillion legislative package enacted in March 2020 to mitigate the economic fallout from the pandemic. At that time, many economists believed the U.S. was either in a recession or on the verge of one. This act represents a historic allocation of government funds to various groups, including workers, families with children, small businesses, independent contractors, gig workers, large corporations, and the healthcare sector. The bill was signed into law by then-President Donald Trump on March 27, 2020. The CARES Act provided direct financial assistance, including $1,200 for each adult and an additional $500 per child, to individuals earning up to $75,000, heads of households earning up to $112,500, and married couples filing jointly who earn up to $150,000. This legislation was the first during the COVID-19 era to implement a freeze on mortgage foreclosures and tenant evictions. It also supported unemployment benefits, offered payroll subsidies for impacted small businesses, and allocated billions of dollars to the airline industry to sustain operations throughout the pandemic. (Investopedia, 2023).



Source: Committee for a Responsible Federal Budget



Source: Committee for a Responsible Federal Budget

The CARES Act initiated the trio of significant COVID-19 relief efforts, followed by the Consolidated Appropriations Act (CAA) and then the American Rescue Plan Act (ARPA). The American Rescue Plan, slightly smaller than the CARES Act, continued many of its predecessor's benefits, including taxpayer rebates, unemployment benefits, and tax credits for parents. It was enacted on March 11, 2021, with some of its provisions concluding on September 30, 2021. (Investopedia, 2023). The following chart shows the differences between the three:

CARES Act vs. CAA vs. ARPA

Legislation	**CARES Act**	**CAA**	**ARPA**
Signed into law	March 27, 2020 President Donald Trump	Dec. 27, 2020 President Donald Trump	March 11, 2021 President Joe Biden
KEY COMPONENTS			

Direct payment/EIP	$293 billion ($1,200)	$166 billion ($600)	Over $400 billion ($1,400)
Unemployment	$268 billion ($600)	$120 billion ($300)	$206 billion ($300)
Small business	$377 billion	$325 billion	$54 billion
Community development	$5 billion	$12 billion	$362 billion
Transportation	$71 billion	$45 billion	$43.2 billion
Vaccine develop/distribute	Part of larger healthcare funding	Part of larger healthcare funding	Part of larger healthcare funding
Schools	$31 billion	$82 billion	$122 billion
Rent assistance	$12 billion	$25 billion	$21.55 billion
Nutrition and agriculture	$25 billion	$11.2 billion	$10.4 billion

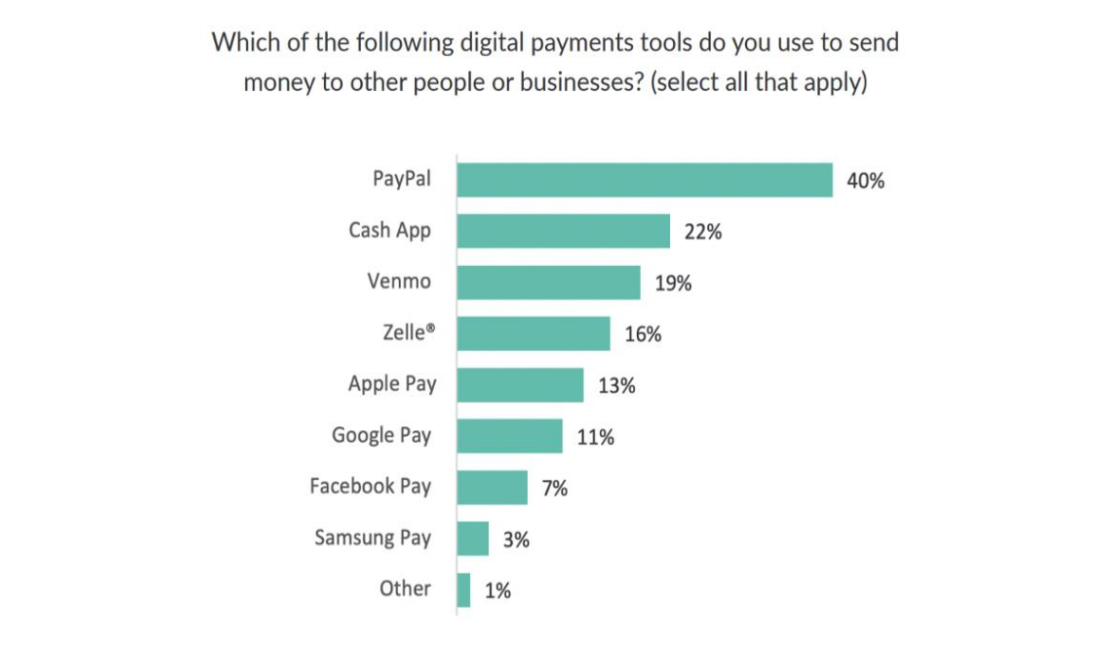
U.S. Postal Service	$10 billion (loan)	$10 billion	$570 million
Child care	$5 billion	$10 billion	$39 billion
Broadband	Grants to states	$3.2 billion	$25 billion
Coronavirus Relief Fund	$150 billion	Extended to 12/31/21	
Employee Retention Credit	$55 billion	Extended to 6/30/21	Extended to 12/31/21
Lookback for EITC/CTC		Created	Expanded
Total appropriations	$2.2 trillion	$2.3 trillion in total spending; $900 billion of which was for COVID relief	$1.9 trillion

Adapted from: https://www.investopedia.com/coronavirus-aid-relief-and-economic-security-cares-act-4800707

The largest allocation within the $2 trillion CARES Act was the $300 billion directed towards American taxpayers, with each adult receiving $1,200 and an additional $500 for every child in the household. Additionally, $350 billion was distributed to small businesses in the form of forgivable loans to help cover payroll costs during the pandemic's disruptions. (Investopedia, 2023). While the influx of liquidity from initiatives like the CARES Act and PPP provided immediate relief to businesses and individuals, it also presented challenges for banks. With increased deposits, banks faced pressure to deploy these funds profitably. However, in an environment of low interest rates, it became challenging for banks to earn big returns on these deposits through traditional lending or investment activities. Low interest rates and increased competition for loans led to margin compression. This led to reducing the profitability of lending activities for banks. As a result, their net interest margins were shrunk. Despite government support programs like PPP, many businesses struggled to survive the economic downturn caused by the pandemic. This led to an increase in loan defaults and non-performing loans, negatively impacting banks' balance sheets and profitability. Banks also faced increased regulatory scrutiny and compliance requirements associated with administering government relief programs like PPP. Making sure of the compliance with rapidly changing regulations added operational complexity and costs for banks. The uncertain economic outlook made it hard for banks to accurately assess credit risk and plan for the future. This made it harder to make lending decisions and allocate capital efficiently.

Peer to Peer Lending

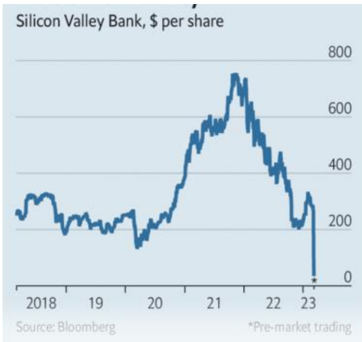
During recent years, Peer-to-Peer lending has become very popular. The creation of Peer-to-Peer (P2P) technology has revolutionized many sections of banking, including finance. P2P in banking refers to the direct interaction between individuals for financial activities. In a sense, P2P is very similar to the popular app, Venmo. Both P2P and Venmo allow users to send and receive money directly from one person to another using a mobile app or website. They're convenient for splitting bills, paying friends back, or making quick transactions. Venmo, specifically, is a popular P2P payment platform owned by PayPal. It's known for its social features, allowing users to add comments and emojis to their transactions, making it feel more like a social network for payments. P2P lending gained momentum in the early 2000s with platforms like Prosper and LendingClub. These platforms allowed direct lending between individuals, eliminating the need for traditional financial institutions. Over time, P2P banking expanded to include services such as P2P payments, investment platforms, and even P2P insurance. P2P banking operates in a regulatory gray area, facing challenges related to compliance, consumer protection, and risk management. Lending through P2P platforms entails credit risk, as borrowers may default on loans, leading to potential losses for investors. There are many other forms of P2P that aren't associated through local banks. This figure shows the most popular non-bank P2P tools:



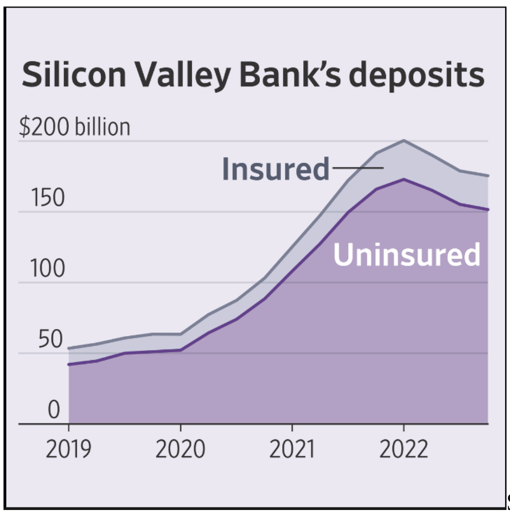
Source: Cornerstone Advisors survey of 3,112 U.S, consumers, Q1

Paypal has grown immensely since they started in 1998. They have about 426 active users and $1.53 trillion in total payment volume. These large numbers are hurting the local banking community. "PayPal could disrupt traditional correspondent relationships among U.S. banks by replacing banks with nonbank financial institutions that selectively extend or receive credit" (Jeff Huther). This correlates to the downfall of the Silicon Valley Bank.

Silicon Valley Bank was founded in 1983. This was the 16th largest bank in the United States before its downfall. They specialized in financing and banking for venture capital-backed startup companies. Venture capital firms did business there, as well as many other tech executives (Tech Target, 2023). California's chief banking regulator admitted that the department was too slow to request fixes at the institution. In today's world, it was too slow because social media and mobile banking could combine to drive an unprecedented run on the bank's deposits (Laurence Darmiento, 2023). The report highlighted that before its failure, Silicon Valley Bank could handle $16 billion in withdrawals in a single day, nearly the same amount that Washington Mutual faced over 10 days in 2008 before its collapse. However, on March 9, Silicon Valley Bank was hit with withdrawal requests totaling $42 billion within just eight hours. Additionally, the bank was particularly vulnerable due to its concentration in the tech industry, with 93.8% of its deposits, amounting to $151.6 billion, being uninsured, the highest ratio among large U.S. banks. Normally, the FDIC insures deposits up to $250,000. In response to fears that the bank's collapse could trigger a broader banking crisis, the FDIC declared three days later that it would guarantee all deposits at the bank (Laurence Darmiento, 2023). While the report pointed out instances of risk and mismanagement by the bank, it primarily concentrated on the department's involvement in the failure and proposed additional measures for enhancing its regulatory practices. Key recommendations include the department's commitment to enhance coordination with federal regulators, the allocation of more staff in a timely fashion to rapidly expanding banks with assets over $50 billion, and improved monitoring of the amount of uninsured deposits (Laurence Darmiento, 2023).



Source:https://www.economist.com/finance-and-economics/2023/03/10/what-does-silicon-valley-banks-collapse-mean-for-the-financial-system



Source: https://www.wsj.com/articles/silicon-valley-banks-meltdown-visualized-3da2263b

On March 26, 2023, the FDIC announced that First Citizens Bank would acquire Silicon Valley Bank, taking over the majority of its deposits and loans. As of March 10, Silicon Valley Bank had reported approximately $167 billion in total assets and $199 billion in deposits. First Citizens Bank agreed to purchase around $72 billion of these assets for a discounted price of $16.5 billion. The FDIC will retain control of nearly $90 billion in assets and securities through its receivership. All 17 branches of Silicon Valley Bank will continue operations under the name Silicon Valley Bank, now a division of First Citizens Bank. Additionally, the FDIC estimated that the collapse of Silicon Valley Bank would cost nearly $20 billion (Tech Target, 2023). In addition to Silicon Valley Bank, other banks such as Signature Bank and Credit Suisse also experienced difficulties. On March 19, UBS agreed to acquire Credit Suisse for $3.25 billion. Simultaneously, New York Community Bank arranged to purchase a significant part of Signature Bank in a deal valued at $2.7 billion. Following this acquisition, Signature Bank's branches will operate under the name Flagstar Bank, a subsidiary of New York Community Bank. On March 14, Moody’s Investor Service placed six regional banks on review for potential credit rating downgrades, including Comerica Bank, First Republic Bank, Intrust Financial, UMB Financial, Western Alliance Bancorporation, and Zions Corp. The concerns leading to these reviews mirror those faced by Silicon Valley Bank, notably high levels of unrealized losses and a significant proportion of deposits uninsured by the FDIC. (Tech Target, 2023). The government has decided not to bail out Silicon Valley Bank, allowing it to fail, with its remaining assets to be distributed among creditors. However, the bank could potentially be revived if another financial institution decides to purchase it. On March 12, the government did ensure that all deposits at SVB were guaranteed, though this protection does not extend to shareholders or unsecured creditors. Following the closure of Silicon Valley Bank, the FDIC established the Deposit Insurance National Bank of Santa Clara to merge both insured and uninsured deposits into a single entity. All deposits from SVB were transferred to this new institution, and insured depositors were able to access their funds on March 13. Uninsured depositors will receive an initial dividend, and the FDIC will issue them a certificate for the balance of their uninsured funds, which will be paid out as the FDIC liquidates the assets of Silicon Valley Bank. (Tech Target, 2023).

Conclusion

Community banking stands as a pillar of strength within the financial landscape. It fosters relationships and fuels local economies. Through its dedication to personalized service, community reinvestment, and the cultivation of trust, community banks have proven their resilience time and again. In the historical context, the roots of community banking can be traced back to the early 19th century when independent banks were established to help the financial needs of local businesses and individuals. These banks were very involved in the communities they served. During this period, community banks were a turning point in financing local agriculture by contributing to the economic development of their respective areas. The relationships between bankers and their clients were built on trust, personal connections, and a shared commitment to the community. Community banks play a vital role in shaping and sustaining local economies, serving as building blocks that support small businesses, individuals, and community development. Their unique characteristics and commitment to local financial services are a huge contributor to economic growth and stability. One of the most notable contributions of community banks to the economy is their support for local businesses. Community banks are known for their personal approach to banking, helping them to build strong relationships with local people and businesses. This relationship-oriented banking creates an environment where business owners can seek advice, share ideas, and form partnerships. “Employees of community banks pride themselves on the value they put on their clients as individuals. Many of them know their clients on a first-name basis and consider them neighbors. Because these relationships are important to them, employees of community banks tend to have a higher quality of service and flexible decision-making” (Crews bank & Trust, 2023). Community banks have a unique way to facilitate and strengthen community engagement efforts. They often engage with their local communities through various activities, such as sponsoring local events, supporting local charities, and participating in community outreach programs. They may also host financial literacy workshops, offer scholarships, and actively involve employees in volunteer activities to strengthen their ties with the community. Building personal relationships and understanding the unique needs of the community are key aspects of community bank engagement. These community banks also face many hardships with being smaller organizations. Stability in community banking has many different meanings, including financial stability, operational stability, and regulatory stability. Financial stability is the ability of community banks to maintain capitalization, liquidity, and asset quality to uphold the market conditions. Operational stability is the efficiency and effectiveness of internal processes, risk management practices, and technology infrastructure. Regulatory stability is compliance with regulatory requirements and adherence to banking practices to mitigate risks and ensure long-term viability. Technological advancements show both opportunities and challenges for community banks, opening up innovation in service delivery while also investments in cybersecurity and digital infrastructure. Some of the effective risk management practices are credit risk assessment, asset-liability management, and liquidity risk management, which are essential for maintaining stability in community banking. Financial inclusion is a big factor as to how community banks are still holding strong. Financial inclusion is the effort to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Financial inclusion works to decrease the limitations that exclude people from participating in the financial sector and using these services to improve their lives (Webinar Network). Financial inclusion is crucial for fostering economic growth and reducing inequality within communities. The Paycheck Protection Program was a huge contributor of relief efforts for businesses during times of economic distress. Community banks have played a big role in facilitating PPP lending compared to larger institutions. “The Paycheck Protection Program was created through Section 1102 of the Coronavirus Aid, Relief, and Emergency Services Act. The creation of Peer-to-Peer (P2P) technology has revolutionized many sections of banking, including finance. P2P in banking refers to the direct interaction between individuals for financial activities. Community banks prioritize personalized service. They take the time to understand each customer's different financial situation, preferences, goals, and needs. This personalized approach helps them to provide specific solutions and advice that align with the customer's specific needs (Midwest One Bank). Over a certain period of time, community banks will develop trust and familiarity with their customers. Consistent interactions, reliable service, and a deep understanding of the customer's financial history are some of the things that help build this trust. Customers will feel more comfortable talking about their financial means and seek guidance from professionals they know and trust (Midwest One Bank, 2023). By keeping an ongoing relationship, community banks can find their customers' ongoing financial needs. Through regular communication and connection, community banks can suggest appropriate products or services, provide guidance, and give financial advice that helps customers achieve their long-term goals (Midwest One Bank, 2023). In times marked by uncertainty, community banking offers a staple of stability and reliability. It's not just about transactions, it's about relationships built on trust and mutual respect.

References

***About community banking*. ICBA. (n.d.-a). https://www.icba.org/about/community-banking**

Bank, M. (n.d.). *How community banks prioritize customer needs*. MidWestOne Bank. https://www.midwestone.bank/blog/post/how-community-banks-prioritize-customer-needs-

Brennan, V. (2023, December 19). *What challenges are community banks facing in 2023?*. Saint Louis Fed Eagle. https://www.stlouisfed.org/open-vault/2023/december/challenges-facing-community-banks-2023

***Building resilience in community and Regional Banks*. Lambert. (2023, December 8). https://lambert.com/building-resilience-in-community-and-regional-banks/**

By, & Sirtaine, S. (n.d.). *The Future of Financial Inclusion*. CGAP. https://www.cgap.org/blog/future-of-financial-inclusion

***Choose local: 10 benefits of Community Banks*. Crews Bank & Trust. (2024, April 18). https://www.crews.bank/blog/banking/choose-local-10-benefits-of-community-banks#:~:text=Contents&text=Community%20banks%20are%20threaded%20into,choose%20from%20than%20ever%20before**

***Community Banking Research Program*. FDIC. (n.d.). https://www.fdic.gov/resources/community-banking/index.html**

***Community banks: The Lifeline of Local Economies: Bank Blog*. Community Banks | The Lifeline of Local Economies | Bank Blog. (n.d.). https://financialedinc.com/Community-Banks-The-Lifeline-of-Local-Economies**

Contributor, A. B. J. G. (2024, April 4). *A not so stablecoin? A deeper dive into paypal USD*. ABA Banking Journal. https://bankingjournal.aba.com/2023/12/a-not-so-stablecoin-a-deeper-dive-into-paypal-usd/#:~:text=PayPal%20USD%20could%20disrupt%20traditional,would%20be%20mitigated%20by%20regulation.

***Cybersecurity trends and Best Practices for Community Banks: Federal Reserve Bank of Minneapolis*. Cybersecurity Trends and Best Practices for Community Banks | Federal Reserve Bank of Minneapolis. (n.d.). https://www.minneapolisfed.org/article/2022/cybersecurity-trends-and-best-practices-for-community-banks**

The Economist Newspaper. (n.d.). *What does Silicon Valley Bank's collapse mean for the financial system?* The Economist. https://www.economist.com/finance-and-

economics/2023/03/10/what-does-silicon-valley-banks-collapse-mean-for-the-financial-system

***Financial stability: The emergency banking act and long term resilience*. FasterCapital. (n.d.-a). https://fastercapital.com/content/Financial-stability--The-Emergency-Banking-Act-and-Long-term-Resilience.html**

Grant, M. (n.d.). *Financial inclusion: Definition, examples, and why it's important*. Investopedia. https://www.investopedia.com/terms/f/financial-inclusion.asp#toc-what-is-financial-inclusion

Hetler, A. (2024, March 13). *Silicon Valley Bank collapse explained: What you need to know*. WhatIs. https://www.techtarget.com/whatis/feature/Silicon-Valley-Bank-collapse-explained-What-you-need-to-know

The importance of community banks in paycheck ... (n.d.-c). https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2020-vol14-4/article1.pdf

***Job creation: The role of Interstate Banking in Employment Growth*. FasterCapital. (n.d.-b). https://fastercapital.com/content/Job-Creation--The-Role-of-Interstate-Banking-in-Employment-Growth.html**

Kurt, D. (n.d.). *Community banks: Meaning, Overview, history and FAQ*. Investopedia. https://www.investopedia.com/what-is-a-community-bank-5069678

Los Angeles Times. (2023, May 8). ***California Regulator cites social media, digital banking as key factors in Silicon Valley Bank's failure*****. Los Angeles Times. https://www.latimes.com/business/story/2023-05-08/california-regulator-cites-social-media-digital-banking-as-key-factors-in-silicon-valley-banks-failure**

New Database Boston, MA: Provident Institution for Savings, 1817-1882**. American Ancestors Database News. (2022, January 3). https://dbnews.americanancestors.org/2020/10/13/new-database-boston-ma-provident-institution-for-savings-1817-1882/**

PPP data show community bank pandemic response outperformed larger lenders**. ICBA. (n.d.-b). https://www.icba.org/newsroom/blogs/main-street-matters/2021/11/05/paycheck-protection-program-data-show-community-bank-pandemic-response-outperformed-larger-lenders**

PPP data show community banks served those most in need**. ICBA. (n.d.-c). https://www.icba.org/newsroom/blogs/main-street-matters/2021/11/10/paycheck-protection-program-data-show-community-banks-served-those-most-in-need**

scheme=AGLSTERMS.AglsAgent; corporateName=Reserve Bank of Australia. (2023, May 26). ***The global financial crisis: Explainer: Education*****. Reserve Bank of Australia. https://www.rba.gov.au/education/resources/explainers/the-global-financial-crisis.html#:~:text=The%20catalysts%20for%20the%20GFC,built%20houses%20in%20some%20areas.**

https://www.minneapolisfed.org/article/2022/cybersecurity-trends-and-best-practices-for-community-banks

Silicon Valley Bank's meltdown visualized - WSJ. (n.d.-a). https://www.wsj.com/articles/silicon-valley-banks-meltdown-visualized-3da2263b

Team, T. I. (n.d.). ***What is The cares act?*****. Investopedia. https://www.investopedia.com/coronavirus-aid-relief-and-economic-security-cares-act-4800707**

Texas. (n.d.-b). https://capitol.texas.gov/tlodocs/86R/handouts/C3302020110600001/5d4d924a-8f54-412c-91c7-32b996828944.PDF