Fed Governor discusses community bank struggles and successes with the Paycheck Protection Program during the past year.

Federal Reserve Board Governor Michelle W. Bowman has delivered remarks about community banks at a research conference webcast given by the Federal Reserve Bank of St. Louis. Bowman’s speech, “Community Banks Rise to the Challenge,” discusses the struggles community banks have faced during the Coronavirus pandemic, as well as what the Fed is doing to assist in the recovery. Bowman has made an effort to meet directly with the CEOs of all 685 community banks supervised by the Fed and took that input on how supervision and regulation are affecting community banks and what is working during the pandemic, as well as what needs to improve.

Bowman stated that the Paycheck Protection Program (PPP) was “timely and effective in helping millions of businesses weather the lockdown period.” She noted that, before the pandemic, community banks accounted for over 40 percent of all small business lending, while only accounting for roughly 15 percent of total assets in the banking system. Bowman referred to a national survey conducted by the Conference of State Bank Supervisors, which found that more than one-third of community banks reduced or eliminated penalties or fees on credit cards, loans, or deposits during the pandemic.

PPP lending data. Bowman also highlighted the role of smaller community banks in the PPP. Banks with less than $1 billion in assets have made a million loans under the PPP, about one-fifth the total, delivering $85 billion in relief to their customers, according to Bowman. Additionally, the smallest banks made the smallest PPP loans on average, which she pointed out illustrates that these banks play a key role in serving businesses that may be outside the focus of larger banks. The average PPP loan size at banks with total assets under $500 million was just $72,000, about half the size of the average loan at banks with total assets between $10 billion and $100 billion.

According to Bowman, preliminary data based on an Independent Community Bankers of America report indicates that community banks have been the main source of lending for minority-owned small businesses during the pandemic, accounting for 73 percent of all PPP loans made to small businesses owned by non-whites. She stated that early estimates also indicate that community banks provided 64 percent of PPP loans to majority veteran-owned businesses.

Before the COVID-19 pandemic began, Bowman stated, community banks were in "excellent shape." The data indicated the strongest in decades by some measures. Ninety-six percent of community banks were profitable; nonperforming assets neared historical lows, and capital ratios were strong. More than 95 percent of small banks were rated as 1 or 2 under the CAMELS rating system. Bowman also stated that 2020 second quarter earnings showed improvement following a weak first quarter that included higher credit loss provisions.

Looking to the future. According to Bowman, as origination fees and interest income are generally recognized over the life of these loans or when they are forgiven, PPP loans will continue to push up bank earnings in the next several quarters. The origination fees earned by community banks this year will mitigate the impact of provisions for credit losses, and in turn, may support further lending by these banks.
However, she stated, the operating environment "remains challenging." The average net interest margin at community banks tightened during the second quarter, and it is likely that margins will remain under pressure given the low interest-rate environment.

RegulatoryActivity: CommunityDevelopment Covid19 FederalReserveSystem Loans