

Community banks are essential to a diverse and stable U.S. financial system

Despite suggestions by some financial pundits that the US Financial System is overbanked, the reality is our nation's diverse and decentralized system, reflects our ideals as a nation: that we are more powerful collectively when we are empowered individually. There can be no better example than the relationship-banking business model practiced by the nation's community banks.

In an era of \$2 trillion megabanks and \$500 billion regionals, community banks remain defined by their commitment to the local communities in which they operate.

Consumers recognize and appreciate the community bank difference too, with community bank deposit and loan growth [outperforming the rest of the banking industry](#) as consumers make the switch to their hometown community banks. That is in part because most community banks have [low levels of uninsured deposits](#) and didn't experience significant deposit outflows in the wake of the large bank failures of Silicon Valley Bank and Signature Bank of New York.

Community banks also continue to successfully increase loan balances despite rising funding costs, with the latest [FDIC's Quarterly Banking Profile](#), reporting that community banks demonstrate superior loan quality with negligible noncurrent loan balances and charge-offs, maintaining stable deposits and robust capital ratios.

And they play a pivotal role for the nation's economic engines—small businesses. According to the [Federal Reserve's 2024 small business survey](#) 79% of small business loan applicants report satisfaction with community banks, compared with 61% at large banks, 56% at finance companies, and 40% at online lenders.

EXAMPLE OF HOW COMMUNITY BANKS ARE MAKING AN IMPACT IN THE STATE

The Consolidation Factor

The consolidation of the banking industry into fewer and fewer hands is a dangerous trend given the importance of community banks to our communities and overall banking system.

Decades of banking consolidation have culminated in "too big to fail" institutions that not only pose systemic risks but also operate with a sense of impunity due to implicit government bailouts and subsidies. These large entities often escape the regulatory scrutiny that smaller banks face, fostering a disproportionate advantage that skews market competition.

While 98 percent of U.S. counties host at least one community bank or community bank branch, just 64 percent host a megabank or megabank branch, with community banks focusing a [relatively large](#) share of their resources in low- and moderate-income tracts. Without these institutions, many Americans would face substantial difficulties in accessing essential financial services.

Prescriptive Policies

Instead of focusing our efforts on reducing the number of banks, we should look to preserve the integrity and variety of our banking institutions.

Policy focus should shift from encouraging consolidation to enhancing the regulatory framework to support and expand community banking. This includes tailored regulations that recognize the unique scale and risk profile of community banks, facilitating the establishment of de novo banks.

Ultimately, community banks embody the entrepreneurial spirit and local focus that are foundational to the American economy. So, rather than capitulating to the forces that favor large conglomerates, we should support the independence and resilience of community banks, with right-sized policies that ensure community banks remain bedrocks of our financial system and local communities.

This commitment to community-based banking aligns with the broader American values of empowerment and collective strength, underscoring the need to preserve and nurture these vital institutions for a robust and equitable financial future.