



Mutual Alert

Governor Michelle Bowman Delivers Keynote Speech: “Community Banks Rise to the Challenge”

Federal Reserve Governor Michelle Bowman delivered the keynote speech at the 8th annual "Community Banking in the 21st Century," Research and Policy Conference via webcast.

Governor Bowman offered her observations on current conditions that she has gathered through discussions with community bankers across the country. She shared that she has also separately embarked on an effort to meet directly with the CEOs of all 685 community banks supervised by the Federal Reserve. America's Mutual Banks has enjoyed a working relationship on issues effecting mutuals with Governor Bowman.

She discussed the government's response to the pandemic, specifically noting the Paycheck Protection Program (PPP) which was geared to help small businesses making community banks integral to the program's success. "Community banks with \$10 billion or less in assets made about 40 percent of the overall number and value of PPP loans. Community banks were absolutely essential to the success of this program." Governor Bowman commended community bank CEOs that shared with her that at the beginning of the pandemic they directly contacted every one of the business and consumer loan customers taking the time to check in with them and see what they needed. This further emphasized her point that during this pandemic community banks have been able to do more than any larger banks could or would do. She also noted that based on preliminary data, community banks have been the main source of lending for minority-owned small businesses during the pandemic citing that community banks accounted for "73 percent of all PPP loans made to small businesses owned by non-whites". Despite all of the uncertainty and negative impacts of the pandemic, this has been a time for community banks to show their strength and the importance of relationship banking.

Governor Bowman also addressed community bank supervision during the pandemic. While community banks have been supporting the business bearing the brunt of the economic effects of the pandemic, supervising these institutions has required what she referred to as a "delicate balance between ensuring their safety and soundness and ensuring they are able to continuing serving those vital functions". She shared a clear message of the Federal Reserve's flexibility in their supervisory functions and that their message to community banks is "bank your customers". She alluded to the April 2020 statement issued by the Federal Reserve in which bank examiners were instructed "not to criticize bank management for taking prudent steps to support their communities, and we underscored that we would not expect to take a consumer compliance public enforcement action against an institution that has made good faith efforts to

comply". She acknowledged that despite the Federal Reserve's tailoring of supervisory efforts, many existing regulations have been unduly burdensome for smaller banks that would benefit from further regulatory relief.

She concluded her speech by addressing the current economic conditions. Prior to COVID-19, data showed that community banks started this year off in excellent shape and in some measures the strongest numbers we have seen from community banks in decades. "Ninety-six percent of community banks were profitable; nonperforming assets neared historical lows, and capital ratios were strong." After losses from the COVID-19 pandemic, the second-quarter earnings showed improvement and PPP loans will push up bank earnings in the coming quarters. Although there is improvement, she did note that operating remains challenging. Average net interest margins at community banks have tightened but historically, community banks have performed well even with margins under pressure. Overall, she expects that community banks will face challenges during the slow economic recovery but believes that they are well prepared to deal with the challenges and that they continue to play their vital role in the recovery.

To read the full speech click [here](#).

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