Community Bank CEO Priorities for 2018

Results of an American Bankers Association research study

American Bankers Association®

The American Bankers Association conducted a survey to identify the priorities of Community Bank CEOs, examining industry trends as well as the technologies and business strategies necessary for success in 2018.

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About the American Bankers Association Research Study

The Community Bank CEO Priorities for 2018, a survey initiative by the ABA's Community Bankers Council, examines bank leaders areas of focus in 2018 across IT, HR operations, marketing and customer engagement. The ABA Benchmarking & Survey Research group collected survey data from 440 community banks—financial institutions of all sizes—those with less than $250 million in assets (45%), $250 million to $499 million (23%), $500 million to $999 million (18%), and $1 billion to $3 billion (14%).

ABA survey: Priorities of Community Bank CEOs for 2018

This year, ABA's Community Bankers Council conducted a survey to better understand the community banking landscape. We asked top officers of community banks—board chairs, chief executive officers and presidents—to share their plans and priorities for the year ahead.

What technology will community banks implement to streamline operations or create a richer and more frictionless customer experience? Will they be adding new products, banking locations, channels or business partnerships? Are there plans for growth within or outside the present footprint? What are banks doing to attract customers and deliver the best experience? What actions will they take to recruit and develop a skilled workforce?

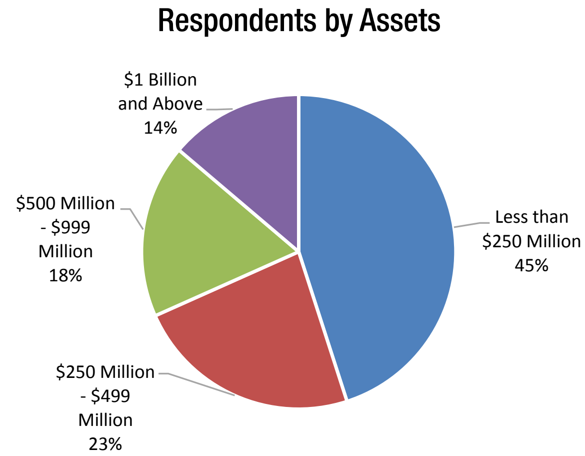
The survey, which ran from December 2017 to January 2018, was sent to ABA member banks with less than $3 billion in assets—45 percent were under $250 million—representing every region of the U.S. This summary report, based on responses from 440 community banks from across the United States, incorporates the survey findings with insight and best practices from other community banks—enabling you to compare priorities and actions with your peers.

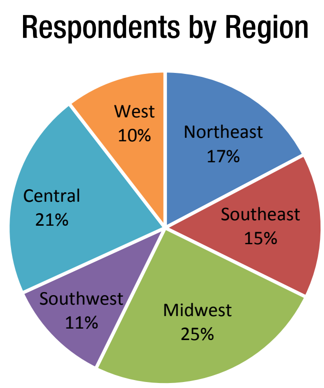
We hope the information found in this report provides you with insights and ideas for further consideration within your own community bank. It is clear from the report that despite some challenges, the future of community banking looks bright, with a number of opportunities to ensure our industry's long-term success.

TREY MAUST
Chairman, ABA Community Bankers Council
Chief Executive Officer, Sheltered Harbor
Executive Vice Chairman, Lewis & Clark Bank
Oregon City, Oregon

Figure 1:

Profile of Respondents





The economic landscape for community banks

What does the market look like for community banks? The answer, not surprisingly, is, it depends. For the CEOs we spoke with, the economy was either boom, bust or mixed—generally tied to the fortunes of the primary local industries.

On the down side

North Dakota, for example, is in a downturn phase of the cyclical oil and agriculture economies. Lean times are compounded by cuts from the state legislature, which operates on a balanced budget and has to respond to the dip in tax revenues from those industries.

"Commodity prices are about at the lowest point in the last 10 years," said Brian Johnson, CEO of Choice Financial Holdings in Grand Forks, which is primarily a commercial bank. "That presents economic challenges for a large portion of our customer base, an effect that trickles down through our communities. But as a community-based bank, we have lived through the cycles before. We do a great job of partnering, managing with customers and helping them ride those cycles, including the valley that we're in now."

That oil-related dynamic is being harshly felt in Alaska as well. "We're an oil-based state, so when the price of oil is low, that may be good for the rest of the country, but it is not good for Alaska," said Steven Lundgren, President and CEO of the locally owned Denali State Bank in Fairbanks. "Our state budget is more than 90 percent funded through the oil industry. When oil prices are low, our state budget is in turmoil, which it is right now. We've been running state budget deficits for the last two to three years.

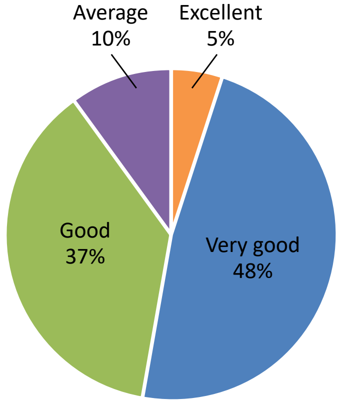
"Since the state budget has a big footprint in Fairbanks—I've got the University of Alaska-Fairbanks—when their budget is challenged, they're not doing the capital projects they would normally do, they're actually reducing headcount, and that has had a significant negative impact on my community and my customers."

Low energy costs are good for tourism, which is strong in Fairbanks, and the military presence is continuing to grow, but overall the economy in Alaska has been lean for the last few years. Add competitive pressures on top of that. Of the seven banks in the state of Alaska, six have a presence in Fairbanks, along with a long list of credit unions and finance companies. There's a lot of competition for available lending opportunities at a time when the population is not growing.

Nonetheless, Lundgren has navigated his bank ably through the dark days. He just drafted a letter to shareholders announcing the largest dividend the bank has ever paid—up from 15 cents a share in 2010 to 60 cents a share this year. "Our bank has done well, and I told my

Figure 2:

How optimistic are you about the overall U.S. economy over the next 12 months?



shareholders I'm optimistic about 2018," said Lundgren. "Nationally, I think our economy is in a good place. Locally, I wish our economy was stronger than it is, but I think that it will be improved in 2018 over 2017. So overall, I'm excited about our industry and our economy and banking in general."

Looking up

"Our local economy has been slowly getting better," said Rheo Brouillard, president & CEO of Savings Institute Bank & Trust, with branches in Connecticut and Rhode Island. "We've seen more activity in the last year or two, certainly through 2017, that has given us a bit of optimism. Employment numbers are coming up, borrowing has picked up, home construction has gone up—not necessarily big subdivisions, but single-family construction. That's a relatively new trend since 2008 and 2009. Those are the key signs, and our business clients are certainly talking in a more positive way. Their businesses are picking up.

"So we're optimistic. This will be the third year in a row we've had record earnings at the bank, and we're projecting 2018 to continue that trend. There's quite a bit of optimism about loan growth. We've added three commercial lenders in the last year to take advantage of some of the activity that's picking up. We still have some concerns about demand, but we think there's the potential to do more."

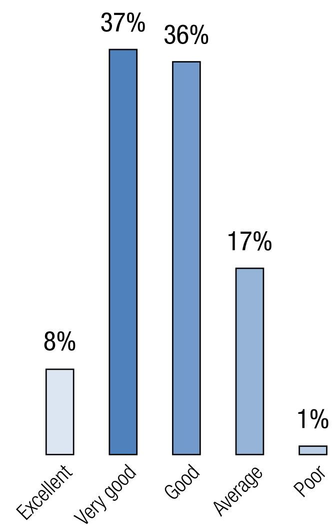
Mixed news

Bryan Luke's relatively isolated market (Hawaii) has seen a host of large construction projects, the president and COO of Hawaii National Bank, headquartered in Honolulu, said. But that's not a good thing for everybody. ABA members who traveled to the National Conference for Community Bankers (NCCB) in Waikiki in February 2018, saw large, newly completed projects, but many were multinational and international retail chains—Target, Home Depot, Whole Foods and others—and were fairly recent entrants in Hawaii, said Luke.

"Their presence is seen and felt on the retail side, and that's good for the general consumer, but it presents difficulties for my small business customers," he said. "Locally-owned, closely-held companies are now having to compete with big box retailers, Amazon and other online retailers in a way they didn't have to before." The challenge for Hawaii National Bank is two-fold: To help local businesses stand up to this new competition, and to have the money created by the new corporate retailers reinvested into the community instead of swept out to their headquarters.

Figure 3:

How confident are you about your bank's prospects for revenue growth over the next 12 months?



"The presence of large, big-box companies is seen and felt on the retail side, but the money they generate doesn't necessarily get reinvested into the community."

Bryan Luke, president and COO, Hawaii National Bank

Rebounding

Nobody likes to reminisce about 2008, least of all bankers in big-bubble real estate markets like Chicago and the collar counties. “The biggest challenge we’ve had since we opened the bank in 2000 was the recession,” said Charie Zanck, vice chairman and CEO of American Community Bank & Trust. “The counties around Chicago were developing rapidly with tremendous real estate transaction volume which resulted in some price/value inflation. When the recession hit, commercial real estate values in the McHenry County and some surrounding counties declined by 70 percent and residential real estate values declined by 50 percent. There is no question that our area was hit hard by the recession.

“Our bank has operated profitably since the beginning, so we weathered the storm, but it was a challenge. We have always been strong, and now we’re even stronger than ever. Illinois is a difficult state to live in, and certainly a difficult state in which to do business. The small family owned businesses we serve are our greatest gift. We have an exceptional client base, and in a number of cases we are now working with the second or third generation.

Boom times

Other regions are enjoying a renaissance. “Our local market is booming,” said Deborah Cole, president and CEO of Citizens Savings Bank and Trust Company in Nashville. Citizens Savings Bank and Trust is a community development bank and the country’s oldest African American-owned financial institution.

“Nashville is growing tremendously, by leaps and bounds,” said Cole. “I read that 100 families a day are moving here. We’re known as the ‘IT’ city now. There’s a lot of housing, a great opportunity for our bank to expand our customer base and reach out into other areas.”

That’s also the scene in northern and northeastern Colorado, according to John Sneed, president and CEO of FMS Bank in Fort Morgan, population 11,300, about 80 miles northeast of Denver. “We’ve seen an unbelievably good economy and growth. Our unemployment rate is around 2 percent. Depending on location, housing values have gone up 40 percent or more in the last five years. So it’s a very, very robust economy.

“One branch in Fort Morgan is out closer to some of the agricultural producers, and we’re seeing some stress there in the agriculture industry, but everything else is going really well. We’re in a heavy oil and gas production area, and there was a lot of concern about the decline in oil prices when it hit, but the reality is that the percentage of the economy that’s really affected by energy is not very big. Other things such as education and manufacturing went right on by. We haven’t had a blip for a long time.”

Too much of a good thing

Missouri is doing so well it hurts. "In our primary market in St. Charles County, unemployment has hovered around 2 percent, which has really created a labor shortage for some businesses," said Luanne Cundiff, president and CEO of First State Bank of St. Charles, which just celebrated its 150th anniversary. "It's a good thing because the region is at primarily full employment, but it's a bad thing because a lot of our customers are having trouble getting the employees they need. We're seeing cases of fast food restaurants having to cut back hours because they can't staff a shift. It's a huge challenge for our county's Workforce Development group to get the labor force to where it needs to be. There are currently many wheels in motion to ensuring a strong labor force for years to come."

However, things are looking up from a banking perspective, Cundiff notes. "Five to 10 years ago, our businesses tended to sit on their cash to wait and see how things shook out. Now we're starting to see some capital expansion and more initiatives. From an economic perspective, things have definitely improved in the St. Louis region."

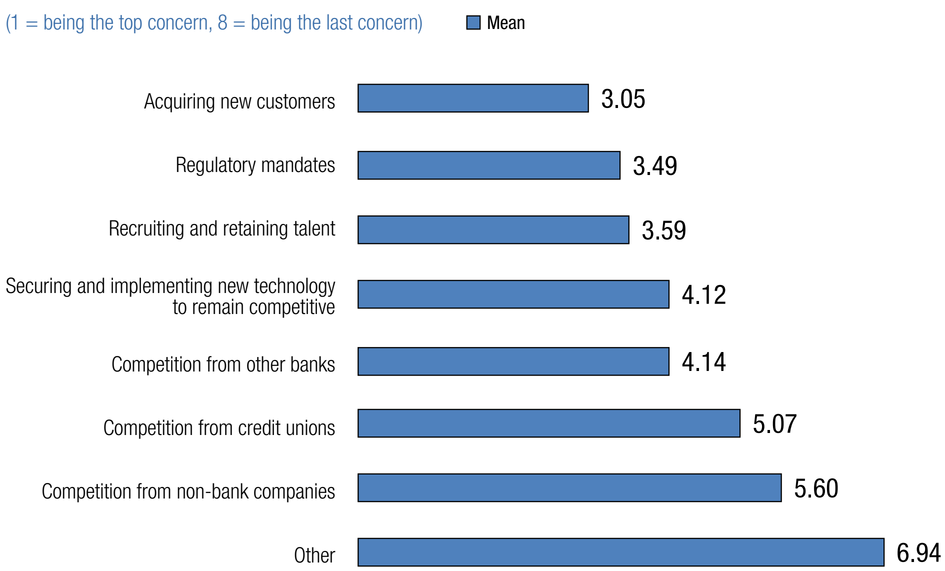
What keeps CEOs awake at night?

Many respondents to the ABA survey ranked acquiring new customers, regulatory mandates and recruiting and retaining talent as their top concerns, followed closely by competition from other banks, credit unions and non-bank entities.

Figure 4:

What keeps you up at night?

(1 = being the top concern, 8 = being the last concern)



Given the chance to name other challenges, many respondents cited cybersecurity as a growing issue, and raised a number of tough questions:

- How do we protect the integrity and privacy of customer data?
- Will the current expanding real estate bubble end as disastrously as the last one?
- How do we attract and maintain deposits in a rising rate environment?
- How do we retain the desired volume of high-quality loans?
- How can we deal with the cost and complexity of regulatory mandates such as CECL?
- What if the stock market drops and takes the economy down with it?
- How do we manage smart growth, keep shareholders happy and deliver on our promise of premium customer service?

But, there was also abundant optimism. The majority of respondents (90 percent) feel good, very good, or excellent about the overall U.S. economy over the next 12 months, and four out of five respondents (81 percent) feel good, very good, or excellent about their bank's prospects for revenue growth in 2018.

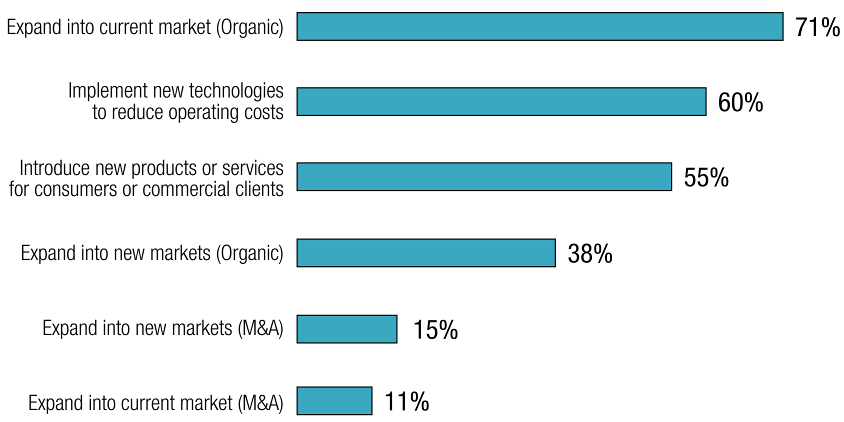
Many bank CEOs are also taking bold actions in 2018 to drive growth or profitability. A majority of respondents plan to expand organically within current markets (71 percent), implement new technologies to reduce operating costs (60 percent), and launch new products or services for consumers and commercial clients (55 percent). A notable number (38 percent) are planning to expand into new markets through organic growth. A few are pursuing growth through mergers and acquisitions.

Community bankers' to-do list for 2018

In the survey and follow-up interviews, we asked bank leaders where they plan to focus their efforts in 2018. Some talked about strategic priorities, others had specific tactical actions in the works. Here's a high-level look at what amounts to a CEO to-do list for 2018.

Figure 5:

Which of the following activities are you planning in 2018 to drive growth or profitability?



Fill gaps in the product portfolio

Most banks in the ABA survey already offer the basics, such as debit cards, commercial and small business lending, mortgages and reverse mortgages, home equity lines of credit, investments and wealth management, insurance, student loan purchasing and personal financial management.

The minority of banks that do not yet offer the full range of products are planning to add them in 2018. For example, 75 percent of respondents said their banks offer a loyalty rewards program, and the remaining 25 percent plan to launch one in 2018.

If community banks make good on their plans, student loan business will see a big uptick, with 50 percent of banks saying they'll add student loan purchasing and student loan refinancing in 2018. Consumer and business customers can soon expect that their community banks will offer the gamut of products and services they would expect from a larger bank.

When asked what activities are planned in 2018 to drive growth or profitability, 55 percent of respondents said they plan to launch additional products or services for consumers or commercial clients.

Differentiate with innovation

Some banks are expanding in new directions. For instance, FirstCapital Bank of Texas, NA, in Midland, Texas, offers "Popmoney," a person-to-person payments service launched by CashEdge (now part of Fiserv). "Suppose I pay for your lunch tab—$8.33 for your salad and drink," said Jay Isaacs, president of FirstCapital. "You can go to your phone, make a transfer from your checking account via phone to my phone, and I can download from my phone to my checking account." The service has proven quite popular with FirstCapital customers.

Savings Institute Bank & Trust in Connecticut has made a niche for itself in the timeshare and homeowner association world, opening up relationships all over the country, according to Rheo Brouillard, president and CEO of the bank. A condo or homeowners' association can get the financing it needs for capital improvements, such as repaving the parking lot or re-siding the buildings, and the owners repay the loan through their assessments. "We've used some of these products to help diversify our portfolio and get some dramatic growth that we wouldn't otherwise get in our rural area," said Brouillard.

Steven Lundgren, President and CEO of Denali State Bank, is innovating through partnerships. "I struggled the last few years to put loans on the books in my local area, and not only has that been a challenge, but prior to 2-3 years ago, we had all our lending eggs in the Fairbanks basket, which makes us terribly reliant on the Alaskan economy," says Lundgren. "We're not expanding our footprint, and we're not expanding our direct lending but instead, we are developing partnerships and participating in relationships with other banks and other entities—diversifying our loan portfolio with about 20 or 25 percent of our loan portfolio placed outside the state of Alaska. We will probably expand that to about 30 percent of our portfolio in 2018."

"Our focus for 2018 is to adopt additional mobile and online applications. We're going to be putting out a checking deposit and new account opening product online. We're also looking at getting a small business loan piece online, and upgrading our residential mortgage loan to a mobile application instead of just an online application."

John Sneed, president and CEO, FMS Bank, Fort Morgan, Colo..

Streamline lending with more digital channels

Community banks, particularly smaller ones, have typically lagged in technology adoption for lending, especially compared to more aggressive fintech players. If you're a glass-half-full person, this technology shortfall could be seen as an easy opportunity. Could digital automation for lending represent the next growth area for banks?

Many banks offer some form of digital capability around lending, such as loan status, loan payments and basic account information. However, the majority of banks' lending services—including onboarding, underwriting, SME loans and omnichannel selling—have yet to be upgraded with today's technology.

That means there is still a lot of potential to improve productivity, close more loans and increase revenue per loan with cheaper, faster, automated services. Bank customers expect it, fintechs are offering it, and banks are moving in that direction—although they are not there yet. Survey respondents tell us that over the next 12 months, 71 percent of them plan to offer digital processes for small business lending and 57 percent for consumer lending.

"People have responded well to our online residential loan application, and we are seeing use across the board," said John Sneed, president and CEO of FMS Bank in Fort Morgan, Colo. At present the digital loan origination document is just a static form, and the bank takes the application process from there. The next step for FMS Bank is to upgrade to an interactive experience via a mobile application.

The 'Mortgagebot Online Mortgage-Handling Platform' offered by Finastra and endorsed by ABA, makes it much easier for Hawaii National Bank customers to originate a home loan, according to Bryan Luke, president and COO. "Consider a married couple where both are working. It's difficult for them to find the time to meet with somebody in the branch. It might be 10 o'clock at night when they want to initiate a loan application." A digital option provides the freedom to work by their own schedules.

Automation also speeds the lending process, providing an important competitive edge. "When you're talking about mortgages, the amount of time to close is really important, especially on the housing side in a hot market," says Luke. "If we can close loans faster than the overall average of 34 days, that's a competitive advantage for us. That will encourage people to recommend us over someone else, because at the end of the day, from a rate perspective, everyone is pretty competitive, so then it's about competing on service."

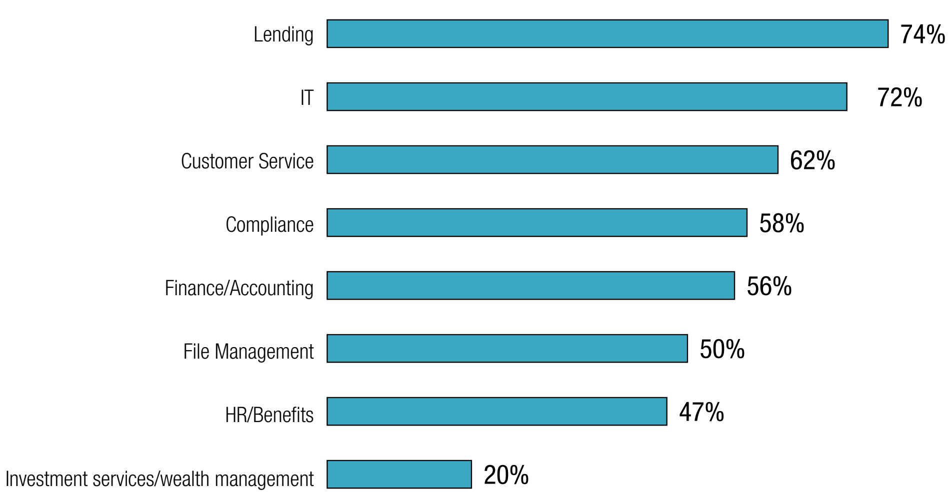
When it comes to using technology to create that service edge, respondents believe that lending (77 percent), IT (72 percent), and customer service (62 percent) will benefit the most from automation.

In a nod to our smart phone-dependent age, most banks that offer some form of lending-related digital capabilities make them available on mobile devices. In most cases, that mobile capability is simply being able to access the bank's website from a smart phone, rather than initiating and completing the process through the bank's mobile app.

When asked what activities are planned in 2018 to drive growth or profitability, 60 percent of respondents said they plan to implement new technologies to reduce operating costs.

Figure 6:

What parts of your bank's business will benefit from automation?



Be more mobile and digital for all customer interactions

The banking industry has already seen tremendous growth in online and mobile banking for day-to-day transactions, such as viewing account balances, making payments and transferring funds. According to Juniper Research, a mobile, online and digital market research firm, by 2021, half of all adults worldwide will use a smartphone, tablet, PC or smartwatch to access financial services. That figure is up 53 percent from 2017.[1] Digital banking will continue to grow as customers flock to financial institutions that offer faster, omnichannel digital services.

According to our survey, in 2018 most banks (69 percent) plan to increase the number of products and services offered over their existing digital channels, 52 percent plan to expand the number of digital channels offered to customers, 64 percent plan to offer online account opening across all digital channels, and 35 percent plan to offer mobile wallet to enable customers to use their smartphones to pay for purchases.

The demand for digital convenience is definitely there, particularly from millennials. “From a customer standpoint, we continue to see a shift to a more technology-based experience,” said Brian Johnson CEO of Choice Financial Holdings in Grand Fork, N.D. “While relationships with the customer are still very connected and strong, the transaction of that relationship is often outside the branch, whether in how the client and banker interact or how the client chooses to move money around.” In response to customer preferences, the bank partners with technology firms that:

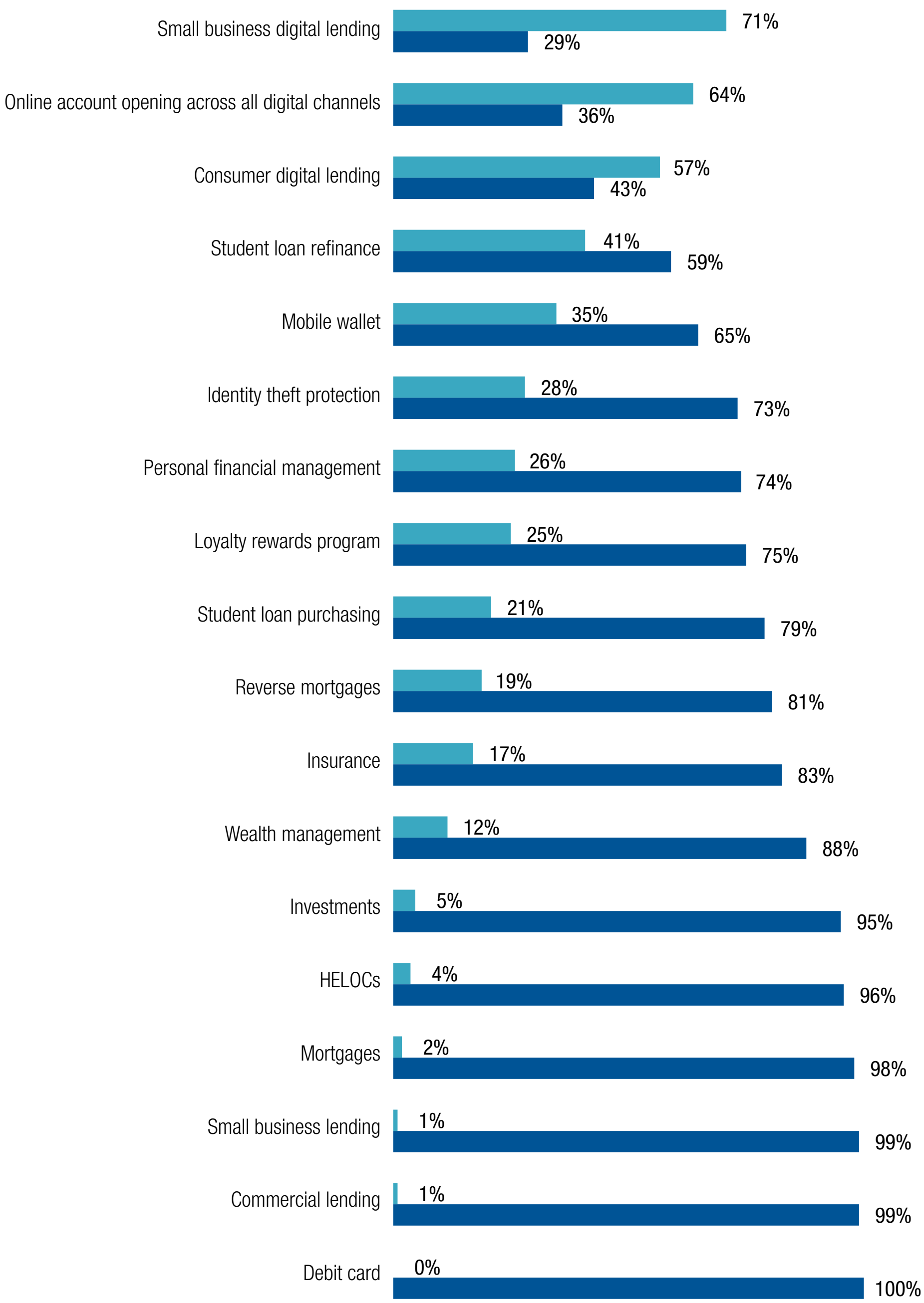
- Augment online banking with artificial intelligence in order to provide customer insights, personalized services and a seamless and easy-to-use digital banking experience.
- Streamline the management of employers’ health savings accounts with paperless onboarding, paperless administration and automatic synchronization with multiple payroll programs.

“We’re going through a rebranding process with the bank which includes our technology and online presence, said Deborah Cole, president and CEO of Citizens Savings Bank and Trust. “Our customer base now wants expanded technology-based products, especially millennials—this is a request that we see quite often”.

1 Bhas, Nitin, “Retail Banking: Digital Transformation & Disruptor Opportunities 2017-2021,” Juniper Research, February 2017—https://www.juniperresearch.com/researchstore/fintech-payments/worldwide-digital-banking

Figure 7:

What products/services do you currently offer and what new products/services do you plan to offer in the next 12 months?



Upgraded core processing platforms are paving the way for these advanced digital capabilities. For example, a data processor conversion completed in 2017 gave FMS Bank in Fort Morgan, Colo., new capabilities for more seamless interaction with customers. "We added mobile banking, a cybersecurity piece onto our checking accounts and other features that we feel are necessary to meet our customers' expectations," said John Sneed, president and CEO.

Hawaii National Bank is also looking beyond its existing mobile and internet channels and continuing to assess how customers want to communicate and how the bank can do more. "That could be customer portals to collect and send documents and information or streamlining and automating various processes," according to Bryan Luke. "We want to give our customers access to a lot of self-service capabilities, because as they are working harder and longer—and maybe not banking during normal banking hours—we want to have as much available for them as possible, whenever and wherever they are."

However, community banks would be wise not to view technology as a panacea for everything, Luke cautions. "Using technology to modernize what we currently do helps, but… the danger is you might use too much technology and lose that face-to-face, customer-building relationship. We have to make sure that we have a balance between these two."

Is digital all about meeting millennials' expectations?

There has been a lot of talk that millennials want to interact exclusively via their phones and computers. The thinking being that digital channels and social media are largely a play to attract the younger demographic who grew up with computer chips in their crib toys and had laptops before they could walk.

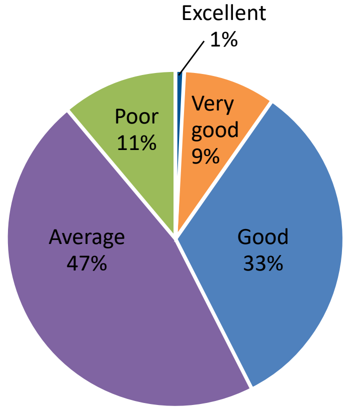
Is that true? CEOs we talked to reported that customers of all ages are embracing social media, online banking and other technology-enabled innovations in their banking interactions—not just millennials.

"Our new online platform in residential mortgages will attract not only a lot of millennials, but anybody who prefers to engage on the computer and has no real desire for face-to-face interaction," according to Luanne Cundiff of First State Bank of St. Charles. That description knows no age limits.

"I don't buy the claim that millennials only want to interact with computers," said Cundiff. "They may not come into the bank to do their everyday transactions, but they meet with us and do things just like the older generation does. They may text us instead of emailing, so their communication approach is slightly different, but it's not this huge shift that will never resolve itself.

Figure 8:

How would you rate your bank's ability to attract millennial customers?



"As time goes on, everybody culturally integrates. Banks will figure out a way to communicate with them, and they'll figure out a way to communicate with us. Our approach is not to segment based on age demographics, but on customers' needs and desires."

More than half of survey respondents (58 percent) believe they are "average" to "poor" at attracting millennial customers regardless of their bank's size. Small banks give themselves about the same grade as larger banks.

Integrate data for a relationship-wide view

The success of omnichannel banking will depend on the bank's ability to synchronize the experience across channels and devices while managing the customer relationship in its entirety.

Only 17 percent of respondents describe their banks as "very effective" or "somewhat effective" in integrating customer information across all business channels in order to provide a seamless, high-quality customer experience. There's clearly room for improvement and a competitive advantage for those banks that achieve the proverbial 360-degree view of the customer.

Keep tabs on fintechs as potential threats or future partners

Fintech lending is growing fast, showing year-over-year growth of 93 percent in 2015, and 58 percent in 2016. Growth is expected to reach $122 billion by 2020—a *ten-fold increase* in just six years—according to Morgan Stanley Research.

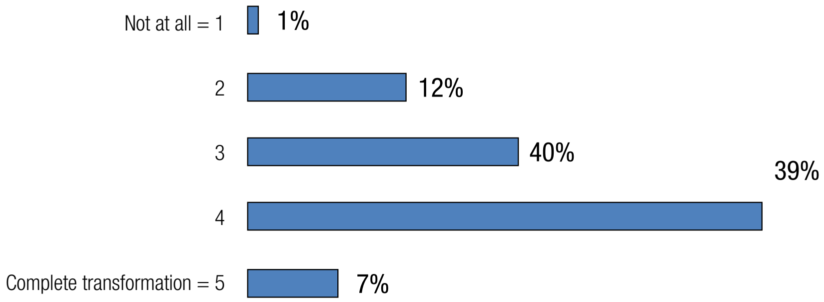
Survey respondents have taken note of this trend. A clear majority (79 percent) see fintechs as influential in reshaping competition, while 7 percent believe fintechs will completely transform the banking industry.

The success of omnichannel banking will depend on the bank's ability to synchronize the experience across channels and devices, and manage the customer relationship in its entirety.

Figure 9:

To what extent do you think Fintech will reshape competition in the banking industry?

On a scale of 1 to 5 (1 = not at all, 5 = complete transformation)



"Fintech companies will kind of sneak in the back door because they are advertising online or through television and making themselves available to customers online," said Jay Isaacs of FirstCapital Bank of Texas. "You're watching your favorite TV show, you see an ad for a banking service or mortgage product, you pick up the phone and call 1-800, and next thing you know, you're financing your home through an entity outside your region. Fintech companies have done a very good job in their marketing outreach efforts."

Steven Lundgren of Denali State Bank agrees. "We've seen consumer competition from fintechs such as Prosper, Lending Club and SoFi. They're sending letters to our customers. Probably the biggest fintech digital competition we've seen is through Quicken. They've captured a larger share of our mortgage loan market than I would have expected for a digital lender. These are the primary competitive pressures I've seen in the past year and into 2018."

"For the industry as a whole, fintechs are a big factor. Our bank's growth has been solid, but there's opportunity lost, and you don't even know what it was, because people are willing to do business in the Amazon-style, – on platforms that are right in front of them – on their phone or in their home. Fintechs are competing against us and they are gaining business."

Brian Johnson, CEO, Choice Financial Holdings, Grand Forks, ND

Capitalize on fintech's downside

For all their convenience, alternative lenders have their detractors. Borrowers who have used digital lenders often report significantly lower overall satisfaction (15 percent satisfaction) than those who turn to banks (75 percent). Online lenders may offer a smoother application process and faster credit decisions, but the rest of the experience often disappoints, with 51 percent unhappy with their repayment terms and 70 percent complaining about unfavorable interest rates.[2]

"I'm not all that concerned about the competition from alternative lenders, because the reality I've seen is that small business loans are extremely expensive," says John Sneed of FMS Bank in Colorado. "I'm amazed at how much money people will pay for the convenience of online processing. The rates customers are being charged by Kabbage and firms such as that are akin to payday money lending, and we can compete very, very well against that kind of thing."

If community banks can get closer to the agility and convenience offered by fintechs, they have clear advantages—competitive rates and the personal service that is the hallmark of community banks. "For us the strategy is providing the convenience to our customers to be able to rapidly respond to their needs," said Sneed. "As much keystroke reduction as we can achieve to make that happen, along with time savings, will just continue to improve the customer experience."

2 Federal Reserve 2015 Small Business Credit Survey Report on Employer Firms

See the opportunity in fintechs

Banks don't necessarily have to compete with fintechs. They can partner with them instead. With little upfront investment, banks can:

- Hold loans for fintech lending portals that are run and branded by the fintech.
- Take advantage of a fintech's software to offer their own branded online lending.
- Make inbound or outbound referrals with digital lending partners.

There is ongoing interest in these types of partnerships. In a 2017 ABA survey, 71 percent of respondents said their banks were interested in using a third-party digital platform for consumer loan origination, 31 percent of banks admit they would be happy to partner in some form with a third-party provider to service consumer loans, and 80 percent would happily get help from a fintech for servicing small business loans. Automation can make it feasible for banks to reclaim the consumer and small business lending markets they may have exited because it wasn't cost-effective.

"It is great when banks can partner with fintechs, as long as they know what they're getting into," said Luanne Cundiff of First State Bank of St. Charles. "It's not for the faint of heart. There's a lot of due diligence that goes on behind the scenes. It's like vendor due diligence on steroids, to make sure the fintech is a viable entity before you partner with it. It's not something we're planning to do for every product we have, but there are opportunities out there—we just have to find the right niche for them."

In January 2018, Cundiff's bank launched an express mortgage product with a very short close time through a fintech partnership. "This product will open up a more diverse client base for us. With mortgage lending there are some people who really want that hand-holding, and there are others who want to do it all online. We'll be able to offer both."

For some banks, neither the time nor the pricing is right. "We're watching fintech closely," said Charie Zanck of American Community Bank & Trust. "It's a topic of discussion at almost every board meeting and we have researched a number of different companies that provide different solutions. Some of the lending providers we have spoken with are priced for much larger banks and some were developed with only an algorithmic approval process, neither of which fit our business model. I think that whole environment still has some shaking out to do, so we're watching all that. There will be winners and losers. In the meantime we are working on a strategic plan for our technology investments with a strong interest in a number of enhancements to current offerings."

"There are banks that see the whole fintech industry as a threat. If we're not careful, it can be a threat, but I think there are opportunities that can give us the diversity that we need, if it's done right."

Luanne Cundiff, president and CEO, First State Bank of St. Charles

Fortify cybersecurity defenses

Fraud concerns are also taking center stage for bankers. According to Javelin Strategy & Research:

- Identity fraud hit a record high in 2016 with 15.4 million victims in the U.S.
- From 2015 to 2016, card-not-present fraud rose 40 percent and account-takeover fraud was up 31 percent.
- As EMV chip cards have curtailed credit card fraud, criminals have turned to increased online fraud.[3]

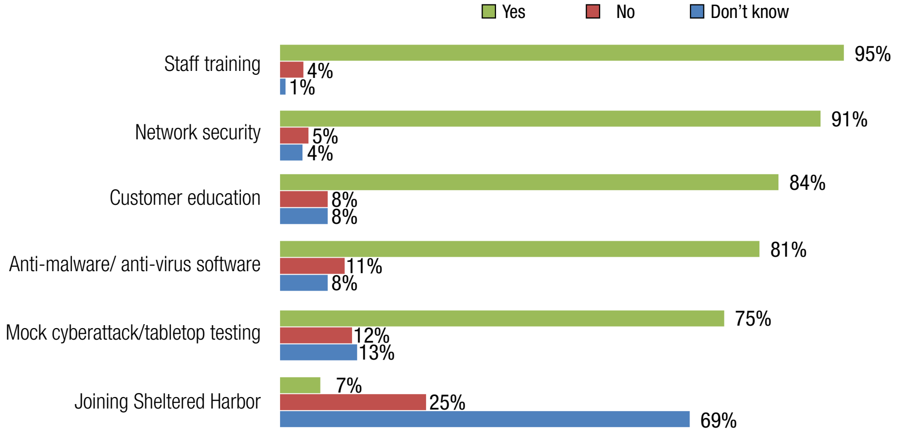
"It's a big issue," said Rheo Brouillard president and CEO of Savings Institute Bank & Trust. "We're very strong there, but quite honestly it's still a concern. We track who's knocking on our door, and it's amazing to see the number of people who are poking around looking for an easy target. Fortunately we haven't been one, but it's amazing to see how many people are knocking."

So it's no surprise that investment in analytics-driven fraud detection systems are up. "This area used to be a blip in the budget," said Choice Financial Holding's Brian Johnson. "Now it's a significant commitment in resources, both in technology and people."

Bank are installing both the infrastructure and culture of vigilance. Respondents to our survey say their banks are fighting fraud by training staff (95 percent), upgrading network security systems (91 percent), educating customers (84 percent), and using anti-malware/anti-virus software (81 percent) to better protect their banks against cyber attacks and data breaches. However, only 7 percent have joined Sheltered Harbor—an industry-led initiative designed to add an additional layer of protection to banks' business continuity and disaster-recovery efforts.

Figure 10:

Do you plan to implement or upgrade any of the following in 2018 to protect your bank against a cyber attack or data breach?



3 Javelin Strategy and Research, 2017 Identify Fraud: Securing the Connected Life, February 2017, https://www.javelinstrategy.com/coverage-area/2017-identity-fraud

Protection at the customer level

Banks are being proactive on the customer side as well, with 73 percent already offering identity theft protection and 28 percent planning to add this protection in 2018. For banks that offer identify protection to their customers, adoption has been high, partly due to the attractive price —largely free.

For example, FMS Bank in Colorado offers free identity theft resolution services to all personal checking account holders and their resident family members. Powered by CyberScout, the service gives identity theft victims access to on-call fraud specialists to help recover up to $25,000 in losses and restore normalcy—plus one year of free credit and fraud monitoring. For a modest monthly fee—less than the cost of a few lattes—customers can sign up for continuous monitoring to get early warnings of suspicious credit and fraud activity.

FMS Bank doesn't stop there. The bank's debit product has a remote on-off capability customers control through a mobile app. "So you can walk out of Walmart and turn off your debit card after you've checked the balance," said bank President and CEO John Sneed. "We are just in the process of rolling these security features out to our customers."

Similarly, American Community Bank & Trust in Chicago rolled out a popular, free debit card management feature tied to customers' cell phones. The bank also offers 'Positive Pay,' an automated fraud detection tool for business checking accounts. This service ensures that funds are not released from the account unless the transaction presented for payment exactly matches a customer-provided, electronic whitelist.

Grow through mergers and acquisitions

Only 11 percent of survey respondents plan to grow through M&A in their current markets, and 15 percent plan to look outside their current markets for M&A opportunities. Choice Financial Holdings in Grand Forks is one of them. "We've been approved over the last few years for a couple of acquisitions, so we want to look down that road, and see if we can find new merger-type partnerships, both inside North Dakota and in the surrounding five states," said Brian Johnson, CEO. The timing is right, since bank pricing has benefited from the economic recovery and recent tax policy changes. After a $100-million capital raise, the bank had a busy 4Q17 doing due diligence to plan those acquisitions.

FirstCapital Bank of Texas is also starting down the M&A path, looking beyond the five West Texas markets it serves today. "In the past, we've typically grown our bank organically," said Jay Isaacs, president. "We have recently gone out into the private equity market and raised some equity capital to give us the opportunity to grow the bank, and that growth will come in the way of mergers and acquisitions."

These carefully targeted acquisitions will expand the bank's geographic footprint and shareholder value, as well as help cover additional regulatory compliance expense—an estimated $100,000—from passing the $1 billion mark in assets.

Other CEOs we talked to are taking a different route to growth. "We're not expanding our footprint, and we're not expanding our direct lending, but we are developing partner and participation relationships with other banks and other entities," said Denali Bank's Steven Lundgren. "We've diversified our loan portfolio and placed about 20 or 25 percent of our loan portfolio outside the state of Alaska. We will probably expand that to about 30 percent of our portfolio." Denali State Bank focuses on three primary loan programs through relationships with Bank Alliance, Lending Club and Capital Resources—and may pursue direct participation with other banks in 2018.

Others are looking to the rebounding economy to enable them to grow by doing more of what brought them success in 2017. "I keep an eye on the M&A market, but the pricing has to be right, and it has to be a good opportunity for cultural integration," said First State Bank of St. Charles' Luanne Cundiff. "We won't pursue it just to say we acquired a bank. Our path is organic growth with a vision of being opportunistic."

"I don't see any acquisition opportunities on the horizon at the moment," said Rheo Brouillard of New England-based Savings Institute Bank & Trust. "There just aren't financially viable targets for a small bank such as mine. We have some pretty aggressive growth goals for 2018, and we're putting a lot of emphasis on what these new commercial lender and residential mortgage originator capacities can bring to the table to help take our growth higher than it has been."

Attract, retain and grow customer relationships

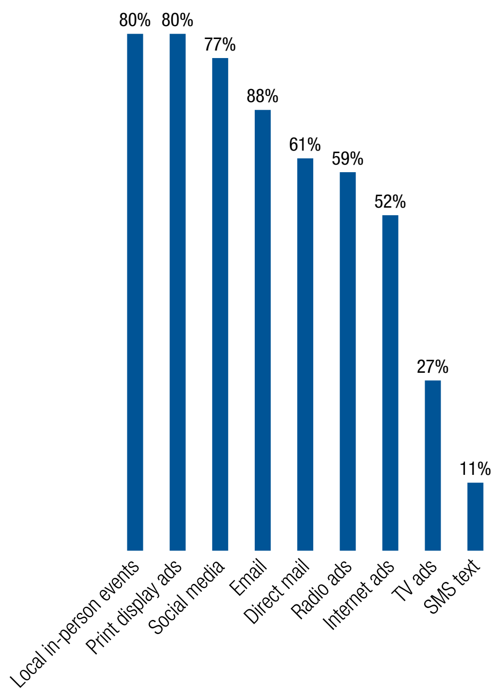
Attracting, retaining and growing customer relationships are perennial goals for any bank, but in the year ahead, there will be subtle shifts in how institutions go about it. They will keep faith in marketing but adjust their channels.

Slightly more than half (51 percent) of respondents to the ABA survey plan to keep their marketing budgets the same in 2018, while 46 percent plan to increase or significantly increase their marketing budgets.

Radio ads are still seen as effective (59 percent will use this approach), while television is losing its luster (only 27 percent plan to buy TV time). Sixty-eight percent of respondents like the more targeted aspects of email, while 61 percent will use direct mail, 77 percent favor social media, and 80 percent plan to use print display ads. True to the personal nature of community banking, 80 percent will use local in-person events for their marketing efforts in 2018.

Figure 11:

What marketing channels will your bank use in 2018?



For example, American Community Bank & Trust, northwest of Chicago, has held breakfast meetings at a local country club for clients with business and technology experts as guest speakers. “These business breakfasts are something we will continue to expand upon,” said Charie Zanck, vice chairman and CEO. “The old days of advertising in newspapers are gone. We are segueing from the old paradigm, from the old-fashioned mediums to social media and website with a continued emphasis on the personal interaction with clients. We’ve always done one-on-one business development and small group client events, but now it is even more important.”

Slightly more than half (51 percent) of respondents to the ABA survey plan to keep their marketing budgets the same in 2018, while 46 percent plan to increase or significantly increase their marketing budgets in 2018.

“We tried TV a couple of years ago and found it was an expensive medium that reached an area way broader than our market, so we decided that wasn’t it,” said Rheo Brouillard, of Savings Institute Bank & Trust. “We still use newspaper, but to a much lesser extent. Our dollars are in social media, direct mail, email and some radio right now—more of a rifle approach rather than a shotgun approach.”

“A couple of years ago we tried a combination of radio, TV and constant contact email marketing,” said First State Bank of St. Charles’ president and CEO Luanne Cundiff. “We found that email marketing is a little more efficient in terms of click-through rates and getting your information across. You just have to be careful with it. You can’t inundate their mail box.”

Service is your best advertising

While marketing creates awareness, the CEOs we spoke with unanimously cited personal service as their most effective strategy for growing customer relationships.

“We target and market to locally owned, closely held companies,” said Bryan Luke of Hawaii National Bank, where the motto is ‘Home of Warm-Hearted Bankers.’ “We’re approximately 80 percent business and 20 percent retail. We model ourselves after the private banking groups of much larger banks. So we try to provide customized, personalized services to all of our customers, as we would if we were the customer service group of a larger bank providing personalized, customized banking.” The bank starts off to gain a business client and then hopes to get that client’s retail banking business as well.

If you’re a small community bank, sometimes you can acquire customers through the missteps of the big guys. “We get a lot of business from folks that have started at the big national banks in our market,” said Lundgren. “Then the customer’s loan has been sold, they have a problem, and they have to talk to somebody in Seattle or San Francisco. That’s one of the biggest ways of attracting people into our bank, when one of the big competitors drops the ball.”

Look seriously at social media, if you haven't already

Social media is gaining a greater role in community banks' marketing efforts. In the ABA survey, 52 percent of respondents plan to increase or significantly increase spending on social media, while 43 percent plan to sustain their current levels. Virtually no one plans to cut back.

The top reasons stated for using social media, ranked in order of importance, are: community engagement, attracting new customers, deepening existing customer relationships and creating brand awareness. Social media isn't seen as a sales tool, at least not by a majority of banks.

"We want to pursue social media because that's the banking of today, and that's how the millennials are banking, that's how the people are accessing information," says Deborah Cole, president and CEO of Citizens Savings Bank and Trust. "It's a need that we have to meet just in terms of where the banking market is going."

"We use social media as a complement to our marketing initiatives, not as the primary focus," says First State Bank of St. Charles' Luanne Cundiff. "Our Facebook page is intended to be just informational and kind of fun. During our 150th anniversary, we did 'Throwback Thursday' stories about what happened in the past, just to get people engaged. But as a sales tool, I don't know how effective that has been for us."

Banks are using their social media accounts in creative ways to educate, inform, entertain and celebrate: "Join us at the monthly street festival this Friday night." "Open an account designed for teens and young adults and get a free selfie stick." "Check out our tips to accelerate your path to home ownership." "Click to find out more about small business loans." "The bank's mascot visited patients and staff at the local children's hospital today." "Join us in congratulating our employees who completed the wellness challenge."

Banks can win big with social media by reaching customers in an engaging, interactive and personal way while underlining the message that banks are committed partners in the community.

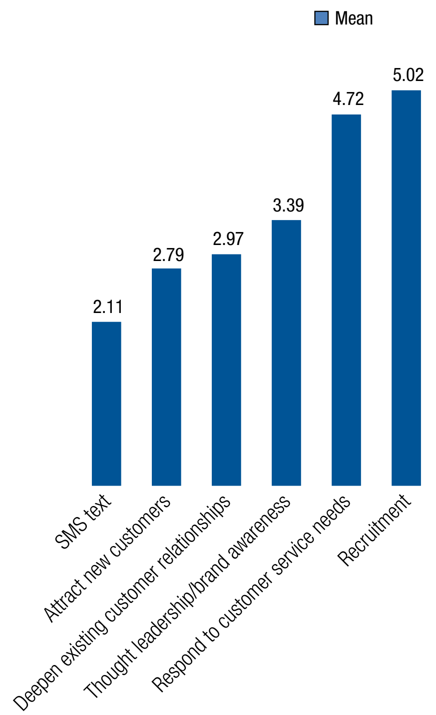
Although Brouillard, of Savings Institute Bank & Trust, admits he doesn't tweet and doesn't do Instagram, he has high praise for his social media-savvy marketing team. "A good portion of our marketing dollars are in social media, particularly Facebook," he said. "Our social media managers are young, they are sharp. I give them a lot of credit. They have done a nice job with the presentation. The marketing results surprise the heck out of me, how many clicks we get, how many accounts are opened online.

"In 2018 we're continuing to look at the results and refine what we've started to do over the last couple of years," said Brouillard. He hopes to increase the bank's profile by getting more involved in online searches powered by artificial intelligence. "If you're searching and type in 'mortgage,' hopefully you're going to see Savings Institute Bank & Trust pop up on that."

Figure 12:

What are the reasons your bank uses social media?

On a scale of 1 to 6 (1 = top reason, 6 = last reason)

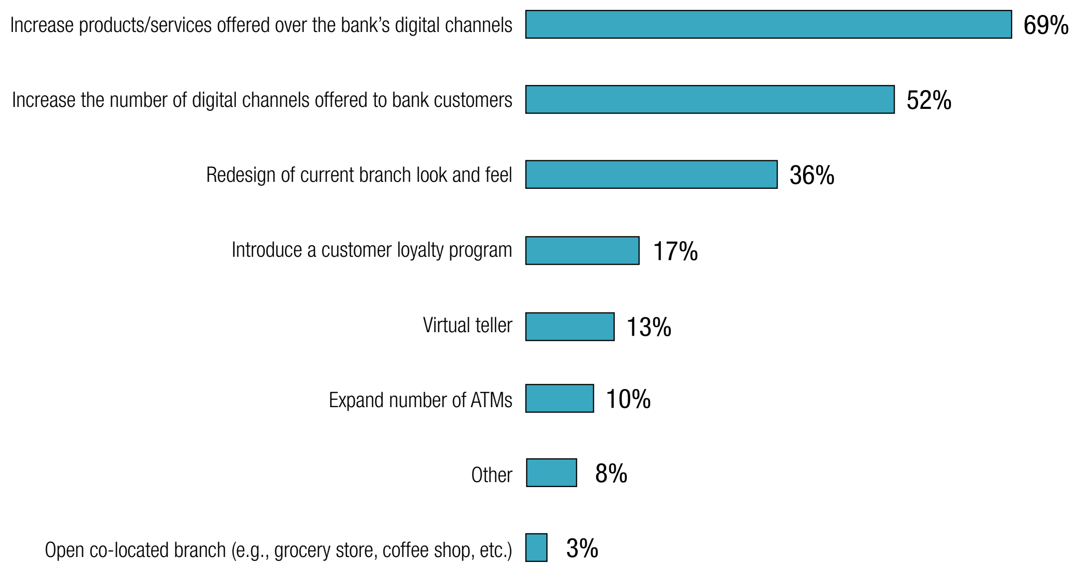


Redefine the in-branch experience

When asked what they plan to do to drive customer engagement in 2018, 36 percent of respondents said they would be redesigning the look and feel of branch offices. Some are also downsizing their branches, as technology enables them to do more with less.

Figure 13:

What, if any, tactics do you plan to conduct to drive customer engagement in 2018?



Reevaluate branch location and footprint

In 2018, Hawaii National Bank is embarking on a major branch transformation project. It's a smart move in a market that has seen demographic shifts and sky-high real estate prices. "We will likely complete renovations and/or relocations at four of our 13 branches this year. This modernization and 'right-sizing' project will set the tone for the future, not just in terms of look-and-feel, but also in our interactions with customers," says President and COO Bryan Luke.

Many of the 57-year-old bank's branches have been there for 20 to 30 years—some for 57 years. They were originally sited in the hubs of the neighborhoods they served. "But, as time has gone by, we need to reevaluate where those community centers are, make sure we're in the right locations to be convenient for our customer base, and relocate to where our communities are," says Luke. Since real estate and construction costs are high in Hawaii, Luke hopes the bank can use technology and automation to do more with smaller branches.

Redefine the drive-through experience

American Community Bank & Trust in Chicago is taking a bold move by closing its traditional drive-up windows and replacing them with kiosks and two-way video. Cash recyclers in the lobbies will automate cash handling processes. The traditional teller line will be gone, replaced by pods.

Vice Chairman and CEO Charie Zanck admits some of her bankers were skeptical about the drive-through technology. Clients won't like it, they said. "But the literature is showing that clients like it better because they are better able to actually see the teller they are speaking with," said Zanck. "With traditional drive-ups, you're looking through a window many feet away. With this new technology, you're actually seeing the teller in the video monitor. And clients today are much more tech-savvy with Skype and so forth, so the feedback has been that clients are comfortable and very accepting of this technology.

"The transformation will bring substantial efficiencies, but the real driver is client experience," says Zanck. "The teller's job has changed, and it is very complex from a regulatory perspective. It is becoming increasingly more difficult to find candidates with the varied skill sets to accurately count cash, prevent fraud, manage all of the compliance requirements and engage in meaningful conversations with clients simultaneously. We don't want our tellers to have to maneuver heavy coin, and they don't want to have to deliver large sums of cash to and from an ATM module in the drive up. We are making changes to leverage technology and to create a better, safer experience for our tellers."

This transformation began in early 2018 and will take place in phases. Branches are being redecorated and remodeled at the same time, starting with one bank and migrating to other branches over the next couple of years.

Consider virtual tellers

Bankers' hours? Not at FirstCapital Bank of Texas. The bank has always offered 24/7 access to ATMs, but for the last five years, it has offered extended access to tellers. With its 'TellerConnect' kiosks, customers can speak with a teller via a live video screen almost every day of the year from 6 a.m. until midnight to make deposits, withdrawals, account inquiries and more.

Virtual tellers are a way for community banks to centralize teller talent to serve existing branch locations, or to expand the bank's presence without investing in additional staff or a new building. The technology is still in the early stages of adoption. Overall, 13 percent of the survey respondents say they plan to use virtual teller technology—with banks in the southwest (35 percent) region of the country particularly keen.

"Back in 2013, we were the first bank in Texas to introduce 'TellerConnect,'" says President Jay Isaacs. "The technology enables us to offer first-class, top-rate teller services with a person on screen. The catch? The teller is not in Midland, but in Lubbock, where we have access to college students—and the unemployment rate is not as low as it is in Midland.

"Once customers realized they could do all of their services with TellerConnect (except coin), and they were [still] dealing with a live person who knew their name, they accepted it, "Isaacs said. "The response has been excellent; 95 percent of our customers embraced it." For the 5 percent who are skeptical, there are still personal bankers in the lobby during standard banking hours.

"TellerConnect enabled us to consolidate our teller services into one area, which allows for consistent training," said Isaacs. "It also allowed for better responses to customers' needs. When tellers were distributed across eight branches, if a problem was floating around in Amarillo, the other branches might not hear about it. With virtual and centralized teller services, all of our tellers know immediately."

The TellerConnect system made FirstCapital Bank of Texas something of a curiosity. "Many bankers have come through for tours to look at our operation and equipment and determine whether they want to put it into their locations. It didn't initially catch on with other banks. They were waiting to see whether customers would accept it. Now we're starting to see it throughout the country."

Empower tellers and teams

A common theme we heard in CEO conversations was teamwork and enrichment for bank personnel. For some banks, this is about breaking down silos among functional units or locations. For others, it is about broadening the skill-set and description of the teller's role.

The team concept

"We're moving towards a team environment, where it's not just a branch as a team, but clusters of branches working as a group, both from the lending and cash management side," said Hawaii National Bank's Bryan Luke. "As a small organization (about 175 employees), we're too small to be siloed and separated. So the whole team concept is really spreading throughout the organization."

"This approach appeals to the new generation of hires," said Brian Johnson of Choice Financial Holdings in Grand Forks, N.D. "Working in a team environment seems to attract millennials, because it relates to how they were educated. So we try to align with their expectations in order to attract them into our organization and give them reasons to be excited about being a part of Choice."

The team approach is de rigueur at American Community Bank & Trust as well. "Our bankers work in teams to service our clients," said Zanck. "Between our four banks—we call them banks not branches—our bankers are very mobile. They move around to meet the client's needs."

Why "banks," not "branches" to describe the four grand, brick buildings, spread 10 to 15 miles apart in McHenry County, Ill.? "It's part of our branding," Zanck explains, "Our intent is for of these banks to be the central community bank for that community, rather than a branch of another entity."

Tellers as universal bankers

Expanding the teller role can create a more enriching experience for the teller and a smoother customer experience for the client. Some banks are taking that path by moving to a "universal banker" or "universal teller" model.

"We are implementing our 'universal banker' program this year," said John Sneed of FMS Bank. "Our front line will be trained to be able to take deposits, open accounts, accept or give out loan applications, and answer basic questions that customers have about their accounts. We're actively trying to create a one-stop shopping experience for our customers. The other benefit is that our staff will be cross-trained, where every front-line person has more in-depth skills."

This concept empowers tellers to have a more active role in cultivating customer relationships. "We've trained everyone to service the client in front of them from soup to nuts," said Savings Institute Bank & Trust's Brouillard. "The teller can say, 'I see here you have a CD but you don't have a checking account. Would you like to consider opening an account?'"

At the bank, it's now typical for such relationship reviews to be initiated at the universal banker level. The universal banker can then take the conversation to an office, walk through the customer's whole financial profile, and make recommendations for offerings that would benefit that customer. "The transformation to the universal banker—and the emphasis on using the customer information we have in front of us—has really moved our sales process a lot," said Brouillard.

Expand recruiting and workforce development efforts

If you want to get an earful, ask a bank CEO about their challenges with staffing. In our survey, recruiting and retaining talent was a top concern of CEOs, right up there with the headaches of regulatory compliance. More than half of respondents (58 percent) found it difficult or very difficult to recruit people with the necessary leadership skills (59 percent), innovation and outside-the-box thinking (41 percent) and customer service ability (40 percent)—the skill sets most lacking when recruiting for bank professionals.

At the same time that banks are looking for critical skills, they are hoping to build a diverse workforce. Nearly seven in 10 respondents (68 percent) think diversity and inclusion are important or very important when hiring and developing talent.

Community banks are also competing for scarce talent at a time when the industry's image is still in recovery. People who were in high school and college during the financial crisis may have gotten a poor impression of the industry and be less inclined to include it in their vision for the future.

"A lot of universities, whether because of budget cuts, lack of demand, or both, eliminated their banking curriculums," said First State Bank of St. Charles' Cundiff. In fact, the banking program from which Cundiff graduated is gone now, along with many other programs around the country. "The combination of the two—lack of college-age kids interested in banking and the lack of programs offered at universities—has created a real talent gap that we're contending with," she said.

Find the right people

Community banks are working hard to attract talent. As value propositions go, you'd think the chance to live in Hawaii would be a compelling one. Not so, said Bryan Luke of Hawaii National Bank. For one, the cost of living is high and unemployment is low. "It's a challenge to find qualified people, and then make sure they are going to stay," said Luke. "How do you select applicants who really want a career in banking in Hawaii and not just a short-term diversion in a tourist paradise?"

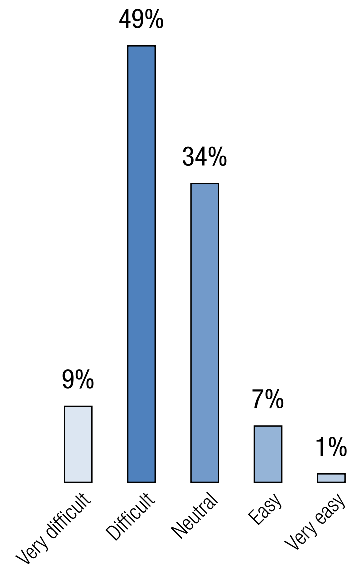
On the flip side, how do you get recruits to consider moving away from an alluring area? With unemployment in Midland and Amarillo at less than 3 percent, FirstCapital Bank of Texas has to look outside its local area to find new hires. "Staffing is probably our number one issue, especially when you get into specialty positions," said Jay Isaacs, president of FirstCapital Bank of Texas. The bank relies on recruiters to find people with the skills that are in short supply, such as those required for commercial lenders, trust officers and treasury officers.

And when you find them, will they come? "If candidates don't have family or social ties to this community, it's hard to get them to consider moving to West Texas from metropolitan areas such as Dallas, San Antonio or Houston," said Isaacs.

That's where value proposition comes in again—and in that department, FirstCapital Bank has it in spades. For one thing, it's a $1.1 billion community bank that serves multiple locations. The benefits package is plush—three weeks of vacation from the start, 7 percent company 401k match, college tuition for family members, bank-matched contributions to an employee stock purchase plan, a family-oriented culture at the bank and more.

Figure 14:

How difficult is it for your bank to recruit people with the skills you need to stay competitive?



Forty-six percent of survey respondents reported that they expect staff levels at their bank to stay the same, while 44 percent expect the number of staff to increase. Only 10 percent expect a decrease. Where will the new team members come from? Across the board, banks cited recruiting and retaining talent as a top concern, especially for employees with specialized skills.

"Our benefits package is very good because we have to compete with oil and gas companies in Midland that are providing very rich benefit programs," said Isaacs. "In our opinion it has made us a very attractive bank to work for in terms of compensation, benefits and culture." *American Banker* magazine agreed, naming it one of the top banks in the country to work for. The bank ranked fourth in the nation in 2016, third in 2017 and number one in Texas.

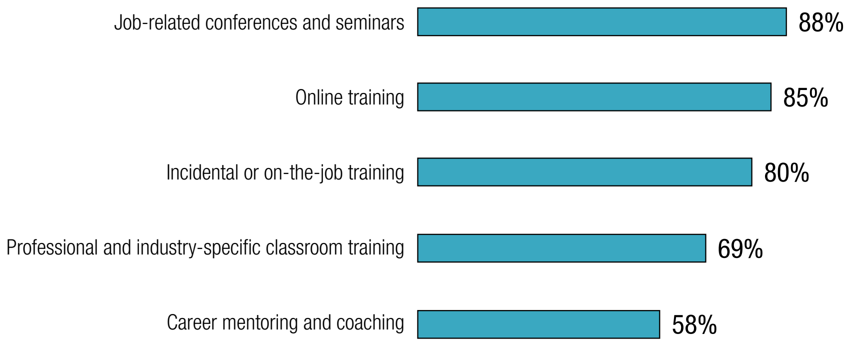
Develop the staff you've got

To develop talent within their banks, CEOs are investing heavily. They are sending their people to job-related conferences and seminars (88 percent) and providing online training (85 percent), incidental or on-the-job training (80 percent), classroom training (69 percent) and career mentoring and coaching (58 percent).

"In the old days, the large regional banks would hire the guys, train them, and then the community banks would steal them," said Rheo Brouillard. Poaching opportunities are leaner now, so development strategies have had to evolve. For example, Savings Institute Bank & Trust recruits from college finance or accounting programs and trains the new graduates using a blend of ABA online courses, in-house training and management leadership training. "I'm a strong believer in training from within and promoting from within," said Brouillard. "It's rare now that we hire for key positions from outside."

Figure 15:

Where are you investing to develop talent within your bank?



"With the baby boomers retiring, we felt the pains at our bank," said Luanne Cundiff. "That's a lot of talent leaving the industry. When the baby boomers first started in the industry, many banks had in-house training programs—comprehensive, face-to-face training programs that were very good. Over the past 20 to 30 years, those have kind of gone away. Although online training can be a good supplement to training programs, in my mind, face-to-face training and on-the-job training is what is going to make a really well-rounded banker."

Charie Zanck, with American Community Bank and Trust, northwest of Chicago, describes a 90-day on-boarding program that grooms new bankers through a variety of approaches—pairing them with mentors and cultural ambassadors as they go through ABA online training, on-the-job training and classwork, followed by six months of mentoring. Trainer/mentors sign off on each element of the program, so at the end of the six-month exercise, there's a complete record of each new banker's progress.

"In addition to on-boarding new hires, continuing their education is a must," said Deborah Cole of Citizens Savings Bank and Trust in Nashville. "No matter how large or small you are, if you don't continuously educate your people, you become stagnant, because there's constantly something new coming out."

"We are very focused on continuing education for all of our staff," said John Sneed of FMS Bank in Colorado. "In August 2017, we just completed our first Officer Development Institute class. Seven people graduated from this year-long, in-house program, focused not only on the basics of banking, but also human interaction, team building and other emotional intelligence kinds of things. We're very happy with the results, so we'll offer this program again."

Learning and development isn't just for bank employees, CEOs are seeking out opportunities to expand their skill set. "I'm very big on education," says Cole. We take advantage of regional schools, local classes. I myself, just last year, went to the ABA-Wharton CEO Leadership Lab."

Succession plans

When it comes to succession planning, the good news is that 80 percent of respondents have a succession management program in place. Another 12 percent plan to have a program in place within the next year. Only 8 percent of respondents have no plan in mind.

Under promise of anonymity, one CEO said, "The biggest challenge will be my succession plan, because no one wants to do it. If I got hit by a bus tomorrow, we have no one in line among the current staff who would even want the job. And I can't hire and train someone to just wait in the wings to take over my job someday down the road."

Grapple with regulatory burdens

Respondents at banks with less than $250 million in assets ranked regulatory burden as the top concern that keeps them up at night. While larger banks worried more about acquiring new customers, compliance was also high on their list. In the end, no group was complacent about the escalating cost and complexity of new regulations.

Here's a flavor of the sentiments surrounding this contentious subject:

"Smaller banks just don't have the staff to dedicate individuals to keep up with the continuously changing regulatory compliance laws and demands that are out there. We need third-party vendors and partners to help us with that."

"We continue to be optimistic with the reduction in regulatory oversight under the Trump administration, which seems to be more favorably positioned to help banks. So we're very appreciative of that."

"HMDA [Home Mortgage Disclosure Act] is a huge deal for us because we have such a large mortgage business. This is a massive change and a huge training initiative that we'd have to go through this fall."

"We have strong concerns about HMDA and how that will be implemented. We had one data field that we were reporting incorrectly, so now we'll have to do a HMDA scrub and re-report that. It's going to take somewhere in the neighborhood of 250 man-hours to get that scrub accomplished."

"It's just ludicrous, totally out of control, the lack of consideration from regulators for small banks. Broad-sweep rules and regulations represent a huge, huge burden on banks of our size."

Closing thoughts

Whatever the new year brings—market growth or contraction, local focus or national expansion, people development or digital processes, new rules or regulatory relief—one thing is certain: Community banks will continue their legacy of service and commitment to their customers. They will remain vigilant and committed to meeting the needs of their communities while advancing the growth and prosperity of businesses and families alike.

During 2018, community banks will continue to improve on offering personalized service through judicious use of technology, including extended bank hours with virtual tellers, more convenient loan processing through digital lending channels, access to trained tellers through video drive-through technology and newly trained universal bankers equipped to meet a broad range of customer needs.

In short, the landscape for community banking will continue to grow and evolve in the year ahead, with customers' needs continuing to remain front and center.

Top 10 takeaways

1. **Drive growth and profitability**—Many banks plan to expand organically in current markets (71 percent) or new markets (38 percent), implement new technologies to reduce operating costs (60 percent) and launch new products or services for customers and commercial clients (55 percent).
2. **Add products and channels**. Most banks (69 percent) plan to add products and services over existing digital channels, while 71 percent plan to offer digital processes for small business lending and 57 percent for consumer lending, 52 percent plan to add new digital channels, 64 percent plan to offer online account opening across all digital channels, and 35 percent will offer mobile wallet.
3. **Consider synergistic fintech partnerships.** In a 2017 ABA survey, 71 percent of respondents said their banks were interested in using a third-party digital platform for consumer loan origination, while 31 percent of banks would be willing to partner with a fintech company for servicing consumer loans and 80 percent for small business loans.
4. **Capitalize on technology and automation.** When considering technology as a competitive advantage, 77 percent believe lending will benefit the most from automation, followed by IT (72 percent) and customer service (62 percent).
5. **Integrate customer information**. Only 17 percent of respondents describe their banks as "very effective" or "somewhat effective" in integrating data from across the business to provide a seamless customer experience.
6. **Fortify cybersecurity and fraud protections**. Banks fight fraud by training staff (95 percent), upgrading network security systems (91 percent), educating customers (84 percent), using anti-malware/anti-virus software (81 percent), offering identity theft protection (73 percent) or adding it in 2018 (28 percent). So far, just 7 percent have joined Sheltered Harbor.
7. **Market the bank**. In 2018, 59 percent will use radio advertising, compared to only 27 percent using television advertising. Most banks will use email (68 percent), direct mail (61 percent), social media (77 percent), print display ads (80 percent) and local, in-person events (80 percent). Half of respondents (51 percent) plan to keep marketing budgets the same in 2018, while 46 percent plan to increase their budgets in 2018.
8. **Grow social media**. Having seen successes with little investment, 52 percent of respondents plan to increase or significantly increase spending on social media, while 43 percent plan to sustain their current levels in 2018.
9. **Recruit in difficult labor markets**. More than half of respondents (58 percent) find it difficult or very difficult to recruit people with the necessary leadership skills (59 percent), innovation and outside-the-box thinking (41 percent), and customer services (40 percent).
10. **Develop staff**. Respondents say their banks will be sending employees to job-related conferences and seminars (88 percent) and providing online training (85 percent), incidental or on-the-job training (80 percent), classroom training (69 percent) and career mentoring and coaching (58 percent) to their staff in 2018.

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