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# Despite Headlines, Most Community Banks Weathering Recession Better Than Big Banks

FDIC Data Shows Smaller Banks Have More Capital and Loan-Loss Reserves

MINNEAPOLIS, MN – Even as bank failures and government seizures continue at a pace not seen since the S&L crisis of the 1990s, a new study shows that community banks appear better positioned to weather further economic deterioration as compared to their larger competitors.

The study, *Community Banks Hold Their Own During Recession*, was conducted by The BrandBank, a bank consulting firm. It examined financial data from more than 8,000 banks. The data was reported to the Federal Deposit Insurance Corp. (FDIC) during the last five quarters, ending March 31, 2010. The study found that banks with less than $1 billion in assets were significantly better capitalized and had set aside larger capital reserves for potential credit losses than banks with $1 billion or more in assets. Smaller institutions outperformed larger banks in all but one of the seven categories that were examined.

"The data is pretty convincing and it shows that most community banks have reacted proactively to this crisis," says Tom Grady, the study's author and The BrandBank's co-founder. "Community banks not only have more capital to support their institutions through this recession but they've set aside significantly more loan-loss reserves in case their portfolio performance worsens. They appear to have taken a much more conservative approach to this credit crisis than larger banks."

The BrandBank began comparing the performance and overall health of large and small banks in January 2009. The categories used to compare performance and financial condition included Tier 1 capital, loan performance, net interest margin, efficiency ratio and the amount of reserves already set aside for future loan losses. Grady says the conclusions are significant.

"On average, community banks appear to be more stable simply because they have more capital, higher margins, better loan performance and larger loan-loss reserves already set aside," he says. "This does not diminish the fact that community banks will continue to fail. However, the data indicates that, all things being equal, the larger institutions might encounter trouble sooner than smaller institutions."

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The report coincides with April's Community Banking Month, a national designation honoring the 7,000 U.S. community banks. Grady says the public's anger with the banking industry is often misplaced.

"Federal bailouts and TARP money did not go to community banks," he says. "Granted, a very small percentage of community banks paid the price for being too aggressive. But the overwhelming majority of community banks are well-run, conservative businesses. As a result, their loan performance is better, capital supplies are deeper and they're well positioned to grow," says Grady.

The full report can be found at www.brandbankusa.com.

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