Talented Community Banks Outperform In Lending

lending performance

Summary: Community banks outperformed middle-size and large banks for total loan growth in 75% of the regions measured during Q2, according to Trepp Bank Navigator. We provide the key insights.

Like all companies, community banks need talented employees to keep performance humming along. To ensure things stay that way, you should know Korn Ferry research finds 79% of US business execs say there will be a lack of highly skilled talent by 2020. That is why 73% say their company's ability to constantly reskill and redeploy their workforce is critical to success.

Beyond having the right talent in place to execute on the business plan, we are happy to report that community banks outperformed middle-size and large banks for total loan growth in the Midwest, South, and West regions during Q2, according to Trepp Bank Navigator. In fact, community banks outperformed in 75% of the regions it measured.

Trepp's most recent analysis measured the growth of loans in construction and multifamily categories, as well as in commercial mortgages, commercial real estate (CRE) in total, and overall loan growth.

Overall, the large banks dominated in every category. Large banks grew their overall loan holdings more than both medium-size and community banks in Q2. Even so, community banks did substantially better, at 1.96% total loan growth overall, than medium-size banks, which lost 1.58%.

Banking activity in the Northeast, where large banks predominated, largely fueled this outperformance. Northeastern big banks returned 8.17% growth in construction, 9.17% in multifamily growth, 14.33% in commercial mortgage growth, and 11.64% in CRE. Community banks returned no more than 3.2% growth in the same categories, and mid-size banks posted negative returns across the board.

In the rest of the country though, the stories largely favored community banks. Midwestern community banks had total loan growth of 2.43%, handily beating both large banks at (0.83%) and medium-size banks (0.96%). Community banks performed particularly well in commercial mortgage and CRE, while their bigger peers posted negative performances.

In the South, community banks' total loan growth was 1.72%, which just squeaked past that of large banks (1.68%). Large and community banks both ended the quarter in the black, while medium-size banks lost ground in every category.

Banks in the West had the biggest average growth across all institution sizes. Large banks in the West came out ahead in multifamily loan growth, climbing 4.00% vs. community banks' 1.85%. But community banks performed best in every other category, giving them 3.18% total loan growth. This was more than a percentage point over large bank growth of 2.08% and nearly triple mid-size banks' growth of 1.09%.

Community banks gave their larger brethren a run for their money in the construction loan sector in particular, which was the most stable of the three industries the study considered. Medium-size banks lost 0.94% from their construction loan books. Large banks outperformed community banks, but by only 0.07%.

This is a good way to end the year - with largely good news for most community banks. Let's hope that 2019 brings more good news for all the talented teams at community banks nationwide.

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Managing interest rate risk is both art and science. Regulators have raised the bar and community bankers have more to do than there are hours in a day. To see how easy it is to outsource & get expert help, contact us today.