I’m more optimistic about community banking than I’ve ever been before. Community banks are the life’s blood of many small towns. They foster deep community roots and fund an astonishing 58 percent of all small business loans made by banks. Yet, due to their lack of publicity, there’s a perception that they are insignificant and on track toward obsolescence. In fact, community banks remain a true reflection of their communities. They provide the job-creating, income-producing capital that allows local communities and, frankly, the spirit of America to thrive.

Banks today face an uphill battle: heavy-handed regulations, reduced loan demand, and chronically low interest rates. When your main business is “risk,” nothing comes easy.

So with all these headwinds, why do I consider it the “best of times” for banking?

We’re at a unique moment, with shifts in technology, growth opportunities and cultural changes that are coming together to create a golden opportunity for all but the largest banks—if we’re willing to seize the opportunity.

**Leveraging Technology**

Fortunately for community banks, when it comes to technology, the tide is turning. Technology is getting better, faster and, most important, cheaper. For the first time in 50 years, small banks can lead in technology adoption. In the past, large banks led the way by being first with the ATM, first with phone banking, first with Internet banking and first with mobile banking. Now smaller banks are launching new technology far faster than large banks.

As technology costs plummet, local banks are finding they have the resources to go toe-to-toe with the big guys. Today, nearly every neighborhood bank can afford to offer the same technologies as their national counterparts. To be sure, large banks made the initial investments to develop, test and validate the demand for new technology. Community banks are now adding the same technologies at a fraction of the earlier cost and updating them faster than the large banks, which have enormous costs sunk in legacy systems. Technology is a proven way to increase customer loyalty and reduce overhead, not to mention enhance business development.

It wasn’t long ago that big banks averaged 6.5 products per customer, while community banks averaged 1.75. Today, that spread is thinning, with technology serving as a primary driver. Now community banks can offer the same services and cross-sell deeper into the product spectrum just like their larger peers.
Capital Raising and Growth Opportunities

The ability to raise capital is becoming even more crucial for banks to survive and thrive. More capital equals more growth. For every new loan, a bank needs 8-10 percent capital to fund that loan. Raising capital in some areas is easy, but moving forward after the financial crisis, it’s more common for capital raising to be a challenging exercise for community banks.

Building scale while capturing synergies and entering new markets is in everyone’s best interest, but additional regulatory capital is required to execute on those opportunities. A large majority of community banks aren’t able to raise capital by conducting public market offerings; for many, the public capital markets are not open due to their size or present limited upside for an equity investor. For more than 80 percent of American banks (about 5,500 banks), the capital markets are simply not an option.

Raising capital requires strategic thinking, serious consideration of regulatory attitudes and regulatory changes—and an honest assessment of your bank’s financial condition, business plan and prospects. A dollar from one investor is not always equal to a dollar from another. The right investor will be aligned with your goals, both over the short term and the long term. A mismatch between a bank’s expectations and an investor’s expectations can be a painful, or even costly, experience.

The process of capital raising starts before you even decide to raise capital; being prepared is key. Seek capital for:

- Acquiring another community bank or a portfolio of loans or deposits
- Growing your loan portfolio organically in the wake of competitor weakness
- Expanding your branch network for control of market share
- Acquiring a value-added businesses to increase non-interest income

Consider all your options. Because they think beyond common equity, community banks now have access to the entire suite of options, including preferred stock and subordinated debt. Here are some questions for you to consider:

- What types of capital do I have access to?
- What are the benefits of using subordinated debt and perpetual preferred compared to common equity?
- What’s the fine print of these deals?
- If I raise debt, does the debt amortize?
- What are real costs of each type of capital?
- Have I spoken with my regulators?
- Am I aligned with my new investors?

Do your research, talk to consultants and experts, and then use the type of capital that fits your particular needs.

Made in America
Once upon a time, we made things here in America. But there was an allure to foreign products: European fashion, French wine and so on. Some things were scarce—and that made them both valuable and magical.

Then the world shrank. Affordable plane fares, computers, the Internet and Amazon.com have left a mark. Small batch production gave way to megastores hawking cheap imported goods. Prices declined—but some of that original magic was gone.

Big-box stores and bottom-barrel prices pushed out local artisans and mom-and-pops. Price became everything, and craftsmanship took a back seat. The unintended consequence of this globalization of the economy is that “foreign” has become commonplace. Because mass production equals monoculture, people are celebrating what’s local again.

The evidence is everywhere. Local craft beers are all the rage. Customers seek out restaurants that serve food that’s traveled 50 miles, not 5,000. The words *artisanal* and *farm-to-table* command a premium.

After binging on big brands, Americans—regardless of age, political leaning, geography or income—are rediscovering what their own communities can do. The question is how can community bankers tap into this? It turns out that these local enterprises can be the core customers of community banks. And as those local businesses expand their operations, community banks can capture additional lending opportunities. Funding the bottling operation of a local brewer or opening the new retail storefront for the cheesemonger—these are the credits community banks thrive on.

**The Best of Times**

So how are our community bankers handling the headwinds of onerous regulations and the worst recession since the Great Depression? Very well, thank you. It took some time to recover, but community bankers are resilient and are always focused on communities, neighborhoods and customers. Nearly 6,000 community banks are profitable and well capitalized. Isn’t that what being part of a community is all about?

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