

# Community Banks in Chippewa County

## CHANGES IN SMALL-BUSINESS LENDING AFTER THE DODD-FRANK ACT

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### INTRODUCTION

In this project, we examine the financial condition of banks that remained independent or were acquired in mergers and identify the effects of the Dodd-Frank Act on small-business lending for community banks in Chippewa County.

### DEFINING A COMMUNITY BANK

We define community banks as commercial banks with assets under \$1 billion that provide relationship lending to local businesses. Community banks can take into account numerous factors when reviewing small-business loans that large banks do not have the resources to cover. Community banks can play a dominant role in keeping local economies vibrant and growing.

### THE BANKING INDUSTRY IN CHIPPEWA COUNTY

Nine out of the fourteen commercial banks currently in Chippewa County fit our definition of a community bank. 70% of Chippewa County's deposit market share is from community banks.

### OUR PROCESS

We started our research by looking at banks' deposit market shares in Chippewa County over a twelve-year period from 2006-2017. Then, we gathered data on small-business lending for the community banks in Chippewa County. Our data includes information about the total small-business loans issued and the net charge offs associated with the bad loans. Next, we compared the data from Chippewa County to Wisconsin and national trends. Finally, we discussed the impact of the Dodd-Frank Act on community banks in Chippewa County that merged after the Great Recession. We used data on bank market shares, small-business lending, and net charge offs from the Federal Deposit Insurance Corporation (FDIC).

### OUR RESEARCH FINDINGS

#### DEPOSIT MARKET SHARE

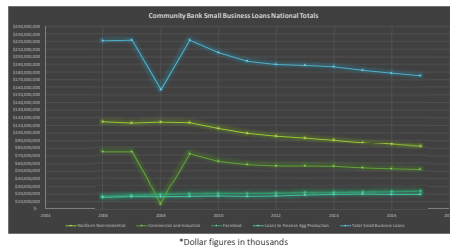
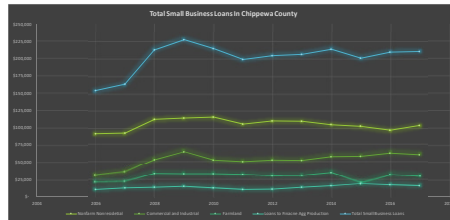
Market Share	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Northwestern Bank (C)	30.78%	29.70%	30.09%	32.35%	29.12%	31.26%	33.13%	34.13%	35.10%	35.51%	36.09%	35.98%
Peoples State Bank of Bloomer (C)	12.84%	12.58%	12.75%	12.76%	11.80%	12.54%	13.25%	13.42%				
Security Financial Bank (C)									13.05%	12.22%	12.17%	
Citizens State Bank (C)	10.91%	10.62%	9.98%	10.79%	10.60%	11.01%	11.32%	12.11%	12.41%	12.04%	11.53%	11.78%
M&M Marshall and Valley Bank	10.68%	12.32%	12.13%	12.20%	12.17%	13.42%						
BND Home Bank National Association						10.62%	7.57%	6.95%	6.34%	6.54%	6.26%	
Bank Mutual	9.24%	9.09%	9.40%	9.33%	8.27%	7.87%	8.05%	8.02%	7.86%	7.62%	7.82%	8.21%
AnchorBank, fdb	7.55%	7.38%	13.10%	10.57%	15.63%	12.68%	10.90%	10.23%	9.47%	8.78%		
Old National Bank										8.29%	7.70%	
Security Bank (C)	4.16%	4.38%	4.34%	4.19%	4.10%	3.85%	4.23%	4.35%	4.86%	6.44%	6.51%	6.35%
Dairyland State Bank (C)	2.76%	2.49%										
U.S. Bank National Association	2.72%	2.52%	2.40%	2.27%	2.46%	2.62%	2.57%	3.07%	3.08%	3.14%	3.18%	3.47%
Citizens Community Federal (C)	0.95%	1.03%	1.55%	1.67%	1.58%	1.66%	1.85%	2.29%	2.06%	2.33%	2.10%	1.94%
Associated Bank, National Association	0.91%	0.87%	0.72%	1.24%	1.73%	1.07%	1.39%	1.49%	1.42%	1.24%	1.91%	1.89%

Banks that have a (C) next to their names are classified as community banks under our definition.

As shown in the table above, most of the deposit market is served by community banks. Northwestern Bank has held a dominant market share in Chippewa County over the 12-year span.

### SMALL-BUSINESS LENDING

Small-business lending in Chippewa County is trending upwards. The pattern exhibited in Chippewa County for small-business lending is the opposite of national and state trends for community banks. We defined a small-business loan as any business-oriented loan issued to a business from a bank with a dollar value of less than \$1 million. There are four classifications of small-business loans, differing in the purpose and the collateral from the loan recipient. Chippewa County community banks appear to be issuing a steady stream of new small-business loans every year, while national totals have decreased each year, as shown in the graphs below.



### NET CHARGE OFFS

Year	Northwestern Bank	Citizens State Bank	Cherry State Bank	Dairyland State Bank
2006	1.02	0.27	0.20	0.14
2007	4.23	1.07	0.84	0.54
2008	10.73	4.46	1.59	2.88
2009	6.50	2.00	1.17	2.17
2010	1.70	0.89	0.48	0.62
2011	4.09	1.74	0.33	0.71
2012	1.30	0.88	0.22	0.42
2013	4.68	0.23	0.73	0.22
2014	3.38	0.98	1.18	0.50
2015	6.16	0.98	0.30	0.20

If a borrower cannot repay the full principal plus interest on a bank loan, the bank must charge off (or write off) the loan. Looking at net charge offs is a way of measuring whether banks are facing financial difficulties. The table above shows data on net charge offs for four Chippewa County banks and the state and national averages over our twelve-year period.

### SIMILARITIES AND DIFFERENCES FROM EXPECTED TRENDS

- What we expected to see based on other studies and estimates:
- An increased presence of large banks (and a decline in community banking) in deposit markets after the Great Recession.
  - Net charge offs for community banks would be a smaller percentage of loans due to relationship lending when compared to state and national averages.
  - The introduction of the Dodd-Frank Act would decrease total small-business loans in community banks.

What we saw in our data:

- The market share for large banks decreased in Chippewa County, and the market share for community banks increased after the Great Recession.
- Except for a few outliers in our data, community banks in Chippewa County, on average, had a lower percentage of net charge offs to loans when compared to state and national averages. Chippewa County banks have strong relationship lending practices and suffer fewer defaults on their loans.
- Small-business lending decreased nationally after the passage of the Dodd-Frank Act in 2010. Chippewa County community banks did not see a similar decrease, but instead, they have managed to grow over the years.

### DODD-FRANK ACT

The Dodd-Frank Act was an act signed into law in 2010 as a response to the housing crisis of 2008. One of the main purposes of the Dodd-Frank Act was to protect bank customers from risky lending and mortgage practices. Another main provision in the Dodd-Frank Act requires financial institutions to increase the amount of cash on hand to prepare banks for potential economic downturns. Today, the Dodd-Frank Act is a highly debated issue. In 2017, Congress passed bipartisan legislation to reduce the scope of Dodd-Frank in an attempt to help struggling community banks across the nation.

### CONCLUSION

We identified key trends in Chippewa County that suggest a healthy relationship between community banks and the Chippewa Valley community. Small-business loans are growing, net charge offs are decreasing, and community banks continue to dominate the deposit market. The impact bank mergers have on small-business loans in Chippewa County is very small. Community banks in Chippewa County most likely merged due to the increase in regulations from the Dodd-Frank Act. Overall, Chippewa County banks are healthy and growing.

### SPECIAL THANKS

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