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Press Release

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Cuomo Administration Report Shows New York's Community Banks Provide Most Small Business and Farm Loans

After declining in 1990s, community banks grew in 2000s despite the financial crisis by providing needed small business & residential loans

Regional data on commercial banks included in Department of Financial Services report

Benjamin M. Lawsky, Superintendent of Financial Services, today **released a report** showing that community banks provide most of the loans for New York's small businesses and farms and are thus essential to job growth and the strength of the state economy. Even though community banks have less than a quarter of all bank assets in New York and are competing against much larger national banks, they generate more than half of all small business loans and almost all the small farm loans in the State.

According to the report, prepared by the Department of Financial Services, New York's community banks grew during the financial crisis by continuing to lend to small businesses and homeowners as larger banks pulled back. Community banks are institutions which hold under $10 billion in assets. As of 2011, there were 169 community banks headquartered in New York operating under either state or national charters. The report appendix includes detailed information about community bank activity in every region of the State.

"Community banks represent a strong economic engine that drives growth in New York and their performance is remarkable. Small business is the engine of job growth and most small business loans come not from the big national banks, but from community banks," Governor Cuomo said.

Superintendent Benjamin M. Lawsky said, "Community banks focus on the unique needs of their communities. They build strong customer relationships which help attract local retail deposits. These banks take deposits from their communities and then typically recycle them back into their communities in the form of loans."

In the 1990s community banks in New York experienced a dramatic decline in their share of assets relative to large banks, as the large banks grew through mergers and many community banks were bought up. Community banks' loan assets fell from 30 percent to 13 percent from 1992 to 2001.

But despite the financial crisis, New York's community banks grew solidly during the 2000s and as of 2011 have an even bigger share than in 1992. Today community banks have 38 percent of all loan assets. The increase is attributed largely to an increase in commercial and residential real estate lending.

The increase in real estate loan assets is attributed, in part, to community banks holding onto and servicing real estate loans rather than merely originating them and then selling them to mortgage loan servicers.

The report covers the years 1992 to 2011 and considers only banks headquartered in New York. Banks which are headquartered elsewhere and have only branch banks here were omitted making it possible to identify meaningful trends about the state's community banks.

Other data contained in the report:

- Community banks hold only 22 percent of all assets of Federal Deposit Insurance Corporation (FDIC) banks in New York, but provide nearly 55 percent of all small business loans and 90 percent of small farm loans.
- Community banks grew their small business lending market share to 55 percent from 43 percent between 2001 and 2011.
- The banks increased their aggregate deposits to $130.4 billion in 2011 from $116.3 billion in 2001.

- Even the smallest community banks, those with assets under $1 billion, and holding only about six percent of FDIC insured bank assets, account for almost 28 percent of all small business loans and 43 percent of small farm loans in New York.

The report suggests that community banks will have to find new and creative ways to reduce costs and diversify their income streams in order to overcome future challenges, such as an anticipated increase in interest rates and continued development of new bank technologies.

Community banks also face changing regulatory requirements, including new capital requirements under the international Basel III framework. Earlier this year, Superintendent Lawsky urged that community banks be exempt from some Basel III rules because they would establish unnecessarily complex compliance hurdles for smaller banks. Implementation of the rules has been delayed, but it is still unclear if community banks will be exempt from some of them.

Frank J. Capaldo, President & CEO of the Independent Bankers Association of New York State, which represents community banks throughout the state, commented: “As this report clearly demonstrates, New York’s community banks are vitally important to our state and local economies. By continuing to lend throughout the markets we know and understand so well, we remain committed to the future of small businesses, farmers, home buyers and consumers in every corner of New York. With locally-based ownership and a commitment to their communities, community banks are very close to the economic pulse of New York's cities, towns and villages.”

Michael Smith, President and CEO, New York Bankers Association, said, “The New York Bankers Association (NYBA) is proud to represent all segments of the banking system, including community banks. NYBA has long recognized the critical role community banks play in the economy of New York State. We support the Report’s conclusion that Basel III and other regulatory pressures present a threat to the community bank sector. Like the DFS, we are strong advocates of the new state law enhancing the attractiveness of municipal deposit taking for all banks, including community banks.”

John M. Tolomer, President & Chief Executive Officer, The Westchester Bank, said, “Community Banks have a distinct advantage: we offer the same products and services the largest financial institutions in the world provide to small businesses but we deliver them in a highly personalized manner. Loan decisions are made locally with a keen understanding of the customer’s needs and what drives the local economy.

Joseph G. Perri, President & Chief Executive Officer, Gold Coast Bank, said “New York State Community Bank Directors are mostly made up of local business people who understand the problems that local businesses may encounter and know how to find solutions for their customer’s financial needs. In a Community Bank the entire bank, not just a department, is focused on helping the local community and local businesses grow. That is why Community Banks are important not only on a State level, but a National level as well.”

Peter M. Boger, Chairman, President and CEO of Ridgewood Savings Bank, said: "Community banks represent a strong engine that drives economic development in the state and that will be particularly important as homeowners and business owners in the New York City metropolitan area rebuild in the wake of Superstorm Sandy. New York City has the greatest concentration of the state's community banks. Those banks will be able to provide many of the financial resources that will be needed as we rebuild."