Common-Sense Community Banks Distinct from Silicon Valley Speculators

By Tim Aiken

The financial sector has been under intense scrutiny after the failure of two large financial institutions that specialized in high-risk industries, such as the cryptocurrency sector. Some depositors in local communities might be wondering what this means for their hard-earned money. But consumers—and policymakers in Washington—must distinguish between community banks like those in West Virginia and across the U.S., many of which have been serving consumers and small businesses for more than 100 years, and these very large banks with a much different business model and risk profile.

The financial institutions recently closed by regulators were nothing like the local community banks that help the nation's consumers, small businesses and their local communities thrive. Before its closure on March 10, Silicon Valley Bank (SVB) was *the 16th largest bank in the nation* with $213 billion in assets at the end of 2022.

Much of this growth was propelled by tech companies that were flush with hedge fund cash — depositors who quickly began withdrawing their funds amid concerns about the bank's liquidity. It was a boom-and-bust cycle fueled by SVB's heavy concentration in a single sector of the market.

Signature Bank of New York, which failed just two days later, also suffered from a concentrated balance sheet. Fueled by the SVB panic, depositors quickly began to withdraw their funds. Regulators closed the bank to prevent additional bank runs and to ensure that the Federal Deposit Insurance Corporation (FDIC) would be able to make depositors whole.

The Deposit Insurance Fund, which the FDIC uses to insure deposits, has a record high balance. Americans do not have to worry about the safety of their deposits. That is especially true for customers of community banks.

At my bank, Union Bank, Inc. based in Middlebourne, WV, we employ a unique and time-tested business model, a model similar to that followed by community banks in West Virginia and all across the U.S., which is best suited for consumers and business owners. We stress one-on-one, face-to-face relationships with the small businesses and residents we serve. We know what small businesses need because we are one. Because community banks rely on relationships and our reputation, we are dedicated to looking out for our customers' long-term interests.

That outlook means we focus on established banking practices that have served our communities for generations. As the FDIC's latest Quarterly Banking Profile attests, community banks' asset quality is favorable, total deposits are stable, and capital ratios remain strong.

This isn't the first time community banks have weathered a financial crisis. We proved stable during the 2008 Wall Street meltdown and the COVID-19 pandemic. We are here for our customers through every stage of the economic cycle, and we have been for decades.

Given our cautious approach, Washington lawmakers should ensure that whatever regulations that result from the SVB and Signature Bank closures do not harm community banks.

As responsible financial stewards, community banks should be exempt from restoring losses to the Deposit Insurance Fund, and there is no need for new regulatory burdens from Congress or financial regulators. Small lenders and their customers shouldn't have to pay for the miscalculations and speculative practices of large financial institutions.

If anything, the collapse of SVB and Signature Bank shows that the existing tiered regulatory model works. Rules should recognize and account for institutions of different sizes and risk models. Given the continued stability of the over 4,000 community banks across the U.S., lawmakers need to ensure that policy changes support community banks and only target the risky practices of other, larger lenders.

These recent bank failures highlight the strengths of community banks like mine. We're ready to explain our business model. We're ready to compete against larger institutions for your deposits. We're ready to meet you anytime and anywhere to show members of our community that our responsibility is to you, not to Wall Street or Silicon Valley.

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