



# VIEW*S* & VISIONS

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## The Future of Local Banks in Southwestern Pennsylvania

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Barron P. "Pat" McCune Jr. is president and CEO of Community Bank, an \$840 million independent bank with 16 offices in southwest Pennsylvania.

Mr. McCune was born and raised in Washington, Pennsylvania. He graduated from Duke University, *magna cum laude*, with a degree in economics, and obtained his law degree from the University of Denver School of Law, where he was appointed to the Order of St. Ives. He served as legal counsel to Community Bank in the late 1980s. In 1992, Mr. McCune joined the board of Community Bank, and in 1999, he left the practice of law to become president of the bank. In 2005, he was named president, CEO and vice chairman of Community Bank and its parent, CB Financial Services Inc.

He was recently awarded the "World Class CEO" designation by the Southpointe CEO Association.

I frequently talk to other bankers and consultants to the banking industry. I must say that the mood is somber, at least for many local independent banks in southwestern Pennsylvania. It seems that there are many forces arrayed against such banks and few in favor. Banks have been preoccupied over the past several years with cleaning up their loan portfolios and figuring out how to comply with regulations. But, despite these woes, banks are generally earning much better over the past few years, although it is difficult to perform at the pace of decades ago. It used to be said that a one percent return on assets was the golden ring, but now 0.80 percent is considered good. There are so many things to accomplish, just to open your doors.

**At Community Bank, we have done well by sticking to sound, basic business practices.**

The atmosphere is tough because of a variety of factors. First, the local economy has taken two hits, one with the precipitous decline in the coal industry, long the mainstay of rural southwestern Pennsylvania. Second, with the decline in natural gas prices, the Marcellus and Utica shale gas development has slowed as well. Coal may be badly wounded, but the Marcellus and the Utica are still upright and slugging away, including lots of pipeline activity. Even with energy under pressure, there is still considerable economic activity due to our well-diversified economy. The Pittsburgh region is lucky to have strong sectors like healthcare, technology and manufacturing. Even though the economy is soft, banks can



still make a living. For example, at Community Bank, we had a really good year in 2015 in loan production, especially commercial loans and consumer (i.e. auto) loans.

Another headwind has to do with our national policies. I think business people are nervous. They feel under assault and they lack confidence in the future. It seems as if much of society is hostile to capitalism. I know I worry about the consequences of this long, weird period of low interest rates and massive monetary stimulus. What if it has unintended consequences? If something goes wrong, it could be huge. If only the business world could shake this uncertainty, it would help enormously. Banks depend on economic growth, and cautious business people don't grow as much.

One common complaint among bankers has to do with the level of regulation. The government blamed banks for the financial crisis. Elected officials and regulators overcompensated, at least for local banks. Members of the financial industry eligible for FDIC insurance (i.e. banks that take the public's deposits) suffered under an onslaught of new and toughened regulations. Banks of all sizes spend a considerable portion of



their time and money just trying to follow all the rules. This makes it difficult and expensive to do business.

Now, add on a wave of technological-focused financial providers and products. I heard the other day that there are now 12,000 non-bank financial companies; and, many of these have elected not to accept public deposits so they escape the aforementioned regulations. It is hard for local banks, hobbled by regulation, to keep up in this race. This technology also exacerbates cyber risks and compels responsible banks to further invest in security and technology to safeguard the public. I know that at Community Bank, we are about to incur major expenses that we've never had before, but it is necessary to protect our customers.

All of the foregoing has contributed to a wave of consolidation in the banking industry. In 2014 and 2015, about four percent of banks nationwide sold, and almost no new banks are being formed. Smaller banks are weary of trying to juggle all these balls. Many of them can't make enough money at the end

of the day to make it all worthwhile. It is a shame that local independent banks, who mostly did nothing wrong, are nonetheless paying for the sins of the big banks.

Well, this has sounded pretty pessimistic and, perhaps, too critical, but there is hope. At Community Bank, we have done well by sticking to sound, basic business practices: Know your customer. Provide outstanding personal service. Invest in your people, your technology and your physical plant. Stick to what you know.

No matter what the world may bring, I sincerely believe that, with matters as complex and delicate as money, there will always be a place for honest, knowledgeable people delivering outstanding personal service. ♪