

Ohio Local Bank Market Conditions

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Farm Income Enhancement Program

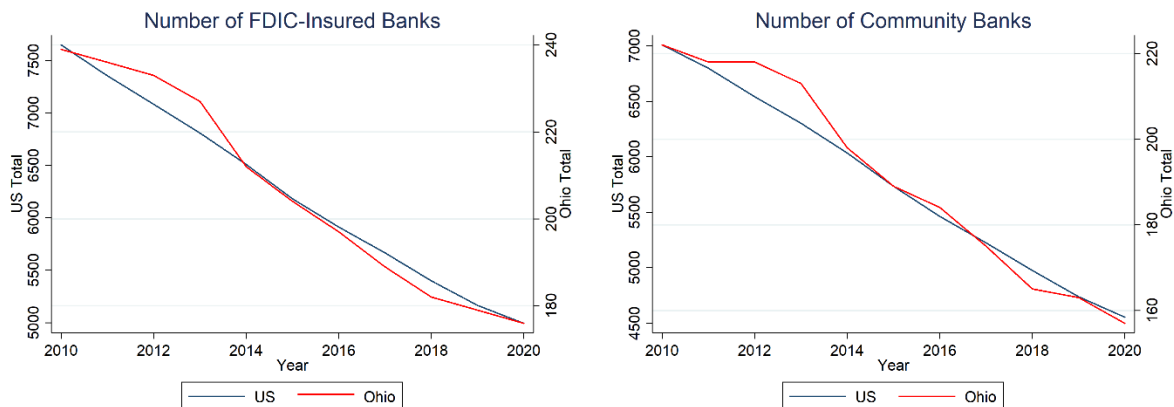
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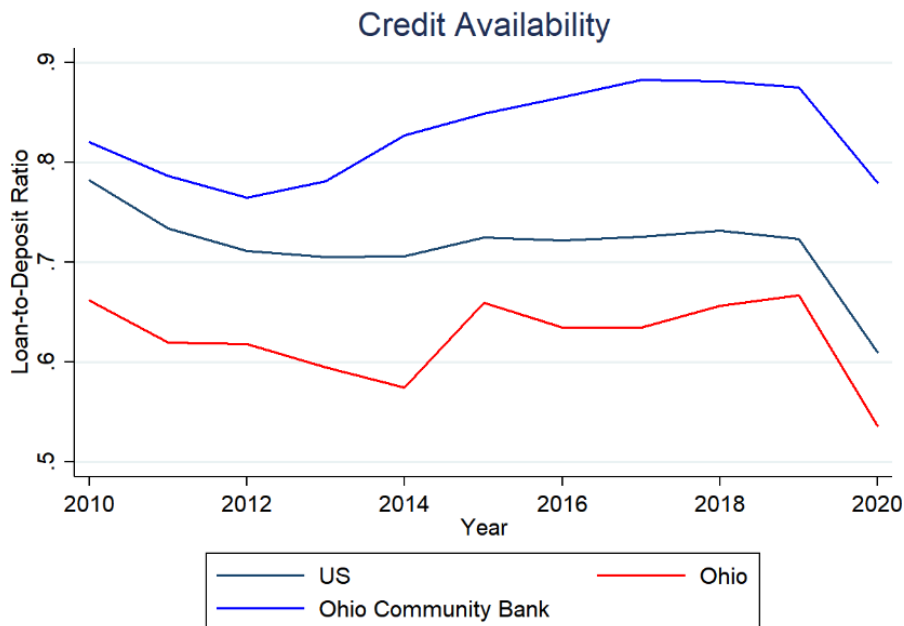
With the COVID-19 pandemic affecting the world economy, the US banking sector and local community banks also faced great uncertainty in 2020. Despite these concerns, the consolidation intensity within the US banking sector continued in 2020. Ohio experienced similar trends in 2020, with continued decrease in the number of community banks. Yet, the Ohio banks remained highly profitable relative to the national average, and the credit availability increased significantly as the increase in the amount of bank deposits outpaced the increase in the amount of loans. While the overall banking sector has experienced improvement in underlying bankruptcy risk, the Ohio banks experienced some increase in the bankruptcy risk but still remained relatively more stable than the national average.

Number of Banking Institutions



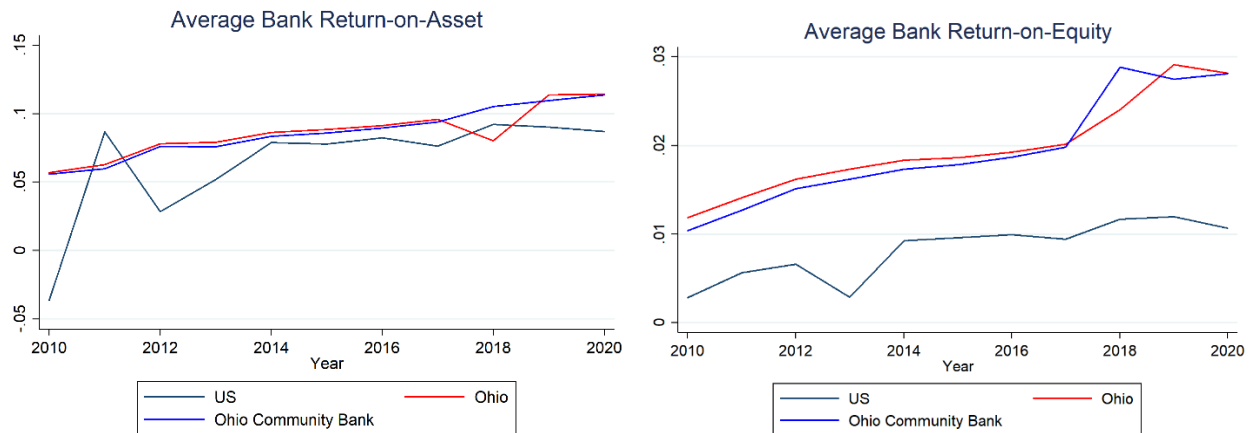
Bank consolidation continued in 2020, further decreasing the number of banks both at the national level and the state level. The number of FDIC-insured banks decreased from 5,164 of 2019 to 4,994 in 2020, which represents a 3.29% decrease. During the same time period, the number of banks in Ohio decreased from 179 to 176, a modest decrease of 1.68%. Yet again, the decrease in the number of community banks was greater than that of the large national banks, indicating the vulnerability of small community banks. The total number of community banks in U.S. decreased from 4,976 to 4,555, which equals an 8.46% decrease. Community banks in Ohio also faced a greater decrease in number, from 163 to 157 between 2019 and 2020, a 3.68% decrease.

Credit Availability



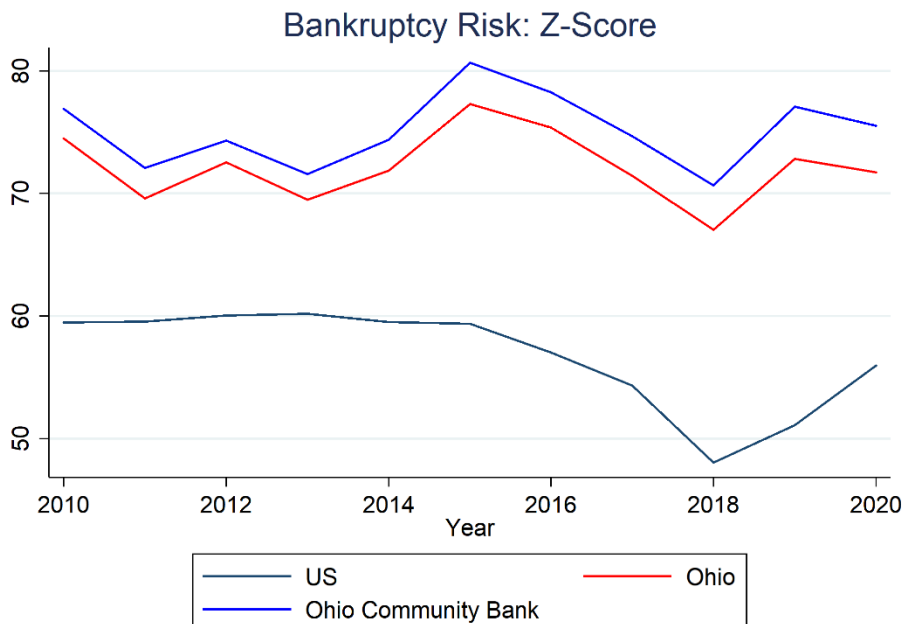
The total deposit dollar amount of banks in Ohio increased significantly while the demand for loan increased at a lesser degree in 2020. Between 2019 and 2020, the total amount of deposits increased from \$2.44 billion to \$3.20 billion, a 31.15% increase. During the same time period, the amount of loans increased from \$1.63 billion to \$1.72 billion, a 5.52% increase. As the increase in the total deposits outpaced the total demand for loans, the available funds rate from banks in Ohio also increased sharply, with a loan-to-deposit ratio decreasing from 66.7% to 53.6% between 2019 and 2020. This is the lowest loan-to-deposit ratio observed in the last 10 years, even lower than the level in 2014. While the loan availability for community banks in Ohio also increased in 2020, the level of loan-to-deposit ratio was significantly higher than that of the national or state average. Overall US banks also experienced a sharp increase in the fund availability, with loan-to-deposit ratio decreasing from 72.3% to 60.9% during the same time period.

Bank Profitability



Bank profitability slightly decreased but stayed almost flat in 2020. The average of US bank return-on-assets was 1.07%, a slight decrease from the previous year level of 1.20%. The average US bank return-on-equity also decreased from 9.00% in 2019 to 8.69% in 2020. Same profitability measures for banks in Ohio also experienced slight decreases, with ROA of 2.82% and ROE of 11.43%. The same profitability measures of Ohio community banks were slightly less than the state average, with ROA of 2.81% and ROE of 11.37%. However, these performance measures were higher than the previous year for Ohio community banks.

Bank Financial Risk



Bank financial risk, as measured with a Z-score, has improved for the US national average while banks in Ohio experienced a slight decrease. The Z-score is a widely used measure of distance to default which

is based on profitability, capital structure, and volatility of earnings for a lending institution. Even though banks in Ohio experienced a decrease in Z-score on average, these were still significantly higher than the national average. Thus, despite the concern over the negative impact of the COVID-19 pandemic and the slowdown in US economy, the U.S. lending institutions maintained their financial health.

While the U.S. banking sector went through another round of consolidations in 2020, despite the pandemic, banks did not experience significant difficulties in terms of profitability, bankruptcy risk, and loan demands, including banks in Ohio. Government support across different sectors created more favorable conditions for the financial market in 2020. However, as reported in the article published by the Kansas City Fed, there are great uncertainties in 2021 created from the prolonged pandemic and the possibility of lower government payments.

Reference:

Kauffman, N. and R. Kreitman. “Farm Financial Outlook Improves.” Federal Reserve Bank of Kansas City, Ag Credit Survey, available at: <https://www.kansascityfed.org/agriculture/ag-credit-survey/farm-financial-outlook-improves/>.