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Revenue drivers: The top 200 publicly traded community banks

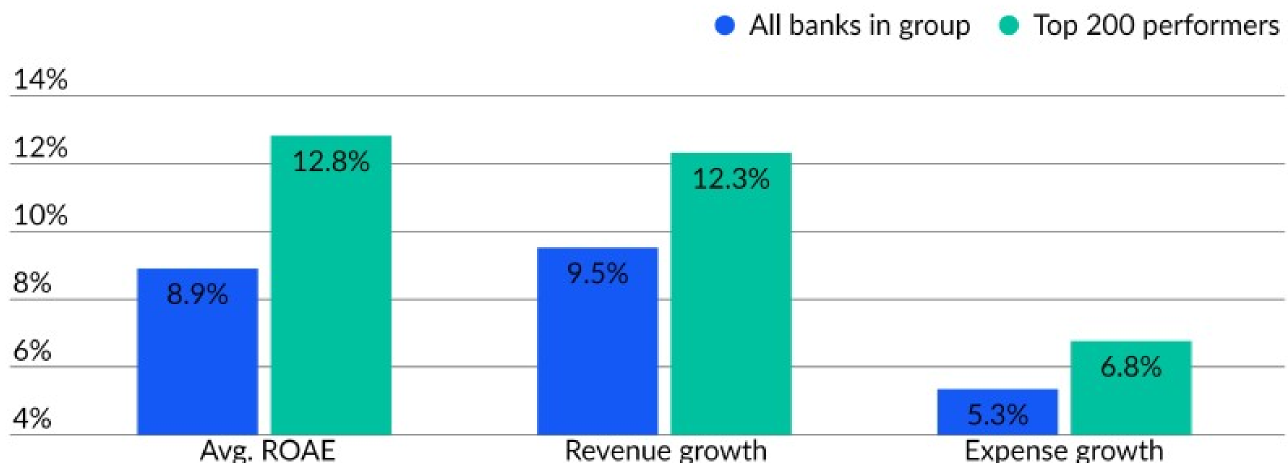
By Jim DobbsMay 14, 2021,

The nation’s top-performing community banks managed to boost profits and minimize loan losses despite fallout from the coronavirus pandemic.

The banking industry received considerable help from the federal government, including leniency with loan deferrals and fees from the Paycheck Protection Program. But the top performers were also able to increase revenue at nearly twice the rate of expenses.

As a result, the average return on equity for the 200 top-performing banks with less than $2 billion of assets fell nominally in 2020 from a year earlier to 11.23%, according to data compiled by Capital Performance Croup. Average ROE for the 479 banks and thrifts that fit the criteria fell by 62 basis points to 8.60%.

“The main takeaway is that the industry did much better than most expected last March,” said Claude Hanley, a partner at Capital Performance Group. "Asset quality actually got better.”



Shortly after virus outbreaks took hold in March 2020, the industry braced for loan losses by building reserves and slowing traditional lending.

The PPP, a program for small businesses administered by the Small Business Administration and the Treasury Department, infused billions of dollars of loans into small businesses, helping stave off business failures. It also gave a significant boost to banks' loan portfolios at a time when overall demand from commercial borrowers was particularly weak.

"The relief programs were critical," said Emma Metzler, a senior analyst at Capital Performance Group.

Median nonperforming assets, as a percentage of total assets, among the top-performing banks fell from 0.6% in 2019 to 0.5% last year. For the larger peer group, the ratio declined from 0.63% to 0.52%.

Fees generated from PPP lending and mortgage refinancing — the positive effect of low interest rates imposed by the Federal Reserve during the earliest days of the pandemic — bolstered revenue.

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Most banks made due without adding staff, helping to contain costs. The top 200 community banks had median revenue growth in 2020 of 12.3%, up from 7.3% a year earlier but easily offsetting the 6.8% rise in expenses.

Net interest margins were under pressure across the board because of low rates and shrinking loan yields. But the top banks posted a median ratio of net interest income to average assets of 3.3%, or 10 basis points higher than the peer group, partly as a result of modestly greater loan volumes and lower funding costs.

Metzler said lenders will need to get commercial lending back on track this year or risk absorbing revenue hits that could be difficult to make up. Banks, however, have cautioned that they intend to grow methodically as they assess the strengths of business lines coming out of the pandemic this year. Many are leery of loans tied to offices, retail, restaurants, hotels — businesses that have proven to be particularly vulnerable during the pandemic.

"The big challenge for almost everyone in the year ahead is loan growth," Hanley said.