The efficiency of US community banks

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Abstract

Using a novel method to separate traditional community US banks over the 1984-2013 period from their non-community counterparts, we compare two banking paradigms on the basis of cost efficiency. Our results indicate that community banks exhibit a 4.9% higher efficiency. The decomposition reveals that community banks benefit from superior managerial capabilities and from developments at the regulatory front. A strong positive link between profitability and efficiency is evidenced for community banks, with the effect being muted in non-community banks. Participation in bank holding companies is harmful for community banks' efficiency. The efficiency in the community banks is positively (negatively) related to liquidity (credit) risk. Findings are robust to a series of robustness checks.

Keywords: US community banks; profitability; efficiency; credit and liquidity risk; bank holding companies