

THE FUTURE OF COMMUNITY FINANCE: TECHNOLOGY, SCALE, AND THE REINVENTION OF REGIONAL TRUST

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RESEARCH WHITEPAPER | Working Draft

January 2026 · V3.0

Abstract

Community banks and credit unions remain a structurally important layer of the U.S. financial system, but the economics, technology stack, and customer expectations that defined the franchise for the last half-century are being re-priced in real time. The headline aggregates are reassuring: FDIC-insured institutions earned \$295.6 billion in 2025; community banks contributed \$29.9 billion (up 22.5 percent year over year) and accounted for roughly 90 percent of the 4,336 insured institutions still operating at year-end; federally insured credit unions held \$2.43 trillion in assets and served 144.7 million members. Beneath those totals, however, the operating model is under structural pressure. The number of FDIC-insured institutions fell by 43 in the fourth quarter of 2025 alone; community bank merger activity rebounded to 127 completed deals in 2025, the highest annual total since 2021; nearly 600 net bank branches closed in 2025 on top of more than 900 in 2024; and bankers ranked technology cost, cybersecurity, and the inability to achieve scale among the most important strategic risks they face.

This paper argues that community finance is not disappearing — it is being structurally redefined. The next era will belong to institutions that combine local trust with platform-grade infrastructure: real-time payments rails (FedNow grew transaction volume 460 percent year over year through 2025, and the RTP network surpassed two million daily transactions in February 2026), flexible credit and servicing systems, permissioned data infrastructure that enables “data as collateral” in small-business lending, AI-enabled fraud and decisioning capabilities, and partnership-enabled functional scale. Drawing on FDIC, NCUA, CSBS, Federal Reserve, NBER, and recent open-banking research, we frame the future of community finance as a shift from branch-centered proximity to lifecycle-centered financial infrastructure. The strategic question is no longer whether community institutions must modernize, but where they must modernize first, which capabilities they should own, and where partnerships can create functional scale without erasing local identity. The paper concludes with a decision framework and a five-year roadmap.

Keywords. Community Banking; Credit Unions; Real-Time Payments; FedNow; RTP Network; Branch Banking; Deposit Franchise; Small Business Lending; Open Banking; Section 1033; Capability Density; Cybersecurity; Artificial Intelligence in Banking; Digital Transformation; Financial Inclusion; Community Finance.

Author note. *This working paper is prepared for The Payments Corner as a publishable research foundation. Version 3.0 expands the prior draft with verified 2025 year-end and Q1 2026 data; adds dedicated sections on cybersecurity, artificial intelligence, and the regulatory inflection; deepens the empirical foundation by drawing on the May 2025 Narayanan, Ratnadiwakara, and Strahan NBER working paper on branch banking and the January 2026 revised version of Yu’s open-banking research; and refines the strategic framework throughout.*

1. Introduction

Community finance has always been built on a simple premise: financial institutions that know their communities can serve them better. For generations, that premise was operationalized through branches, local officers, relationship lending, community sponsorship, and decision-making rooted in regional knowledge. The model helped fund small businesses, support household financial needs, and keep financial intermediation connected to local economic reality. It is also a model with measurable real-economy consequences: between 2010 and

2024, community banks originated roughly \$305 billion in SBA 7(a) and 504 loans, supporting nearly six million jobs and accounting for almost two-thirds of all SBA loan dollars issued during that period.

That premise still matters. In many places, community banks and credit unions remain part of the physical and relational access layer of local finance. They are not merely smaller versions of national banks. They often represent the institutions most directly tied to local deposits, local lending, small-business formation, agricultural credit, and regional economic continuity. The 2023 FDIC household survey found that 4.2 percent of U.S. households were unbanked — the lowest rate since the survey began in 2009 — a result that depended in significant part on the relational reach of community institutions.

The delivery model, however, has changed. The modern customer does not experience finance as a set of institutional products. Customers experience finance as a series of moments: receiving funds, paying a bill, accessing credit, moving money, managing cash flow, disputing a transaction, onboarding to a new service, or solving a problem in real time. These moments increasingly happen through mobile devices, embedded workflows, instant payment rails, cards, wallets, APIs, and automated servicing channels. By the FDIC's 2023 measurement, 48.3 percent of banked households now use mobile banking as their primary method of account access — a nearly ninefold increase over the past decade — while half of all U.S. households use nonbank online payment services such as PayPal, Venmo, or Cash App.

This shift creates a strategic dilemma for community banks and credit unions. Their relationship advantage remains real, but the infrastructure required to deliver that relationship has become more complex, expensive, and technology-dependent. Cybersecurity, fraud management, compliance operations, digital account access, card controls, real-time payments, data analytics, vendor oversight, AI governance, and customer experience design are no longer peripheral capabilities. They are now part of the core operating model. The 2025 CSBS Annual Survey captures the magnitude of the shift: 58 percent of community bankers rate cybersecurity as an “extremely important” internal risk — the single highest score among all risks measured, internal or external — and technology implementation and related cost ranks second.

This paper argues that the future of community finance will not be defined by a binary choice between local relationships and digital scale. It will be defined by institutions that can translate local trust into modern infrastructure. The winners will not simply be the largest institutions. They will be the institutions — of whatever size — that can operate with the speed, resilience, and product flexibility of a platform while preserving the relationship depth and community accountability that made the model valuable in the first place. The paper proceeds as follows. Sections 2 and 3 establish the empirical context: the sector's aggregate resilience and the structural pressures beneath it, and the re-pricing of branch proximity. Sections 4 through 8 analyze the five strategic frontiers shaping the next operating model: capability density, payments as a control layer, data as collateral in small-business lending, cybersecurity and trust, and artificial intelligence. Sections 9 through 11 examine three adjacent strategic surfaces: community banks as corporate cash counterparties, the differentiated paths of banks and credit unions, and the regulatory inflection point. Sections 12 through 14 translate the analysis into a framework for action.

2. Community Finance Is Resilient, But the Model Is Under Pressure

The evidence points to a sector that is resilient but structurally constrained. FDIC-insured institutions generated \$295.6 billion in full-year net income in 2025, a 10.2 percent increase from 2024 and the highest annual total on record. Community banks, defined by the FDIC as institutions with less than approximately \$10 billion in assets, contributed \$29.9 billion of that total — up 22.5 percent year over year, a growth rate more than twice the industry average. Community bank pretax return on assets reached 1.32 percent for the full year, up 18 basis points from 2024. Federally insured credit unions reported \$18.8 billion in net income for 2025, a 31.5 percent increase, with 88 percent of credit unions reporting positive net income for the year. On most aggregate measures, the sector is in better shape than it was eighteen months ago.

Yet system-level resilience does not eliminate institution-level pressure, and the institutional count tells a different story than the dollar totals. The FDIC reports 3,909 community banks at the end of 2025, down from a peak of more than 14,000 banks in the early 1980s and 4,046 community banks just one year earlier. The total number of FDIC-insured institutions declined by 43 in the fourth quarter of 2025 alone, ending the year at 4,336. Credit union consolidation followed the same pattern: the number of federally insured credit unions declined from 4,455 to 4,287 between Q4 2024 and Q4 2025, even as aggregate assets rose by \$126 billion (5.4 percent) and membership grew by 2.4 million.

The merger statistics confirm that consolidation is accelerating. According to the Federal Reserve Bank of Kansas City, community banking organization (CBO) mergers reached 127 completed transactions in 2025 — a level not seen since 2021 — after several quieter years driven by interest-rate volatility and post-2023 regulatory uncertainty. S&P Global Market Intelligence recorded 52 bank deals announced in the third quarter of 2025 alone, the highest quarterly total since 2021. The trend is consistent across charter types: credit unions completed an average of 160 mergers annually from 2019 through 2025, and the average asset size of merged-in credit unions reached \$263.4 million in 2025, far above the \$90.2 million average a year earlier. Credit-union acquisitions of community banks, once unusual, accounted for 17 of the 59 announced CBO deals tracked at one point during 2024.

Long-term consolidation should therefore be understood as an operating-model signal, not simply as an institutional-count statistic. Community institutions are not challenged because the relationship model lacks purpose. They are challenged because the cost, complexity, and execution demands of modern financial services are rising faster than many institutions can absorb independently. The CSBS Annual Survey makes this explicit: the share of respondents who received and seriously considered accepting an acquisition offer doubled between the 2024 and 2025 survey waves, rising to 12 percent, and the “inability to achieve economies of scale” was the leading reason given. This is not a story about distress — it is a story about the rising floor of capability required to compete.

The result is a widening gap between institutional purpose and operational capacity. Many community institutions remain trusted, well-capitalized, and locally relevant. But trust alone cannot compensate for slow onboarding, limited digital servicing, fragmented product systems, weak data integration, delayed payments, or an inability to launch modern credit and payment products quickly. The institutions that thrive in the next operating model will be those that recognize this gap and close it deliberately — whether by building, buying, partnering, or merging.

Table 1. Evidence Dashboard for the Community Finance Inflection Point (2025–2026)

Signal	What the 2025–2026 evidence shows	Strategic implication
Industry profitability	FDIC-insured institutions earned \$295.6B in 2025 (+10.2% YoY); community banks earned \$29.9B (+22.5% YoY); 88% of credit unions reported positive net income.	The sector is profitable, not distressed. Resilience should not be confused with strategic insulation.
Institutional consolidation	FDIC-insured institutions fell to 4,336 (–43 in Q4 2025 alone); credit unions fell from 4,455 to 4,287; CBO mergers rose to 127 in 2025, highest since 2021.	The pace of consolidation is accelerating after a multi-year lull, even while aggregate assets and membership grow.
Credit union scale	Federally insured credit unions reached \$2.43T in assets and 144.7M members (+2.4M YoY) while institutional count declined.	Membership reach is concentrating in larger, more digitally capable cooperatives.
Branch restructuring	Net U.S. branch losses of 900+ in 2024 and 576 in 2025; Narayanan et al. (2025) attribute the decline to depositor rate-sensitivity and digital adoption, not lending economics.	Physical presence is being re-priced around deposit franchise value, not geographic coverage.

Banker-reported risks	CSBS 2025: net interest margins (#1 external), cybersecurity (#1 internal, 58% extremely important), and technology cost (#2 internal) dominate the risk register.	The pressure is multifaceted and converges into a single operating-model challenge.
Payments competition	CSBS 2025 shows the largest YoY change in competitive intensity is from out-of-market nonbank payment providers (+7 percentage points).	Payments are becoming the primary interface where community institutions either retain or lose relationships.
Real-time payments adoption	FedNow grew 460% YoY to 8.4M transactions in 2025 with 1,500+ participants; RTP network surpassed 1B cumulative transactions in January 2025 and 2M daily in February 2026.	The instant-payments market has moved from “nice to have” to baseline expectation in three years.
Open-banking and data	Yu (2026) shows permissioned bank-account, card, and loan-performance data eases collateral constraints for small businesses; CFPB Section 1033 rule is in reconsideration.	Relationship lending can be upgraded with verified data — regardless of how Section 1033 is ultimately scoped.

Notes. Figures summarized from the source base listed in References. Community bank = FDIC-insured institution with assets under approximately \$10 billion. Industry totals reflect full-year 2025 unless otherwise noted.

3. Branch Proximity Is Being Re-Priced: A Deposit Franchise Story

The decline of branch banking is often framed as a real-estate optimization story. That framing is incomplete. Branch restructuring is also a signal that deposit behavior, technology adoption, and local customer economics are changing. Physical proximity remains valuable, but it is no longer equally valuable across all markets, customer segments, and financial use cases.

Recent NBER work by Narayanan, Ratnadiwakara, and Strahan (2025, NBER WP 33773) provides the most rigorous explanation of why branch counts have fallen. Studying U.S. bank branch openings and closings from 2001 to 2023, the authors find that both are concentrated in areas with low deposit franchise value — a function of greater interest-rate sensitivity among financially sophisticated households with higher digital banking adoption. Lending economics, in their analysis, play at most a minimal role. Incumbents retain branches where depositors are less rate-sensitive and thus more profitable; entrants avoid such markets because sticky customers are difficult to attract. The COVID-19 pandemic, they show, accelerated closures by driving widespread adoption of digital banking. Total U.S. branches peaked above 90,000 around 2010, fell by roughly 20,000 by 2023, and have continued to decline since: BauerFinancial reports net losses of more than 900 branches in 2024 and another 576 net branches in 2025.

The strategic implication is precise. The branch is increasingly being evaluated by its ability to generate sticky, relationship-based deposits and high-value engagement — not merely by its presence on a map. Where customers primarily use mobile banking, digital wallets, remote deposits, instant transfers, and nonbank payment apps, physical proximity alone becomes less defensible as a distribution strategy. Where customers value advice, complex problem-solving, small-business relationships, and human support for events that do not fit the standard digital flow, physical presence remains powerful — often more so than at any time in the past decade. The branch is becoming a high-value asset in fewer locations rather than a low-value asset everywhere.

For community institutions, this does not mean branches are obsolete. It means the role of the branch is changing. The stronger community-finance model will not be branchless. It will be branch-disciplined, digitally capable, and relationship-led. Two practical inferences follow. First, branch network planning should be informed by deposit-rate sensitivity measures and digital adoption patterns at the local market level, not only by demographic projections or competitive presence. Second, the branches that remain should be redesigned as advisory and small-business hubs — staffed for service depth rather than transaction throughput, and integrated with digital channels so that customers can move fluidly between channels without friction.

A complementary observation matters for credit unions. NCUA Q4 2025 data show that while aggregate membership rose by 2.4 million, the median credit union saw membership decline by 0.5 percent — and credit unions with falling membership tend to be small (more than half held less than \$50 million in assets at year-end). The aggregate growth is being driven by larger, digitally capable cooperatives. The smaller and more locally focused cooperatives are not failing, but they are not gaining members either. Their relationship model is intact; their delivery model has not kept pace with member expectations.

Figure 1. Branch Network Restructuring — Stylized Timeline

Era	What happened	What drove it
1980–2010	Branch counts rose to a peak above 90,000.	Deregulation of interstate and intrastate branching; M&A as a tool to extend physical reach (Kroszner & Strahan, 2014).
2010–2019	Slow decline of ~20,000 branches.	Online and early mobile banking adoption; deposit-rate compression and changing customer economics.
2020–2023	Accelerated closures during and after the pandemic.	Mass adoption of digital banking; rate-sensitive depositors substitute away from branches (Narayanan, Ratnadiwakara, & Strahan, 2025).
2024–2025	900+ net closures in 2024 and 576 in 2025; large-bank consolidation deals (e.g., Fifth Third–Comerica, ~\$11B) compound the trend.	M&A-driven branch overlap; continued depositor digital adoption; rising real-estate carrying costs in low-franchise-value markets.

Notes. Stylized synthesis of FDIC branch data, BauerFinancial branch-count reporting, and Narayanan, Ratnadiwakara, and Strahan (2025) on the deposit-franchise drivers of branch restructuring.

4. The New Scale Problem: Capability Density

Scale in financial services used to be relatively easy to understand. Larger institutions had more deposits, more branches, larger balance sheets, broader lending capacity, and more marketing reach. Smaller institutions competed through local knowledge, service quality, and specialization. That distinction is no longer sufficient.

Scale increasingly means the ability to absorb and operationalize complexity. A community bank or credit union does not only need enough assets to lend. It needs enough capability to manage cybersecurity, fraud, vendor due diligence, compliance change, data governance, real-time payments, digital onboarding, card controls, loan servicing, customer support, analytics, AI governance, and integration across an expanding technology ecosystem. The CSBS 2025 Annual Survey makes the pressure explicit: community bankers identified net interest margins as the single most important external risk, followed by core deposit growth and a near-tie among economic conditions, the cost of technology, and the cost of funds. Internally, cybersecurity remains the top risk (58 percent extremely important), with technology implementation and related cost in second place. These risks are not isolated. They converge into a single operating-model challenge.

A useful diagnostic question follows. If a community bank or credit union were to launch a new product — an instant-payment business account, a digital small-business credit line, an embedded payroll disbursement service, or an AI-powered fraud-detection layer for its members — how many distinct capability layers would have to align for the launch to succeed? In most institutions today, the answer is between five and ten: data flows from the core, identity verification, digital onboarding, payments integration, credit decisioning, fraud controls, dispute management, regulatory reporting, vendor governance, and customer servicing. If any one of those layers is brittle, the launch fails or is indefinitely delayed. This is why the cost of capability density is rising: the marginal cost of one weak layer increases as the number of layers a modern product touches grows.

The survey evidence on M&A reflects this convergence. The doubling of community bankers seriously considering acquisition offers from 2024 to 2025 was driven primarily by an inability to achieve economies of scale — not by financial distress. Recent academic work using CSBS data documents that smaller banks face a statistically significant compliance-cost burden across virtually every noninterest-expense category, with fixed compliance costs (compliance officers, reporting systems, audit and consulting fees) that scale poorly. The compliance economics matter: respondents to the 2025 survey reported that adhering to safety and soundness practices accounts for the largest share of total compliance expenses (27 percent on average), followed by anti-money-laundering standards (25 percent) and consumer protection (23 percent). For a billion-dollar community bank, the absolute dollars are manageable; for a \$200 million institution, the per-dollar burden is materially heavier.

The future of community finance therefore depends on a new form of scale: capability density. Capability density means having enough operational, technical, risk, and partnership capacity to deliver modern financial services without losing the institution’s local identity. For some institutions, this will come through mergers. For others, it will come through shared infrastructure, specialized partnerships, modern processing platforms, cloud-enabled systems, bankers’ banks and CUSOs, or narrower strategic focus. The common thread is intentionality. Capability density is not achieved by buying more software; it is achieved by deliberately mapping the institution’s lifecycle, identifying where breakpoints in capability create customer friction or risk exposure, and then making structural choices — build, buy, partner, or merge — that close those gaps.

Table 2. The Capability Density Stack

Capability layer	Why it matters	Common pressure point
Cybersecurity and fraud	Protects customer trust, balance-sheet integrity, and regulatory confidence; cyber risk is the #1 internal risk in the CSBS 2025 survey.	Enterprise-grade threats (deepfakes, business email compromise, ransomware) confronting institutions without enterprise-grade staff capacity.
Digital access and servicing	Determines how 48% of customers now access their accounts day to day (FDIC 2023 household survey).	Fragmented channels and inconsistent mobile/self-service capabilities across deposit, lending, and card products.
Payments readiness	Supports card, ACH, RTP, FedNow, disbursement, and A2A use cases that customers and businesses now expect.	Legacy payment architecture, single-rail dependency, and inadequate real-time fraud control.
Credit lifecycle flexibility	Connects origination, decisioning, disbursement, servicing, modification, and collections into a single experience.	Disconnected lending platforms; manual workflows that prevent same-day decisioning.
Data and analytics	Enables proactive relationship management, cash-flow underwriting, and better risk decisions.	Siloed data across core, payments, and ancillary systems; limited real-time visibility.
AI governance	Determines whether AI improves underwriting and fraud control or introduces model risk and bias.	Lack of board-level AI risk appetite; weak third-party AI vendor oversight.
Vendor and partner governance	Creates access to scale without losing control; central to any partner-led modernization strategy.	Vendor sprawl, unclear accountability, and fourth-party concentration risk.
Operational resilience	Maintains continuity through cyber events, vendor outages, and stress scenarios.	Business continuity plans focused on physical events rather than digital service degradation.

Notes. Capability density reframes scale as operating capacity rather than asset size alone. The eight layers above are interdependent; weakness in any one can disable customer-facing capability across several others.

5. Payments Are Becoming the Strategic Control Layer

Payments have historically been treated by many institutions as a utility: necessary, operational, and often hidden behind deposit accounts or card programs. That view is increasingly outdated. Payments are becoming the strategic control layer of modern community finance. A payment is not simply the movement of money. It is a data event, a risk event, a service event, and a relationship event. Payroll deposit, loan disbursement, card spend, bill payment, merchant acceptance, person-to-person transfer, instant funding, and small-business cash-flow movement all sit at the intersection of customer need and institutional relevance.

Three structural shifts are forcing community institutions to rethink payments as strategy rather than as back-office plumbing.

5.1 The behavioral shift to digital and instant

The Federal Reserve's Diary of Consumer Payment Choice documents a behavioral transformation that leaves no payment franchise untouched. In 2024, U.S. consumers made an average of 48 payments per month, continuing an upward trend that began in 2021. Mobile-phone payments rose to an average of 11 per month, nearly three times the level (four per month) observed in 2018. Cash payments fell from 16 percent of all transactions in 2023 to 14 percent in 2024. The FDIC's 2023 household survey reinforces the trend: 49.7 percent of all U.S. households used nonbank online payment services such as PayPal, Venmo, or Cash App at the time of the survey, up from 46.4 percent in 2021. Among Gen Z respondents, 78 percent consider it important for their financial institution to offer instant payments. These are not marginal shifts; they describe a generational reset of payment expectations.

5.2 The arrival of two scaled real-time rails

FedNow and the RTP Network have moved from launch posture to operating infrastructure in the span of roughly three years. Federal Reserve Financial Services reported that FedNow transaction volume grew 460 percent year over year between 2024 and 2025, reaching 8.4 million transactions in 2025; by mid-2025 more than 1,500 participating financial institutions, headquartered in all fifty states, were live on the service, with community banks and credit unions accounting for roughly 95 percent of participants. The RTP Network, operated by The Clearing House, surpassed one billion cumulative transactions in January 2025 — doubling its volume in just eighteen months — and crossed two million daily transactions for the first time on February 13, 2026. After the RTP transaction limit was raised from \$1 million to \$10 million in February 2025, Q2 2025 RTP value rose 195 percent quarter over quarter to \$481 billion. By any reasonable definition, real-time payments are no longer a forward-looking capability — they are baseline market infrastructure.

The two-rail dynamic creates both opportunity and complexity. RTP currently carries more volume; FedNow is growing faster off a smaller base and is the only rail that the Federal Reserve operates. Federal Reserve research shows that 78 percent of consumers prefer faster payments when given the option, and 66 percent of businesses would use instant payments if their primary financial institution offered them — with businesses that use instant payments reporting 10 percent greater satisfaction with their bank or credit union. The implication for community institutions is straightforward: an instant-payments strategy is no longer optional, and a single-rail strategy creates avoidable concentration risk. Intelligent routing across both rails, with consistent fraud controls and customer experience, is becoming the default architecture.

5.3 Payments as the relationship interface

The strategic significance of payments lies not in the payment itself but in what the payment enables. A small business that receives funds faster also needs working capital. A household using a debit card daily may need emergency credit or installment flexibility. A regional business client may need commercial card controls, expense management, and cash-flow visibility. Payments are the signal layer that can move community institutions from reactive service to proactive relationship management. The FedNow use cases now in production — off-cycle payroll and earned wage access, real-estate escrow, auto loan disbursements, insurance

payouts, online marketplace seller payouts, and federal agency disbursements through the Treasury’s Bureau of the Fiscal Service — are not generic payment use cases. Each is a relationship moment that, properly instrumented, generates data, surfaces credit needs, and anchors the customer to the institution providing the speed.

The CSBS 2025 Annual Survey captures both the threat and the opportunity. Out-of-market nonbank payment-services competition increased by seven percentage points year over year — the largest competitive shift recorded in the survey — and community bankers identified payments as the area where competitive pressure is rising most sharply. Yet the same survey shows that the institutions investing in real-time rails and modern card capabilities are not losing share to nonbanks; they are reclaiming flows by giving their customers no reason to leave the relationship for a third-party app.

Figure 2. Payments as the Strategic Control Layer

Suggested exhibit
Lifecycle flow diagram linking deposit inflow → card spend / debit → real-time payments (RTP and FedNow) → loan disbursement → fraud and risk signals → servicing and relationship intelligence. The exhibit should position payments as the layer where data, risk, engagement, and money movement converge.

Notes. To be produced visually before PDF publication. The argument is that payments are not a downstream output of relationships but the upstream signal that creates them.

6. Small-Business Finance, Open Banking, and Data as Collateral

Small-business finance is where community institutions have one of their strongest historical claims. Relationship lending, local knowledge, and borrower context can matter more for small businesses than for large corporates. ICBA data show that between 2010 and 2024, community banks issued roughly \$305 billion in SBA 7(a) and 504 loans — accounting for nearly two-thirds (64 percent) of all SBA dollars during that period — and supported approximately six million jobs through their SBA lending. In the top quartile of highest-poverty U.S. counties, community banks made \$23.5 billion in SBA loans, compared with \$561 million by credit unions. These are not marginal statistics; they describe a relationship-lending franchise that has real economic consequence.

But small-business owners are also being shaped by faster digital lenders, embedded finance platforms, accounting-system integrations, instant funding expectations, and cash-flow-based underwriting models. The next phase of small-business lending will not be defined only by hard collateral or static financial statements. It will be shaped by verified data flows, real-time cash-flow visibility, payment behavior, receivables, inventory signals, card data, and post-origination monitoring. This is where open banking becomes strategically relevant.

Yu (2026), in a paper titled “Data as Collateral: Open Banking for Small Business Lending,” provides the most recent rigorous empirical evidence on this point. Using a regression discontinuity design based on UK firms’ eligibility to share bank financial data under the UK’s open banking framework, Yu shows that data sharing facilitates the use of accounts receivable and inventory as collateral. Eligible firms are more likely to pledge such information-sensitive assets and, as a result, have improved access to credit. The effects are most pronounced for firms facing greater information frictions and for those with more information available to share, and they operate primarily through floating liens — consistent with the interpretation that data enables ongoing monitoring rather than just one-time underwriting. Related work by Babina, Bahaj, Buchak, De Marco, Foulis, Gornall, Mazzola, and Yu (2025), published in the *Journal of Financial Economics*, finds that 49 countries have now adopted open-banking policies and that consumer trust in fintechs predicts adoption, with welfare gains driven by entry and product improvements.

The practical implication is that data can function as a form of digital collateral. For community banks and credit unions, that concept should not be read as a replacement for relationship lending. It should be read as an enhancement of relationship lending. The historical advantage was local relationship knowledge. The next

version of that advantage is relationship knowledge plus permissioned data infrastructure. Institutions that combine local context with verified cash-flow data, payment behavior, receivables visibility, and integrated servicing will be better positioned to defend small-business relationships against fintech lenders, large banks, and embedded finance platforms.

6.1 The Section 1033 question mark

The U.S. regulatory path to data sharing has become unsettled. The CFPB finalized its Section 1033 Personal Financial Data Rights rule on October 22, 2024, with phased implementation beginning April 1, 2026, for the largest institutions and extending through April 1, 2030, for the smallest covered institutions. In mid-2025, however, the CFPB stayed the rule and issued an Advance Notice of Proposed Rulemaking inviting comment on whether to substantially revise it, and in December 2025 the Bureau indicated it would issue an interim final rule. Community banking trade groups, including ICBA, are lobbying for preserved small-bank exemptions from developer-portal mandates and for explicit authority to charge reasonable fees for third-party data access.

The strategic point is that the data-as-collateral logic does not depend on the specific U.S. rule. The Yu (2026) evidence is drawn from the UK’s open-banking regime, and the broader Babina et al. (2025) evidence covers 49 countries. The information asymmetries that data sharing addresses are universal; the specific legal framework affects implementation cost and compliance design, not the underlying economics. Community institutions that build cash-flow underwriting, permissioned data ingestion, and small-business monitoring capability now will be positioned to deploy these capabilities under whatever U.S. open-banking framework ultimately emerges — and will already be ahead of competitors that wait for regulatory certainty before investing.

Figure 3. Data as Collateral in Small-Business Lending

Stage	Traditional approach	Data-augmented approach
Screening (pre-origination)	Static financials, personal guarantees, hard collateral, banker judgment.	Same plus permissioned cash-flow data, card and payment behavior, accounts-receivable visibility (Yu, 2026).
Decisioning	Manual underwriting; subjective weight on relationship history.	Cash-flow-based decisioning models calibrated against verified inflow/outflow patterns; relationship history retained as judgment overlay.
Disbursement	ACH or check, T+1 or longer.	Real-time disbursement via FedNow or RTP, with same-day availability and embedded confirmation.
Monitoring (post-origination)	Quarterly or annual financial statements; periodic covenant checks.	Continuous monitoring of cash flow, receivables aging, and payment behavior — the mechanism Yu identifies as enabling floating-lien collateral.
Modification / collections	Reactive workflow triggered by missed payments.	Early-warning signals from cash-flow trends; proactive outreach and structured modification options.

Notes. Adapted from Yu (2026) and Babina et al. (2025). The right column does not replace the left; it augments it. The community-finance opportunity is precisely the combination of relationship judgment with verified data.

7. Cybersecurity, Fraud, and the Trust Imperative

Trust is the founding premise of community finance. It is also the single most vulnerable asset that community institutions now own. The CSBS 2025 Annual Survey ranks cybersecurity as the most important internal risk for the eleventh consecutive year, with 58 percent of bankers identifying it as “extremely important” — a higher share than any other risk in the survey, internal or external. The economic and operational logic behind that ranking has only intensified.

The headline numbers are sobering. The FBI's Internet Crime Complaint Center recorded \$16.6 billion in reported cybercrime losses in 2024, up from \$12.5 billion in 2023. The FBI's 2025 Internet Crime Report documented \$275 million in financial-services-specific losses, a 59 percent increase over 2024. IBM's 2024 Cost of a Data Breach Report estimates the average financial-services data breach cost at \$6.08 million, against an all-industry average of \$4.88 million. Credit and debit card fraud was both the most common fraud type reported by community bankers in the 2025 CSBS survey and the largest source of dollar losses; together with check fraud and identity theft / account takeover, these three categories accounted for nearly 88 percent of fraud cases and more than 80 percent of dollar losses.

The threat profile is also evolving in ways that disproportionately disadvantage smaller institutions. Three trends matter.

7.1 Real-time payments mean real-time fraud

ACH and check fraud allowed institutions a window — often a day or more — to identify and reverse suspicious transactions. FedNow and RTP do not. As one industry consultant noted in late 2025, with FedNow and RTP, banks have one shot at ensuring the screen for proper approval, NSF, and fraud, and it needs to happen instantly. That single design fact compresses fraud-control timelines from hours or days to milliseconds. Institutions that adopt instant payments without commensurate fraud infrastructure are functionally underwriting losses that they cannot quickly reverse. The June 2025 interagency request for information from the FDIC, Federal Reserve Board, and OCC on check and payment fraud, and the resulting consideration of Regulation CC amendments, signal that the supervisory expectation is escalating as fast as the rails themselves.

7.2 AI-enabled attacks and the deepfake threshold

The 2024 deepfake-enabled fraud against the global design firm Arup — in which criminals used video deepfakes of executive leadership to authorize a \$25 million wire transfer — marked a threshold moment. Generative AI has industrialized social-engineering and business-email-compromise attacks, and the operational complexity of defending against them has outpaced what individual community institutions can reasonably build in isolation. Treasury's Project Fortress — which provides a no-cost automated threat-information feed to financial institutions — represents a recognition that public-private threat intelligence sharing is now part of baseline community-finance infrastructure rather than an optional supplement.

7.3 Asymmetric resource gaps

Large banks employ dedicated cybersecurity specialists, security operations centers, and threat-intelligence teams whose budgets often surpass an entire community institution's operating budget. A 2024 Integris survey of nearly 1,000 bank executives found that 74 percent felt their cybersecurity spending in 2024 was not effective. That gap is structural: per-dollar fixed cybersecurity costs are higher for smaller institutions, and a Federal Reserve research review concludes that cyberattacks on small banks generate measurable negative effects on local banking markets, including reduced lending and slower deposit growth.

The strategic response is to treat cybersecurity not as a back-office compliance function but as a core operating capability — governed by the board, integrated with payments and AI strategy, and supported by shared infrastructure where building independently is uneconomic. Three practical anchors follow. First, fraud controls and real-time payments capability should be designed together, not sequenced. Second, third-party AI and data vendors should be governed through clear acceptable-use policies and vendor contract language — 95 percent of data breaches still trace to human error or unmanaged endpoints, so the governance of AI tools used by employees and vendors is now a frontline control. Third, public infrastructure (CISA's Cyber Hygiene program, Treasury's Project Fortress, the NIST Cybersecurity Framework 2.0 Small Business Quick-Start Guide, and FFIEC resources) should be deliberately consumed; the implicit subsidy embedded in these programs is significant for institutions that use it.

8. Artificial Intelligence: From Pilot Programs to Operating Discipline

Artificial intelligence has moved from technology trend to operating capability in roughly twenty-four months. The CSBS 2025 Annual Survey notes that community bankers see AI as a promising opportunity for their banks while lamenting implementation cost. American Banker's 2026 AI Talent Shift survey, fielded in March 2026 among 206 banking professionals, finds that 79 percent of institutions increased their AI spend by more than 10 percent over the prior twelve months; productivity improvement and workflow automation are the dominant strategic rationales across all tiers. Yet adoption maturity varies dramatically by institution size: only 8 percent of community bankers report moving forward with enterprise-wide AI adoption, compared with 51 percent of national-bank respondents. No credit union leader in the American Banker sample reported aggressively pursuing enterprise-wide adoption.

The credit union sector is moving more quickly than its public posture suggests. Filene Research Institute's January 2025 survey of 110 credit union participants across 78 organizations documented active generative-AI deployment in member service, fraud detection, and back-office automation. America's Credit Unions reports that 66 percent of credit unions plan to leverage AI for credit decisioning, and 65 percent plan to increase AI investments. Among the largest cooperatives, Navy Federal Credit Union operates more than 100 production machine-learning models drawing data from 200+ enterprise sources for fraud detection, personalization, and operational decisioning. The technology investment is real; the question is whether the operating discipline is moving as fast.

Four AI use cases stand out for community finance specifically.

Fraud and authentication. Real-time anomaly detection on payments, behavioral biometrics for authentication, and synthetic-identity detection in account opening are now the highest-ROI AI applications. The dual-purpose value is operational (loss reduction) and strategic (it enables safer real-time payments adoption). Federal Reserve Vice Chair for Supervision Michael Barr noted in a 2025 keynote that AI-enabled fraud prevention is among the most tangible near-term benefits community institutions can capture.

Member and small-business engagement. Conversational and agentic AI in mobile and contact-center channels can extend high-touch service into digital channels without diluting it. The combination of an AI agent that handles routine inquiries with a human banker who handles complex problems is the operational pattern most consistent with the relationship model of community finance.

Underwriting and cash-flow decisioning. Combined with permissioned data flows (see Section 6), AI-enabled underwriting can compress decision times in small-business lending from days to hours, while expanding access for thin-file applicants. The U.S. Census Bureau's Annual Business Survey research (Piao, Wang, and Weng, 2025) finds that banks deploying AI in small-business lending increase loan approval rates without commensurate increases in delinquency — a result consistent with AI augmenting rather than replacing relationship judgment.

Compliance automation. AML monitoring, suspicious activity report drafting, regulatory reporting, and complaint analysis are areas where AI can reduce the per-dollar compliance burden that disproportionately affects smaller institutions. The CSBS 2025 survey's decomposition of compliance cost (27 percent safety and soundness, 25 percent AML, 23 percent consumer protection) maps directly onto categories where well-governed AI can produce material productivity gains.

The governance dimension is equally important. The NCUA established a comprehensive AI Compliance Plan in 2025 and hired three AI officers for 2025–2026. America's Credit Unions and ICBA have both engaged on the policy debate, urging risk-based, technology-neutral frameworks that leverage existing laws and regulations rather than building separate AI-specific regimes. The practical implication for boards is that AI risk management should be integrated with existing operational, compliance, and vendor-risk frameworks — not built as a parallel function. Where AI is consumed through third-party vendors (which it almost always is in

community finance), the governance challenge is fundamentally a vendor-management challenge: data flows, model validation, explainability, change management, and contract terms.

A note on caution. AI is not a strategy. Productivity gains in undisciplined AI deployments tend to be absorbed by the workflows that surround the AI — review, exception handling, model monitoring, and rework — rather than translated into capability density. The institutions that capture sustainable advantage from AI will be those that pair adoption with clear redesign of the workflows the AI is meant to transform: digital onboarding rebuilt around AI-assisted KYC, fraud operations rebuilt around real-time model output, member service rebuilt around AI triage. AI without workflow redesign is automation spending; AI with workflow redesign is operating-model change.

9. Community Banks as Corporate Cash Counterparties

Community finance should not be viewed only through a consumer and small-business lending lens. There is also a treasury-side opportunity that has emerged with new force since the 2023 regional banking episode. After the failures of Silicon Valley Bank (\$209 billion in total assets, with 86.4 percent of deposits estimated to be uninsured at year-end 2022) and Signature Bank (\$110 billion in assets) in March 2023, many corporate finance teams revisited assumptions about counterparty risk, deposit diversification, uninsured balances, and concentration at the largest institutions. The Treasury’s invocation of the systemic risk exception — which fully protected all depositors at SVB and Signature and cost the FDIC’s Deposit Insurance Fund an estimated \$16.3 billion — resolved the immediate crisis but left the architecture of deposit insurance, and the implicit guarantees attached to it, an open policy question.

The CSBS 2025 Annual Survey shows the deposit-insurance question landing directly inside the community banking sector: 79 percent of community bankers indicate they would support changing the current deposit insurance framework, with targeted unlimited coverage and increased coverage scoring highest among alternative proposals. Among respondents favoring an increase, 72 percent viewed a new limit of \$500,000 as appropriate. This is a substantial shift in industry consensus from a sector that has historically been wary of expanded coverage.

A practitioner-oriented treasury argument has emerged in parallel: size and safety are not the same thing. Community banks and credit unions can deserve consideration as part of a diversified corporate cash strategy when they demonstrate strong capitalization, deposit-funded balance sheets, prudent lending, competitive yields, and clear relationship access. This point should be handled carefully. It is not an argument that every community bank is equally safe, or that treasury teams should ignore counterparty risk, liquidity analysis, uninsured deposit exposure, or operational controls. The stronger argument is that community banks should be evaluated on fundamentals — capital ratios, deposit composition, loan concentrations, interest-rate risk, and governance — rather than dismissed because they are smaller.

For the future of community finance, this broadens the addressable relevance of the sector. Community institutions can be part of a resilient, diversified financial ecosystem for consumers, small businesses, municipalities, nonprofits, and corporate treasury teams. The CSBS 2025 data show that competition for deposits has been most intense for transaction deposits, particularly from out-of-market competitors — which is precisely where community banks can compete most effectively when they offer modern treasury servicing. But to capture that opportunity, community institutions need digital account access, RTP and FedNow connectivity, commercial card programs, treasury workstation integrations, real-time reporting, and relationship coverage that can meet institutional expectations. The community-bank-as-counterparty thesis is, at its core, a thesis about treasury-grade infrastructure built on a community-bank deposit base.

10. Credit Unions and Community Banks: Similar Pressures, Different Paths

Community banks and credit unions face overlapping pressures: rising technology costs, cybersecurity exposure, deposit competition, fraud, digital expectations, and scale economics. But they do not have identical business models, governance structures, or strategic options, and treating them as interchangeable understates both the opportunity and the operational complexity of each.

10.1 Community banks

Community banks often compete through local business relationships, commercial real estate knowledge, owner-operated business finance, agricultural and regional lending, and treasury services. Their community value proposition is often tied to local credit allocation and regional business continuity, which their SBA lending track record makes concrete. Their modernization priorities may therefore include commercial payments, small-business credit, treasury management, deposit analytics, fraud controls, and core-adjacent integration. The CSBS 2025 survey's ranking of net interest margins as the top external risk reflects the fact that community banks remain materially exposed to the spread between commercial loan yields and deposit costs — a vulnerability that modernization in payments and small-business lending can offset by deepening relationships rather than competing on price alone.

10.2 Credit unions

Credit unions often compete through member affinity, cooperative economics, consumer value propositions, indirect auto lending, cards, mortgages, and community or employer-based relationships. Their modernization priorities may include member lifecycle engagement, card and installment capabilities, digital onboarding, loan refinancing, real-time alerts, and member-service automation. The NCUA Q4 2025 data point to a critical strategic divide within the cooperative system: 88 percent of federally insured credit unions reported positive net income, but median membership at the institution level declined by 0.5 percent — the same as the prior year — and roughly 55 percent of credit unions had fewer members at year-end than a year earlier. The cooperatives growing fastest tend to be the largest, the most digitally capable, and those with the broadest fields of membership. The smaller, single-employer or single-community cooperatives are increasingly squeezed.

10.3 Common architecture, differentiated execution

Both models need modernization, but the roadmap should reflect their economics, governance, and membership/charter constraints. The common denominator is infrastructure flexibility. The future-ready institution is not the one with the most vendors or the most ambitious digital slogan. It is the one with the clearest operating architecture and the strongest ability to connect trust, data, payments, credit, and servicing around the customer lifecycle. The structural question for both sectors is the same: where can the institution build capability that materially differentiates the relationship, and where does the institution need to access shared infrastructure to achieve viable cost per transaction?

An additional structural dynamic warrants observation. Credit-union acquisitions of community banks have become a recurring feature of consolidation: 17 of 59 announced CBO deals at one tracked point in 2024 involved credit-union acquirers, and ICBA analysis indicates that since 2010, credit unions have acquired 77 community-bank charters with less than \$50 billion in combined assets, with more than 60 percent of those acquisitions occurring in the past five years. The debate over tax treatment, mission, and community-lending outcomes will continue. For the purpose of this paper, the relevant point is that consolidation is no longer confined within charter types — and the cross-charter dynamics will increasingly shape competitive geography in regional markets.

11. The Regulatory Inflection Point

Strategy in community finance does not occur in a regulatory vacuum. Three regulatory shifts that took shape in 2025 and early 2026 will materially affect how community institutions modernize, compete, and manage risk over the rest of the decade.

11.1 Open banking in transition

The CFPB's October 2024 Section 1033 final rule was widely interpreted as the U.S. catching up with the open-banking frameworks already operating in the UK, EU, Australia, and Brazil. The rule's subsequent stay and the Bureau's mid-2025 Advance Notice of Proposed Rulemaking introduced material uncertainty about scope, fees, third-party authorization, and compliance dates. As of late 2025, the CFPB has signaled it will issue an interim final rule. Community banks lobbied for, and are likely to retain, exemptions from developer-portal mandates for smaller institutions and explicit authority to charge reasonable fees for third-party data access. The practical strategic posture is to design data-sharing infrastructure that complies with whichever framework emerges while capturing the strategic benefit of permissioned data for the institution's own underwriting and engagement use cases. The internal value of the data does not depend on the external sharing rule.

11.2 Bank regulation and supervisory tone

The CSBS 2025 survey records a striking decline in community bankers' concern about regulatory burden — from the joint-top external risk in 2024 to sixth place in 2025 — with regulatory sentiment recording its highest reading since the survey's launch. Regulatory tone matters for community-bank economics because it affects M&A approval timelines, the supervisory expectations around technology and third-party risk, and the willingness of boards to invest in new product lines. The September 2024 OCC, FDIC, and DOJ updates to bank merger frameworks, and the subsequent acceleration of large regional deals in late 2025 (Fifth Third–Comerica, PNC–FirstBank, Huntington–Cadence, Glacier–Guaranty), demonstrate that regulatory tone can shift the pace of consolidation materially. For the second half of 2025, 52 bank deals were announced in Q3 alone — the highest quarterly total since 2021 — and observers noted that deals are now closing in four to five months in some cases, versus a historical eight to eleven.

11.3 Payments fraud and Regulation CC

The June 2025 interagency request for information from the FDIC, Federal Reserve Board, and OCC on check and payment fraud — and the consideration of Regulation CC amendments to balance funds availability with fraud risk — signals that supervisory attention to payments fraud is escalating alongside the rapid expansion of instant payments. The combination of faster funds availability, an evolving deepfake-enabled fraud landscape, and growing supervisory focus suggests that institutions will need to demonstrate effective fraud governance as a precondition for expanding their real-time payments footprint.

11.4 Stablecoins and the GENIUS Act

The passage of the GENIUS Act in 2025, which establishes a federal framework for stablecoin issuance, introduces a longer-term competitive dynamic that community institutions should track even if they do not intend to participate directly. Slightly more than 90 percent of community bankers in the CSBS 2025 survey reported they do not offer, and do not plan to offer, cryptocurrency services. That posture may well prove correct on time horizons of one to three years. But the stablecoin framework will shape competitive dynamics in payments, particularly cross-border and B2B use cases where stablecoins offer speed and cost advantages over correspondent banking. The strategic implication is to monitor the framework, understand its consequences for payments revenue, and be prepared to participate selectively if and when the use cases prove durable.

12. The Platform-Enabled Community Institution

The future-ready community institution does not need to become a large bank or a fintech. It needs to become a stronger orchestrator of capabilities. That means pairing local trust with platform-grade infrastructure and a disciplined partnership model.

This operating model reframes technology from a back-office expense into strategic infrastructure. The objective is not to digitize every legacy process. The objective is to redesign the institution around lifecycle moments: receive money, hold liquidity, spend, borrow, repay, dispute, reconcile, save, invest, and expand the relationship. Each of those moments is, simultaneously, a customer-experience event, a data event, and a risk event. The platform-enabled institution treats them as such.

A platform-enabled community institution should be evaluated across eight dimensions: trust and local relevance; digital access; payments readiness; credit lifecycle flexibility; data and risk intelligence; operational resilience including cybersecurity; AI capability and governance; and partner orchestration. The strategic question is how these capabilities reinforce each other. A modern card program without digital servicing creates friction. Real-time payments without fraud controls create risk. Data access without decisioning discipline creates noise. AI without workflow redesign creates rework. Partnerships without governance create fragmentation. The future operating model is therefore less about a single modernization project and more about architecture. Community institutions need to know which systems govern the customer relationship, which platforms control product logic, where data lives, how risk is monitored, where integrations break, and which partners can create functional scale.

Table 3. The Platform-Enabled Community Institution

Dimension	What good looks like
Trust and local relevance	The institution has a clear community, member, or regional-business niche and uses that identity as a differentiated relationship asset. It can articulate why a specific customer should bank with it rather than with a national bank or a fintech.
Digital access	Customers can open, use, service, and expand relationships through intuitive mobile and digital channels with feature parity to the best fintech alternatives in the daily-banking, lending, and small-business use cases the institution serves.
Payments readiness	The institution can support card, ACH, RTP, FedNow, wallet, disbursement, and account-to-account use cases with intelligent rail routing and consistent fraud controls. Instant payments are designed in, not bolted on.
Credit lifecycle flexibility	Origination, approval, disbursement, servicing, modification, collections, and repayment operate as a connected lifecycle with permissioned data flowing across stages.
Data and risk intelligence	The institution can convert transaction, credit, behavioral, and relationship data into better decisions and proactive engagement. Data architecture is structured for both internal use and (where strategic) external sharing.
Operational resilience	Cybersecurity, fraud, compliance, vendor risk, and continuity are embedded into operating architecture, with public threat-intelligence resources consumed deliberately and board-level governance defined.
AI capability and governance	AI use cases are prioritized by ROI and risk profile; vendor AI governance is integrated with existing third-party risk; workflows are redesigned alongside AI deployment rather than bolted on.

Partner orchestration	Vendors and fintech partners are selected, governed, integrated, and measured against business outcomes. The institution's architecture distinguishes strategic partners from utility providers.
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Notes. The future-state institution is not defined by technology ownership alone, but by the ability to orchestrate capabilities around the customer lifecycle. The eight dimensions are interdependent and self-reinforcing.

13. Strategic Choices: Build, Buy, Partner, or Merge

Community institutions need a clearer decision framework for modernization. Not every capability should be built internally. Not every vendor relationship should be treated as strategic. Not every scale problem requires a merger. The practical question is where the institution needs ownership, where it needs speed, and where it needs access to ecosystem scale.

Build when the capability is core to differentiation and the institution has the talent, budget, and governance to execute. Buy when the capability is table stakes, mature, and better delivered through a proven vendor with strong compliance and support. Partner when the capability requires specialized expertise, network access, speed to market, or scale the institution cannot justify alone. Merge when the institution cannot achieve minimum viable capability density independently or through partnership, or when a strategic combination would materially strengthen both organizations' ability to serve their respective communities.

The strongest community-finance strategy will likely combine all four paths. The risk is not outsourcing. The risk is outsourcing without strategic clarity. The opportunity is to use partnerships and platforms to create functional scale while preserving local identity and customer trust. The 127 community-bank mergers completed in 2025 — the highest annual total since 2021 — are not, in themselves, an indictment of the community-banking model. They are, in the Kansas City Fed's framing, a reallocation of assets toward institutions with greater capability density. The median ROAA of selling community banks in 2025 was 0.6 percent (down from 0.8 percent in 2024), while the median ROAA of buyers reached 1.1 percent. Selling institutions are not, on average, failing — they are simply earning less than buying institutions, and the differential is widening.

Table 4. Build, Buy, Partner, or Merge Decision Matrix

Path	When it makes sense	Leadership question
Build	The capability is core to differentiation and the institution has the talent, budget, and governance to execute.	Will owning this capability materially improve customer/member relevance or risk control? Can the institution recruit and retain the talent to run it for the next five years?
Buy	The capability is table stakes, mature, and better delivered through a proven vendor with strong compliance and support.	Can this provider reduce complexity without creating strategic lock-in? What is the exit cost and switching path?
Partner	The capability requires specialized expertise, network access, speed to market, or scale the institution cannot justify alone (e.g., processors, payment networks, embedded finance platforms, CUSOs).	Is there a clear joint value proposition, operating model, accountability structure, and exit framework? What happens if the partner is acquired or strategy changes?
Merge	The institution cannot achieve minimum viable capability density independently or through partnership; or a strategic combination materially strengthens both organizations.	Is consolidation being used to create strategic capability, or merely to survive cost pressure? Does the combination preserve, or erase, the community identity that gave the institution value in the first place?

Notes. This matrix is intended as an executive decision framework, not a one-size-fits-all modernization formula. Most institutions will use all four paths simultaneously across different capability layers.

14. A Five-Year Roadmap for Modernization

Modernization must be sequenced. Institutions that attempt to change everything at once often create execution fatigue, integration risk, and unclear accountability. A practical roadmap begins with architecture and ends with differentiation. The phases below should be adapted to institution type, asset size, charter, product focus, and technology starting point.

Year 1 should focus on diagnostic work: mapping the customer lifecycle, vendor stack, data flows, payment capabilities, fraud controls, digital gaps, AI use-case inventory, and modernization dependencies. The deliverable is a capability density baseline — a clear-eyed inventory of where the institution stands across each of the eight platform dimensions, ranked by gap severity and customer impact. Year 2 should prioritize digital servicing and payments modernization, especially high-frequency engagement points such as card controls, alerts, instant payment readiness (both FedNow and RTP), disbursements, fraud workflows, and self-service. Year 3 should connect the credit lifecycle: origination, decisioning, servicing, repayment, risk monitoring, and cash-flow insights, with permissioned data infrastructure standing up in parallel. Year 4 should use fintech, processor, network, CUSO, and embedded finance partnerships to expand capabilities without overbuilding internally, with cybersecurity and AI governance maturing alongside. Year 5 should turn infrastructure into market-facing differentiation.

The goal is not technology for its own sake. The goal is a community institution that can respond faster, serve more intelligently, manage risk more effectively, and compete where local trust still matters.

Table 5. Five-Year Modernization Roadmap

Phase	Strategic priority	Core actions
Year 1	Diagnostic and architecture map.	Map customer lifecycle, vendor stack, data flows, payment capabilities, fraud controls, digital gaps, AI use-case inventory, and modernization dependencies. Establish capability density baseline. Define build/buy/partner/merge intent at the capability level.
Year 2	Digital servicing and payments modernization.	Prioritize mobile servicing, card controls, alerts, dual-rail instant payment readiness (FedNow + RTP), disbursements, real-time fraud workflows, and customer self-service. Build instant-payments fraud capability before scaling send volume.
Year 3	Credit lifecycle and data modernization.	Connect origination, decisioning, servicing, repayment, risk monitoring, and cash-flow insights across consumer and small-business lending. Stand up permissioned data ingestion. Pilot cash-flow underwriting in selected small-business segments.
Year 4	Partner-led expansion and risk maturity.	Use fintech, processor, network, CUSO, and embedded finance partnerships to expand capabilities without overbuilding internally. Mature AI governance and cybersecurity programs to match expanded surface area.
Year 5	Platform-enabled regional differentiation.	Turn infrastructure into market-facing differentiation: faster small-business finance, treasury-grade corporate cash services, personalized engagement, resilient operations, and a clear identity story that connects local trust with modern capability.

Notes. Sequencing should be adapted by institution type, asset size, charter, product focus, and technology starting point. Most institutions will run two or more phases in parallel; the table presents the dominant priority of each phase rather than a strict serial dependency.

15. Conclusion

Community finance has never been only about size. It has been about relevance, trust, and the ability to allocate capital with local knowledge. Those strengths still matter. But the delivery model has changed, and the structural data of 2025 and early 2026 make the shift unambiguous. The sector is profitable, consolidating, and re-pricing physical presence around deposit franchise value. Real-time payments have moved from forward-looking infrastructure to baseline expectation in three years. Cybersecurity is the single highest-ranked internal risk for community bankers, and AI is moving from experiment to operating discipline. Open banking remains in regulatory transition, but the underlying economics of data-augmented lending are documented in increasingly rigorous empirical research.

Trust must now be delivered through digital channels, real-time payments, secure data, flexible credit, AI-enabled engagement, and resilient operations. Local knowledge must be translated into faster decisions, better servicing, and more responsive financial products. Branches must become relationship infrastructure, not merely transaction infrastructure. Payments must become engagement infrastructure, not merely utility rails. Data must become an underwriting and servicing asset, not merely a reporting byproduct. Cybersecurity must become a board-level operating capability, not merely a compliance line item. AI must become workflow discipline, not merely a technology purchase.

The institutions that succeed will not simply preserve the old model. They will reinterpret it. The next generation of community finance will be local in purpose, digital in access, real-time in movement, data-driven in decisioning, AI-augmented in operations, and partnership-enabled in scale. Community finance will look different in 2031 than it does in 2026 — but it will still exist, and the institutions that make the right capability-density choices in the next three years will define what it looks like.

That is not the end of community finance. It is its next operating model.

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Appendix A. Exhibit Plan for Publication

This appendix lists the recommended visual exhibits for the website and PDF release. Several of the in-text exhibits should be converted into final graphics before publication, and several new exhibits are recommended to support the expanded sections.

Table A.1. Recommended Exhibit Plan

Exhibit	Purpose	Recommended format
Community finance inflection map	Show the strategic transition from legacy local presence to platform-enabled community finance.	2×2 matrix: local trust vs. platform capability.
Branch restructuring timeline	Show the four eras of branch banking (1980–2010 expansion, 2010–2019 decline, 2020–2023 acceleration, 2024–2025 consolidation impact).	Annotated horizontal timeline with peak / inflection callouts.
New scale stack	Explain the eight capability density layers and their interdependencies.	Layered architecture diagram with cross-cutting risk and governance overlays.
Payments control layer	Frame payments as data, risk, servicing, and relationship infrastructure across the customer lifecycle.	Lifecycle flow diagram with FedNow and RTP rails.
Real-time payments adoption curves	Show the parallel growth of FedNow (460% YoY in 2025) and RTP (>2M daily transactions by Feb 2026) and their use-case mix.	Twin line chart with use-case annotations.
Data as collateral model	Show how permissioned bank-account, payment, card, and loan-performance data can improve small-business credit access.	Five-stage process graphic adapted from Yu (2026).
Cybersecurity threat landscape	Frame the asymmetric resource gap and the major threat categories (real-time payment fraud, deepfake-enabled BEC, ransomware, AI-enabled attacks).	Threat / control matrix with shared-infrastructure annotations (Project Fortress, FFIEC, NIST CSF 2.0).
AI use-case prioritization map	Map the four primary AI use cases (fraud and authentication, member engagement, underwriting and decisioning, compliance automation) against ROI and risk profile.	Bubble chart or 2×2 prioritization matrix.
Build / buy / partner / merge matrix	Give executives a decision framework for modernization choices.	Consulting-style 2×2 with capability examples.
Five-year modernization roadmap	Translate thesis into action with sequenced phases.	Horizontal Gantt-style roadmap with capability streams.

Notes. Visuals should retain The Payments Corner branding while preserving the scholarly working-paper structure of the document. Where exhibits draw on copyrighted source visualizations, adaptations should be original constructions based on the underlying data and frameworks.