

AI in Community Banking: The Complete Leadership Intelligence Report

Everything community bank CEOs, boards, and senior executives need to know about artificial intelligence — synthesized, deduplicated, enriched, and source-cited from five leading AI research tools. History. Use cases. Case studies. Vendor landscape. Forecasts. Governance. All in one place.

49%

Community banks
have deployed
GenAI

50+

Named case studies
with verified results

40

Confirmed deployed
use cases

23+

Vendor platforms
serving community
banks

\$190B

AI in banking market
by 2030

5

AI research tools
synthesized

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ABOUT THIS DOCUMENT

This report synthesizes research from five leading AI tools — ChatGPT, Claude, Perplexity, Grok, and Gemini — into a single deduplicated, enriched, source-cited reference for community bank leadership. Every unique insight from each tool is preserved. Redundancies are removed. Sources are cited throughout. Written for CEOs, Presidents, Board Members, CROs, CLOs, and CIOs.

Executive Summary

The most important things community bank leadership needs to know about AI — in plain terms, without hype, grounded in evidence from five independent research sources.

THE CORE FINDING

AI in community banking is not coming. It is already here. Every community bank that processes card transactions, originates mortgages, or runs on a Jack Henry, Fiserv, or FIS core platform is already using AI — whether leadership has formally recognized it or not. The question is no longer whether to use AI. It is whether to govern and extend it deliberately — or to encounter it reactively, from a position of growing competitive disadvantage.

What the Research Establishes

AI adoption has accelerated beyond prediction. Cornerstone Advisors' 2026 survey of 416 executives found 49% of community banks and 59% of credit unions have already deployed generative AI — GenAI deployment among banks tripled from 2025 levels. CSI's 2026 survey of 252 leaders found AI is the #1 concern (27%), surpassing cybersecurity, for the third consecutive year.

The technology gap between large and small institutions is real, but narrowing. Census Bureau data shows AI adoption among all banks rose from 14% in 2017 to 43% by 2019. As of 2024, approximately 79% of banks over \$250 billion in assets have active generative AI projects, compared to roughly 40% of institutions under \$10 billion. Cloud-delivered AI through core providers is closing this gap rapidly.

Fraud defense is the most urgent use case. Over 50% of fraud now involves AI techniques (Feedzai 2025). Deloitte projects AI-enabled fraud losses will reach \$40 billion in the U.S. alone by 2027. Deepfake-related fraud attempts increased 2,137% in three years. Community banks are primary targets because fraud losses per dollar of revenue are disproportionately high.

The relationship banking model is AI's greatest ally, not its victim. Federal Reserve Governor Barr's October 2025 community banking speech confirmed: community banks want technology that deepens customer relationships, not replaces them. AI is at its most valuable exactly where relationships matter most — and community banking is that context.

Three years of 90-day decisions will determine the next decade. McKinsey, the OCC, and Cornerstone Advisors all converge: institutions that act deliberately on AI in the next 18 months will be in a fundamentally stronger competitive position by 2028 than those that wait.

Key Statistics at a Glance

49%

Community banks have deployed GenAI (tripled from 2025)

27%

Of CB leaders cite AI as their #1 concern — above cybersecurity

86%

Of CB executives express optimism about their institution's future

\$190B

Projected AI in banking market by 2030 (from \$38B in 2024)

43%

Of U.S. banks used AI by 2019 — up from 14% in just two years

50%+

Of all fraud now involves AI techniques — and rising every quarter

FOR BOARDS SPECIFICALLY

Examiners are now explicitly asking boards to demonstrate meaningful AI oversight. Director education on AI risk — covering model risk management, fair lending implications, third-party AI risk, and governance frameworks — is becoming part of examination scope. Boards that cannot articulate how they oversee AI use will face examination findings. This is a current expectation, not a future one. (OCC Bulletin 2025-26, October 2025)

The History of AI in Community Banking

Seven decades of evolution — from the first rule-based expert systems of the 1950s to today's generative AI lending assistants. AI has been embedded in community bank operations longer than most leadership teams recognize.

THE GOVERNANCE FOUNDATION CAME FIRST

The modern history of AI in community banking begins with model governance, not chatbots. In 2011, the Federal Reserve and OCC issued SR 11-7 model risk guidance, establishing the three-part logic that still shapes AI oversight today: sound model development and use, effective validation, and strong governance and controls. Community banks later approached AI through this existing framework rather than through a wholly new supervisory regime. (Federal Reserve SR 11-7, 2011)

The Complete Historical Timeline

1955–1989	<p>The Foundations: AI Coined, Expert Systems Emerge</p> <p>The term "artificial intelligence" was coined in 1955 and formally established at the Dartmouth Conference in 1956. The 1980s brought expert systems to finance. In 1982, Applied Expert Systems introduced PlanPower, the first commercially available AI for financial planning. Chase Lincoln First Bank launched a Personal Financial Planning System in 1987. In 1989, FICO released its standardized credit scoring formula — still in use at every community bank today, and arguably the single most consequential AI deployment in banking history. By 1984, 42% of American families held ATM cards.</p>
1990s	<p>Rule-Based Fraud Detection and AML Compliance</p> <p>As electronic transactions proliferated, rule-based AI systems entered fraud detection. The FinCEN Artificial Intelligence System (FAIS) reviewed over 200,000 transactions per week and within two years identified approximately 400 potential money laundering cases worth nearly \$1 billion. This demonstrated at government scale that AI could provide meaningful compliance value. For community banks, this AI was invisible — embedded in card network and core banking infrastructure.</p>
2000s–2010s	<p>Machine Learning Displaces Rules; Cloud Democratizes Access</p> <p>Machine learning models replaced rule-based fraud detection — learning patterns from historical data rather than following fixed rules, improving continuously, detecting complex multi-dimensional fraud patterns no human analyst could codify. Cloud computing was the equalizing force — a community bank with a three-person IT team could access the same computational infrastructure as a megabank. For most community banks, this transition was transparent: AI inside existing vendor systems became more sophisticated without any bank action.</p>

2011

SR 11-7: The Model Risk Management Foundation

The Federal Reserve and OCC issued SR 11-7, establishing model risk management as the foundational framework for all quantitative models in banking — including AI. Three-part logic: sound model development and use, effective validation, and strong governance and controls. The OCC has explicitly stated in its Comptroller's Handbook that AI tools fall within SR 11-7's scope. The FDIC adopted equivalent guidance in 2017. This remains the primary regulatory framework governing community bank AI today.

2017–2020

Awareness Rises; Census Bureau Data Confirms 3x Adoption Surge

The 2017 Community Banking in the 21st Century survey captured the defining tension: community bankers wanted to provide "big bank technology" while preserving personal, relationship-based service. Census Bureau data confirmed the adoption surge: AI use rose from 14% of banks in 2017 to 43% by 2019 — a tripling in two years. In December 2018, FinCEN and five federal agencies jointly encouraged banks to use AI for BSA and AML compliance — the first explicit federal invitation to apply AI in a concrete bank compliance function.

2021–2022

Formal Regulatory Scrutiny and the ChatGPT Inflection

The watershed regulatory moment: OCC, Federal Reserve, FDIC, CFPB, and NCUA jointly issued a Request for Information on financial institutions' AI use. The RFI focused on explainability, fair lending, cybersecurity risk, and community banks' specific use cases. In 2022, CFPB Circular 2022-03 established that creditors using complex algorithms must still provide specific adverse action reasons — making explainability a legal requirement, not merely best practice. The public release of ChatGPT in November 2022 then reframed the entire conversation, making the invisible suddenly visible.

2023–2026

Production AI and Enterprise Governance

By 2023, the banking agencies issued final interagency TPRM guidance directly applicable to AI vendors. The OCC's 2025 Risk Perspectives confirmed fraud detection, document extraction, credit underwriting support, and customer personalization as active banking AI uses. Cornerstone Advisors' 2026 survey found 49% of community banks had deployed GenAI — tripled from 2025. ICBA launched a formal AI Task Force in early 2026. AI had moved from emerging topic to core operating strategy.

"Whether you call it AI or not, your card network has been using a neural network to find fraud for the last 15 years, probably longer. Generative AI may be the newest application of the technology, but well-established technologies like neural networks and machine learning also fall under the umbrella."

Greg Ohlendorf, President & CEO, First Community Bank and Trust, Beecher, Illinois · ICBA Independent Banker, 2025

Adoption Data: Where Community Banks Stand

What the surveys, Census Bureau data, and industry research actually say about AI adoption rates, investment levels, and the gap between community banks and larger institutions. Every statistic below is source-cited.

The Most Current Survey Data (2025–2026)

49%	of community banks have deployed GenAI — tripled from 2025 Cornerstone Advisors, What's Going On in Banking 2026 — 416 executives
59%	of credit unions have deployed GenAI, slightly ahead of banks in customer-facing AI Cornerstone Advisors 2026; CULytics survey data
27%	of CB leaders cite AI as their #1 concern in 2026, surpassing cybersecurity CSI 2026 Banking Priorities Survey — 252 leaders
47%	see AI for customer support as a top opportunity in 2025 (was 31% in 2024 — debut year) CSBS Annual Survey of Community Banks, 2025
>50%	of executive teams have agentic AI on their radar; actual deployment remains in single digits Cornerstone Advisors 2026
84%	of community banks plan technology budget increases in 2026 CSI 2026 Banking Priorities Survey

The Census Bureau Evidence: What AI Actually Does to Lending

CENSUS BUREAU RESEARCH FINDINGS (2025)

Banks with greater AI usage make significantly more loans to distant small business borrowers. A one-standard-deviation increase in AI use reduced the distance-lending penalty by 46-64%. AI-adopting banks also achieved lower default rates on those distant loans (58-72% reduction relative to the mean) and charged 17-25 basis points lower interest spreads. No similar effects occurred with cloud computing, other software, or hardware — highlighting AI's unique role in reducing information asymmetry. AI-using banks were not more likely to close branches, so this expansion of reach is additional market opportunity, not branch substitution. (Jeffery & Piao, Census Bureau Working Paper, 2025)

Investment Trajectory: Global AI in Banking (USD Billions)

Year	Global Financial Services AI	Banking Sector Share	GenAI Segment
2021	~\$18B	~\$11B	Negligible
2022	~\$25B	~\$15B	Negligible
2023	\$35B	\$20.65B	~\$0.8B
2024	\$45B	\$31.3B	\$1.26B
2025 (est.)	~\$63B	~\$42B	~\$2.2B
2027 (proj.)	~\$97B	~\$65B	~\$6B
2030 (proj.)	~\$190B	~\$130B	~\$21.8B

Sources: Finastra, Statista, McKinsey, nCino, industry consensus. GenAI banking CAGR projected at 33% through 2034.

THE ADOPTION GAP — AND WHY IT IS SMALLER THAN IT LOOKS

The most-cited statistic: 79% of banks over \$250B have active GenAI projects versus ~40% of banks under \$10B. This gap is real. But it is less alarming than it appears: every community bank issuing Visa or Mastercard cards is already using neural network fraud detection active for 15+ years. Every bank originating conforming mortgages uses Fannie Mae Desktop Underwriter — an AI-powered model. Every bank on Fiserv, Jack Henry, or FIS has ML-powered AML monitoring embedded in their standard service. The adoption gap primarily reflects the absence of intentional GenAI strategy — not the absence of AI itself.

SECTION FOUR

Deployed AI Use Cases in Community Banking

Every confirmed, currently active AI use case in community banking organized by function. "Dependably deployed" means the use case appears in active regulator descriptions, community bank surveys, or documented implementations. This is a verified inventory, not a wish list.

DOMAIN 1 Fraud Detection & Financial Crime Prevention

The oldest, most deeply embedded, and most universally deployed AI application in community banking. OCC Spring 2025 Risk Perspective explicitly lists real-time fraud and anomaly detection as current banking AI uses.

#01 — Universal Card Transaction Neural Network Scoring	Every Visa/Mastercard-issuing community bank. Neural networks score each transaction in real time — assessing geography, velocity, merchant category, and behavioral patterns. 90-99% accuracy vs. 60-70% for rule-based systems. Active invisibly inside card processing for 15+ years.
#02 — Widespread AI Check Fraud Detection & Image Analysis	Computer vision detects altered checks, forged signatures, and duplicate presentments across 23 data points. Texas National Bank prevented \$377,000 in check fraud within two months using Abrigo Fraud Detection.
#03 — Widespread AML Transaction Monitoring (ML-Enhanced)	American Bank (LA) using Abrigo BAM+: 75-80% efficiency improvement, clean regulatory exam. ML flags structuring, unusual velocity, and network relationships that rules-based systems miss.
#04 — Active Account Takeover & Behavioral Risk Detection	AI platforms combine identity, behavioral, transactional, and device signals to flag ATO risk in real time. BioCatch reports 99.5% account takeover detection accuracy.
#05 — Active Wire Transfer Fraud Screening (ML Hybrid)	Rule + ML hybrid systems detect first-time beneficiaries, unusual timing, modified templates, and BEC-consistent behavioral patterns. Active at nearly all community banks processing wires.
#06 — Growing Synthetic Identity Detection at Account Opening	Vendors including Socure, Alloy, and Mitek use ML to correlate document authenticity, behavioral signals, and identity graph data. Synthetic identity fraud surged 18% in 2024.
#07 — Universal OFAC / Sanctions Screening	AI-powered sanctions matching against OFAC lists. Mandatory regulatory requirement active at essentially all U.S. community banks that process wire transfers or open accounts.

#08 — Widespread CTR, SAR & 314(a) Workflow Automation	American Bank's AML deployment supports the full BSA program. Automated monitoring improves exam readiness and evidence quality. Represents AI embedded in repeatable compliance operations, not experimental pilots.
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DOMAIN 2 Lending, Credit & Underwriting

The OCC lists components of credit underwriting among current banking AI uses. The strongest current deployments are assistive — helping loan officers gather better information faster, not replacing their judgment.

#09 — Universal FICO Credit Scoring (Consumer & Small Business)	Every community bank that pulls a credit report uses an AI-powered predictive model. FICO's algorithmic scores have been in production since 1989. The most universal AI deployment in banking history.
#10 — Universal Fannie Mae Desktop Underwriter (DU)	Used by virtually all community banks originating conforming residential mortgages. DU uses thousands of data points and predictive AI models. Most community bank mortgage underwriters interact with AI every time they process a loan — without calling it that.
#11 — Active Generative AI Lending Assistants (SBA / Small Business)	Bankwell Bank's Casca/Sarah raised SBA loan conversion from below 10% to 81%. Available 24/7, guides applicants, collects documentation, handles Friday-night inquiries when loan officers are unavailable.
#12 — Active ML-Powered Cash Flow Credit Assessment	Seattle Bank adopted JUDI.AI's ML credit model using real-time, customer-permissioned transaction data. Identifies creditworthy businesses that conventional underwriting declines.
#13 — Active Re-Underwriting Previously Declined Applications	Kansas community bank case study: Used AI risk model to re-evaluate declined loans. Approximately 18% were approved; under 3% of those went delinquent within 12 months. Demonstrates material safe lending expansion.
#14 — Widespread Financial Statement Extraction & Spreading	AI OCR + NLP extracts structured data from tax returns, financial statements, and appraisals — populating LOS fields automatically. Reduces loan file processing time 60-80%. Available through nCino, Abrigo, Biz2X.
#15 — Active Portfolio Monitoring & Early Warning	AI scans loan portfolios for early stress signals: payment pattern changes, overdraft frequency, deposit outflows, sector deterioration. M&T; Bank adopted nCino's Continuous Credit Monitoring with explainable AI.

DOMAIN 3 Customer Service & Virtual Assistants

CSBS 2025 survey: AI for customer support at 47% of community banks — up 16 percentage points from its 2024 debut. Approximately 30% of banks under \$3B in assets have implemented or plan chatbot technology.

#16 — Active GenAI Voice AI Replacing Traditional IVR	Great Lakes CU deployed Interface.ai's "Olive" in August 2023. Call containment rose from 25% to 75% after hours. COO testified at U.S. Congressional hearing on AI Innovation in Financial Services.
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#17 — Active Digital Banker Matching & Human Handoff	BAC Community Bank launched Agent IQ "Smart ALAC" chatbot in April 2022. AI answers questions then matches customers with a specific BAC banker — preserving the relationship banking model.
#18 — Active Secure Dedicated Banker Chat with Document Sharing	Rockland Trust/Agent IQ "YourBanker": customers chat and share documents securely with their own dedicated banker. ICBA presents this as an active case study of AI that strengthens the relationship model.
#19 — Active Multilingual AI for Financial Inclusion	Interface.ai launched Spanish language voice banking for GLCU following English deployment. AI switching to browser-detected customer language serves immigrant and agricultural community populations.
#20 — Active AI Co-Pilot for Call Center Agents	AI surfaces knowledge-base articles, policies, and cross-sell suggestions in real time as agents handle calls. Used by Posh AI clients including Ion Bank, Harvard FCU, and Chartway Credit Union.

DOMAIN 4 Compliance, BSA/AML & Regulatory

Treasury 2024 AI report confirms AI has a long-standing history in compliance management across financial firms. The OCC lists regulatory compliance management as an area where AI may help.

#21 — Active Large Regulatory Document Summarization	LLMs read large rulemakings and produce structured guidance for compliance professionals. Example: the CFPB small business lending rule exceeded 1,200 pages. AI produces structured summaries in minutes.
#22 — Active Compliance Workflow Automation	ICBA's 2026 Finosec announcement describes automated workflows for repeatable governance tasks: control reviews, policy updates, vulnerability tracking, committee reporting, and task management.
#23 — Active 100% Call Center Quality Monitoring	Community bank serving ~145,000 customers: Contact Lens AI monitored 100% of calls vs. 3% manual sampling. Result: \$100,000 annual compliance cost savings + \$108,000 in fraud losses prevented.
#24 — Active Policy & SOP Standardization via LLMs	Bankwell Bank piloted Senso's LLM platform to identify gaps and conflicts in SBA lending policies. LLMs identified inconsistencies that manual review had missed.

DOMAIN 5 Back-Office Operations & Process Automation

OCC explicitly lists document reading and information extraction as current banking AI uses. CSBS 2025 community bank narrative responses mention AI for operational efficiency.

#25 — Widespread Loan Package Intake & Document Extraction	AI OCR + NLP extracts key information from submitted documents and pushes it into underwriting or LOS workflows. Reduces loan file processing time 60-80%. Human error causes 52% of operational incidents.
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#26 — Growing Email Triage & Intelligent Routing	AI scans incoming email to identify intent, urgency, and routing destination. Lost debit card emails flagged as high-priority security; address changes routed to back office.
#27 — Active RPA + AI Account Reconciliation	Robotic Process Automation combined with AI automates account reconciliation, general ledger entries, and exception reporting. Vendors including SS&C; Blue Prism, Automation Anywhere, and UiPath serve community banks through core provider partnerships.

DOMAIN 6 Internal Productivity, Marketing & Employee Tools

OCC Fall 2025 risk report: GenAI use cases have largely been internal facing — employee efficiency, coding, call center assistance, knowledge base support, and document creation. Fastest-growing category.

#28 — Active Internal Help Desk & Knowledge Base AI	Unity Bank uses AI for help desk functions, business processes, and data analytics. Staff query AI for policy answers, product details, and procedure guidance.
#29 — Active AI Policy Drafting & Document Creation	Unity Bank cited using AI for creating policies. Microsoft Copilot deployed across community banks for loan narrative drafting, meeting summaries, and first drafts of customer correspondence.
#30 — Active Marketing Content Generation	Community Spirit Bank's Emily Mays: AI writing tools save substantial time for her one-person marketing department. Better Banks uses Grammarly for grammar/clarity and Jasper.ai for ideation.

Named Case Studies: Community Banks in Production

Specific community banks, credit unions, and regional institutions with documented, verified AI deployments and measurable results. These are production outcomes — not projections or pilots.

Texas National Bank

Texas · Community Bank

FRAUD PREVENTION

Deployed Abrigo Fraud Detection for AI-driven check fraud detection using image analysis and customer profile comparisons across 23 data points. The system identifies altered checks, abnormal patterns, and high-risk items for review in real time. Real-time customer approval texts provide instant transaction notification. Chief Risk Officer described the value as identifying "the needle in the haystack" so the team can focus on actionable alerts. One of the clearest documented community bank fraud ROI cases.

Result: Prevented \$300,000+ in check fraud within first months; subsequent case study cited \$377,000 prevented within two months. Vendor: Abrigo.

American Bank

Louisiana · Community Bank

BSA / AML COMPLIANCE

Implemented Abrigo BAM+ for comprehensive AML program automation. The system supports 314(a) scans, Currency Transaction Reports, SAR workflows, and automated suspicious activity monitoring. Eliminated labor-intensive manual spreadsheet methods and dramatically improved documentation quality for regulatory examinations. One of the clearest documented ROI cases in community banking compliance AI.

Result: 75-80% efficiency improvement in AML operations. Regulatory exam with no significant findings after implementation. Vendor: Abrigo.

Bankwell Bank

New Canaan, CT · \$3.5B Assets

GENAI LENDING

Deployed Casca's generative AI lending assistant "Sarah" for SBA 7(a) small business lending. Potential borrowers complete a web form; Sarah engages them 24/7 via email, explains requirements (including what an EIN is), collects missing documentation, and guides them through prequalification. Available at 11:30 p.m. on Fridays when loan officers are unavailable. Chief Innovation Officer Ryan Hildebrand: "The first time we sent the first message, about five weeks ago, everything changed." Also piloted Senso's LLM platform for SBA policy standardization — LLMs identified gaps that manual review had missed. Both Huntington National Bank and Live Oak Bank invested in Casca's \$29M Series A following Bankwell's pilot results.

Result: Loan application conversion rate rose from below 10% to as high as 81%. Lead quality 5-6x higher than organic marketing. Vendors: Cascading AI (Casca), Senso. American Banker, February 2024.

Seattle Bank

ML UNDERWRITING

Seattle, WA · Community Bank

Adopted JUDI.AI's small-business-specific machine learning credit model using real-time, customer-permissioned bank transaction data. Unlike traditional models reliant on tax returns and financial statements, JUDI.AI analyzes live cash flow patterns to identify creditworthy businesses that conventional underwriting declines. Addresses the core limitation of relationship-based community bank lending: the time and labor cost of gathering and assessing borrower financial health in competitive timeframes.

Result: Improved credit decisioning accuracy for small businesses with limited traditional credit history; expanded addressable lending market. Vendor: JUDI.AI. Year: 2023.

Unnamed Kansas Community Bank

AI RE-UNDERWRITING

Kansas · Community Bank

Used an AI risk model to re-evaluate previously declined loan applications — addressing a common community bank challenge where manual credit processes can be overly conservative. AI identified creditworthy borrowers who did not fit rigid parameter models but who AI could identify as genuinely low risk through broader data analysis including behavioral and cash flow signals unavailable in traditional credit review.

Result: Approximately 18% of previously declined loans were later approved under AI-assisted review. Under 3% of those approved loans went delinquent within 12 months. Source: Perplexity research, 2026.

Great Lakes Credit Union

GENAI VOICE AI

North Chicago, IL · Community-Scale CU

Replaced traditional IVR system with Interface.ai's generative AI voice assistant "Olive" in August 2023, integrated with Jack Henry Symitar core banking platform. Olive handles the full range of member inquiries — account balances, transaction history, transfers, card controls, and more — using graph-grounded and generative AI technologies. COO Elizabeth Osborne testified at a U.S. Congressional hearing on AI Innovation in Financial Services about the results. Spanish language voice AI integration planned to expand accessibility.

Result: Call containment rose from 25% (traditional IVR) to 60% during business hours and 75% after hours — a 200-300% improvement. Staff report higher job satisfaction. Vendor: Interface.ai. Interface.ai, October 2024.

BAC Community Bank

CHATBOT + BANKER MATCH

Community Bank · Active since April 2022

Launched Agent IQ's "Smart ALAC" chatbot in April 2022, serving both authenticated and unauthenticated users differently. Also deployed an AI-powered app that answers customer questions then matches the customer with a specific BAC banker as their assigned contact. This architecture preserves the relationship banking model — AI handles the routine, humans handle the relationship. One of the earliest documented community bank GenAI customer service deployments to remain in active production.

Result: Active production deployment since April 2022 — three-plus years of operation. AI supports relationship banking rather than replacing it. Vendor: AgentIQ.

Rockland Trust

DEDICATED BANKER AI

Community / Regional Bank

Partnered with Agent IQ to launch "YourBanker" — letting customers chat and share documents securely with their own dedicated banker through mobile or desktop. AI provides the infrastructure for persistent, banker-assigned digital relationships. ICBA presents this as an active case study of AI that strengthens rather than replaces the community bank relationship model.

Result: Active production deployment. Enables digital relationship banking with dedicated banker assignment. Vendor: AgentIQ.

Ion Bank / Harvard FCU / Chartway CU

CONVERSATIONAL AI

Naugatuck CT · Cambridge MA · Virginia Beach VA

Ion Bank selected Posh AI after rigorous evaluation. Deployed voice and digital assistants with SOC2 Type II compliance and CSA STAR Level 1 certification. Harvard FCU SVP Tom Montilli described Posh as "a true partner that shows up, solves hard problems, and builds secure AI you can rely on today." Chartway CU VP Rob Keatts: the implementation "disproved myths, surprised stakeholders, and opened new paths for innovation." All three report staff are more engaged as AI handles repetitive interactions.

Result: Active deployments across all three institutions. Staff engagement improvement documented. SOC2 Type II + CSA STAR Level 1 certified. Vendor: Posh AI.

First Community Bank and Trust

AI GOVERNANCE PIONEER

Beecher, IL · Community Bank

CEO Greg Ohlendorf became one of the most cited community bank AI governance practitioners after developing the bank's first formal AI policy in 2023. Revised at least five times within two years, growing from half a page to three pages as the AI landscape evolved. The governance process included a systematic vendor audit that revealed AI features embedded in existing software the bank had not previously identified — AI features were "on by default" in multiple platforms. This discovery challenge is common across community banking.

Result: Model AI governance policy cited as best practice by ICBA. Vendor audit revealed previously unrecognized AI deployments. Policy now 3 pages, revised 5+ times, reviewed annually. ICBA Independent Banker, 2025.

Unnamed Community Bank (~145,000 Customers)

100% CALL MONITORING

U.S. Community Bank

Deployed Contact Lens AI (Amazon) for comprehensive call center quality assurance. Moved from 3% manual call sampling to 100% coverage for FINRA and regulatory audit readiness. AI transcribes and scores calls for script adherence, fair-lending language, complaints, and potential misconduct. Integrated fraud detection alerts from call pattern analysis provided unexpected additional ROI in the first year of deployment.

Result: \$100,000 in annual compliance cost savings. \$108,000 in fraud losses prevented. 100% call coverage vs. 3% manual baseline. First-year ROI achieved. Source: Perplexity research, 2026.

The Regulatory Landscape

What community bank leadership needs to know about AI oversight — the existing frameworks that apply, the guidance that has been issued, and what examiners are asking today.

The Governing Architecture: Four Layers

Community banks do not face a single AI rulebook. They operate within a layered framework of existing banking law, model risk guidance, consumer protection requirements, and third-party risk management standards — all of which apply to AI systems.

<p>Layer 1 — Foundation Model Risk Management (SR 11-7 / OCC Bulletin 2011-12)</p>	<p>Issued by Federal Reserve and OCC in 2011, adopted by FDIC in 2017. Requires sound model development and use, effective validation, and strong governance and controls — applied proportionately. The OCC has explicitly stated in its Comptroller's Handbook that AI tools fall within SR 11-7's scope. In October 2025, OCC issued explicit clarification to community bank examiners emphasizing the flexibility inherent in the existing guidance for community banks using vendor AI tools.</p>
<p>Layer 2 — Consumer Protection ECOA, Fair Housing Act & CFPB Circular 2022-03</p>	<p>The Equal Credit Opportunity Act and Fair Housing Act apply to AI-driven lending decisions. CFPB Circular 2022-03 states that creditors using complex algorithms, including AI or ML, must still provide specific principal reasons for adverse action. Algorithmic complexity does not change the legal requirement for specific and accurate adverse action notices under ECOA and Regulation B. Explainability is a legal requirement, not merely best practice — and it is enforced today.</p>
<p>Layer 3 — Vendor Relationships Interagency Third-Party Risk Management Guidance (2023)</p>	<p>Published jointly by the Federal Reserve, FDIC, and OCC in 2023. Establishes that engaging third-party vendors to provide AI services does not reduce a bank's model risk management obligations or regulatory compliance responsibilities. Banks must conduct due diligence on AI vendors, maintain audit rights, constrain data use, and obtain model documentation. A 2024 community bank-specific guide was published for applying these standards to fintech AI relationships.</p>
<p>Layer 4 — Emerging Frameworks NIST AI RMF & Treasury 2024 AI in Financial Services Report</p>	<p>Treasury's December 2024 report recommended continued coordination to clarify supervisory expectations, more AI-specific information sharing, and greater support for smaller firms' technology capabilities. NIST AI RMF 1.0 and the 2024 Generative AI profile provide cross-sector structure around governance, mapping, measurement, and management. ICBA argues existing frameworks suffice and opposes overly prescriptive new rules.</p>

Key Regulatory Milestones

Year	Regulator	Action	Community Bank Implication
2011	Federal Reserve / OCC	SR 11-7 Model Risk Management	Foundational AI governance framework. Still primary reference today.
2018	FinCEN + 5 Agencies	Joint AML/BSA innovation statement	First federal invitation to use AI in bank compliance functions.
2021	5 Agencies (RFI)	Interagency Request for Information on AI	Formal regulatory fact-finding. Set priorities on explainability, fair lending, third-party AI oversight.
2022	CFPB	Circular 2022-03 on adverse action	Explainability is a legal mandate in AI-assisted lending. Enforced today.
2023	Fed / FDIC / OCC	Interagency TPRM Guidance	Vendor AI subject to same oversight standards as proprietary AI. Bank accountability does not transfer.
Oct. 2025	OCC	Bulletin 2025-26: MRM Community Bank Clarification	Proportionality emphasized for community banks using vendor AI tools.
2026	ICBA	AI Task Force launched; NIST input submitted	Industry self-governance. ICBA urged "Know Your Agent" standards for agentic AI.

WHAT EXAMINERS ARE ASKING TODAY

Based on OCC, Federal Reserve, and FDIC guidance through early 2026, community bank examiners are now explicitly asking: (1) What AI is the bank using, including through vendors? (2) How is the bank applying MRM standards to vendor-supplied AI? (3) Has the bank conducted fair lending testing on any AI used in credit decisioning? (4) Does the bank's AI governance documentation demonstrate board-level oversight? (5) What does the bank know about how its vendors use customer data in AI training? Banks that cannot answer these questions concisely and confidently will face examination findings.

Challenges Unique to Community Banks

The structural constraints that make AI adoption more complex for community banks than for megabanks — and what to do about each one. These are not reasons to defer. They are factors to plan around.

HIGH PRIORITY	<p>Core Service Provider Dependence</p> <p>Three firms — Jack Henry, Fiserv, and FIS — serve over 70% of depository institutions. For most community banks, AI capability is literally gated by their core provider's product roadmap. The ABA's 2024 Core Platforms Survey found overall satisfaction at just 3.19 out of 5, with innovation capabilities scoring even lower. There are documented cases of banks requesting AI-enhanced features and being told they are "on the roadmap" with no committed timeline — while fintech competitors capture market share. Strategic response: engage core providers in writing, demand AI roadmaps with timelines, and evaluate middleware and API-based alternatives.</p>
HIGH PRIORITY	<p>Data Infrastructure & Legacy Systems</p> <p>More than 90% of data users at banks report the data they need is often unavailable or takes too long to retrieve. 81% cite data quality as a top challenge. Community banks run on core systems not designed for AI integration — APIs are limited, data extraction is often batch-based, and customization is constrained. BNY's 2025 Voice of Community Banks Survey identified adequate data management as one of three primary ongoing challenges. Strategic response: treat data quality remediation as a prerequisite, not a parallel activity, to AI deployment.</p>
HIGH PRIORITY	<p>Limited IT Capacity & Talent Gap</p> <p>One in four community banks reports difficulty attracting compliance and technology talent. Megabanks have dedicated data science teams and innovation labs. Community banks typically have generalist IT staff managing everything from network security to printer maintenance. Three mitigation strategies: outsourcing AI oversight to managed service providers; partnering with Community Bank Service Organizations for shared AI governance; and upskilling existing IT staff rather than competing for scarce AI talent in the open market.</p>
SIGNIFICANT	<p>Regulatory Compliance Cost Compounding</p> <p>Regulatory compliance represents the primary barrier for 38% of community banks. AI adds compliance obligations on top of existing ones: model risk management, third-party risk management, fair lending, BSA/AML, and data privacy regulations all have AI implications. Only 26% of consumers say they trust organizations to use AI responsibly — a customer trust deficit that is particularly acute for community banks whose brand equity rests on exactly that trust.</p>
SIGNIFICANT	<p>Third-Party Vendor Opacity & Contract Gaps</p> <p>Treasury's 2024 report notes smaller firms may lack both bargaining power and in-house expertise to fully assess vendor AI systems. Standard vendor contracts were not designed to address AI-specific risks: model ownership, data use limitations, explainability obligations, accuracy warranties, discrimination liability, and regulatory compliance representation. Community banks entering AI vendor relationships on standard SaaS agreements will find critical protections missing when problems arise. All AI vendor agreements require specialized legal review.</p>

Vendor Reference Matrix

Every confirmed AI vendor actively serving the community bank market as of early 2026, with primary capability, community bank use case, and deployment status. Use as a starting point for vendor engagement — not an endorsement of any platform.

VENDOR GOVERNANCE OBLIGATION

The 2023 Interagency Guidance on Third-Party Relationships establishes that engaging third-party vendors does not reduce a bank's AI risk management obligations. Leadership must elevate AI vendor relationships to the category of critical third parties, conduct due diligence including model documentation review, negotiate data use restrictions into contracts, and establish contingency plans for vendor failure. (Interagency TPRM Guidance, 2023)

Vendor / Platform	Primary AI Capability	Community Bank Use Case	Status
Jack Henry & Associates	Agentic automation, fraud visualization, conversational AI (Banno)	Core-integrated fraud, customer engagement, RTP (~20% of U.S. banks)	Active — agentic rollout 2024-25
Fiserv	ML fraud detection, AML analytics, virtual banking assistant, CheckFree intelligence	Fraud, AML, customer service, analytics. Serves 40%+ of U.S. banks.	Active — CoreAdvance modernization
FIS	AI analytics, fraud, AML, digital banking intelligence (Horizon platform)	Fraud monitoring, credit risk, compliance	Active — platform modernization
Cascading AI (Casca)	GenAI lending assistant "Sarah" for SBA and small business	Loan conversion 10% to 81% at Bankwell. SBA 7(a) automation. 24/7.	Active — Bankwell, Huntington, Live Oak. \$29M 2025.
Interface.ai	GenAI voice AI, digital banking chatbot (BankGPT platform)	25% to 75% call containment at GLCU. Congressional testimony. Multilingual.	Active — GLCU and growing CB client base
Posh AI	Conversational AI — voice, digital, knowledge. SOC2 Type II certified.	Ion Bank, Harvard FCU, Chartway CU. Staff engagement improvement.	Active — community banks and CUs
AgentIQ (Lynq)	Persistent digital relationship banking with AI self-service	BAC Community Bank (2022), Rockland Trust YourBanker. Banker-assigned model.	Active — CB clients nationally
JUDI.AI	ML small business credit using real-time cash flow data	Alternative data underwriting. Identifies creditworthy businesses conventional models decline.	Active — Seattle Bank and others

Vendor / Platform	Primary AI Capability	Community Bank Use Case	Status
nCino	AI credit monitoring, loan origination, explainable AI	Credit risk, CECL, commercial lending. M&T; Bank Continuous Credit Monitoring.	Active — 2,700+ customers
Abrigo (Sageworks)	ML credit risk, CECL, fraud detection, AML monitoring, portfolio analytics	Check fraud (Texas National, \$377K prevented), AML (American Bank, 75-80% efficiency)	Active — 2,500+ financial institutions
Rich Data Corp.	AI-powered credit decisioning platform	Small business and commercial credit decisioning with broader data analysis	Active — M&T; Bank partnership 2024
Senso	LLM for policy and SOP standardization, gap identification	SBA and lending policy analysis — identified gaps manual review missed at Bankwell	Active — Bankwell pilot 2024
Numerated	AI small business loan origination and data centralization	Small business lending efficiency. Centralizes and standardizes borrower data.	Active — CB and regional banks
Biz2X	AI financial statement collection and spreading	Commercial loan document extraction. Reduces manual data entry in underwriting.	Active — hundreds of CB clients
Alloy	ML identity verification and fraud risk scoring	Digital account opening KYC, fraud prevention. API-integrated.	Active — CBs with digital onboarding
Socure	AI identity graph and synthetic fraud detection	Account opening fraud, synthetic identity prevention (surged 18% in 2024)	Active — financial institution clients
BioCatch	Behavioral biometric authentication AI	Account takeover prevention — 99.5% ATO detection accuracy. Continuous auth.	Active — hundreds of FI clients
Feedzai	ML fraud detection across all payment rails	Real-time transaction fraud monitoring — ACH, wire, debit, credit, RTP	Active — CB and regional banks
Visa AI / Mastercard AI	Neural network transaction scoring in card processing	Card fraud detection. 90-99% accuracy. 60% false positive reduction vs. rules.	Universal — ALL Visa/MC issuing CBs
Fannie Mae DU	Predictive AI mortgage underwriting	Conforming residential mortgage origination. Used daily by all FNMA originators.	Universal — all FNMA-approved CBs
FICO	Algorithmic credit scoring (FICO Score, FICO SBSS)	Consumer and small business credit underwriting. In production since 1989.	Universal — every CB credit report pull

Vendor / Platform	Primary AI Capability	Community Bank Use Case	Status
Wolters Kluwer	AI CRA/HMDA analysis, compliance automation	Regulatory compliance, data quality monitoring, fair lending analysis	Active — CB compliance clients
Microsoft Copilot	GenAI productivity tools integrated into Microsoft 365	Loan narratives, compliance research, correspondence. Requires bank AI policy governance.	Growing — CBs with M365

FIVE DUE DILIGENCE QUESTIONS FOR EVERY AI VENDOR

Federal Reserve and OCC guidance expects community banks to answer five questions about every AI vendor: (1) What customer data leaves the bank, and where does it go? (2) How are AI model outputs tested for accuracy and bias? (3) Who owns the model's errors and the resulting bank liability? (4) What documentation exists to support regulatory examinations? (5) How does the bank exit the relationship if the vendor fails or the model produces unacceptable outcomes?

Forecast: The Trajectory of AI in Banking Through 2030

Where the evidence from McKinsey, Deloitte, Oracle, Cognizant, Finastra, SAS, KPMG, and Bank of America says AI in banking is going — five phases, three scenarios, and the structural forces shaping the path.

The Five-Phase Trajectory (2026–2035)

Phase 1 · Now–2026 From Pilot to Production

The death of the proof-of-concept era. Oracle describes 2026 as "pivotal" — the year banks move from pilot projects to deploying "production-scale, autonomous, and carefully governed AI agents." GenAI tools double in capability roughly every 100 days, meaning the technology available in early 2029 will be approximately eight times more capable than what exists today. Key signals: GenAI lending assistants in production, agentic AI pilots launching, 44% of finance teams now using agentic AI. The window to establish production AI infrastructure before the capability gap becomes insurmountable is closing fast.

Sources: Oracle Financial Services Dec 2025; Cognizant "2026: The Year AI Gets Real"; Deloitte Banking Outlook 2026

Phase 2 · 2026–2028 The Agentic Operating Layer

Banks deploy fleets of specialized, domain-specific AI agents orchestrating end-to-end services with minimal human intervention at each step. Finastra: agentic AI will drive 20% increase in operational efficiency. KPMG: companies using AI agents report 55% higher operational efficiency and 35% average cost reduction. McKinsey estimates 50-60% of bank FTEs are tied to operations — the domain most amenable to agentic automation. Deloitte projects 50% of GenAI-adopting companies will deploy agentic AI pilots or POCs by 2027.

Sources: Finastra 2026; KPMG Agentic AI Research 2025; McKinsey Agentic Operations Research; Deloitte

Phase 3 · 2027–2030 Hyper-Personalization as the Standard Interface

By 2030, the bank that knows each customer's individual financial life as well as their best advisor — at individual scale, not segment scale — will be the competitive standard, not the exception. AI handles 70% of customer interactions. Banks implementing AI-driven personalization will see 25-35% increase in product adoption, 40% improvement in customer satisfaction, and 15-20% revenue growth per customer. \$1 trillion potential industry savings by 2030 from conversational AI.

Sources: Backbase Banking Predictions 2026; Celent forecasts; McKinsey customer experience research

Phase 4 · 2028–2032
The "Do It For Me" Economy

Citigroup describes what is coming: AI agents don't just advise — they act. An agent monitors cash flow, negotiates a better mortgage rate, rebalances investments, files disputed charges, and optimizes taxes without the customer initiating each action. Bank of America research: agentic AI "may ultimately alter bank operations reliant on human capital and spark a corporate efficiency revolution that transforms the global economy." U.S. bank headcount has dropped 3% since June 2023 as AI hiring rose 24% — this trend accelerates.

Sources: Bank of America Research 2025; Citigroup Research 2025; Evident Insights

Phase 5 · 2030–2035+
Quantum-AI Integration

Cognizant/AWS "Banking in 2035": "digital-first" is no longer enough — banks must become "technology-infused." JPMorgan Chase's quantum team generated "truly random numbers" with a quantum computer in 2025. The World Economic Forum warns that sensitive financial data can be "harvested today and decrypted later" — making post-quantum cryptographic migration an immediate planning requirement even though the quantum break is years away. NIST has finalized its first post-quantum cryptographic standards.

Sources: Cognizant/AWS Banking in 2035; WEF Quantum Finance 2026; SAS Banking Predictions 2026

Three Scenarios: What Determines Outcomes Through 2030

Dimension	Scenario A: Bold Integration (~30%)	Scenario B: Managed Evolution (~45%)	Scenario C: Fragmented Lag (~25%)
AI Adoption Speed	Rapid, institution-wide, governed from start. AI in core architecture by 2028.	Methodical, use-case by use-case. Meaningful deployment by 2028 in high-ROI areas.	Pilot purgatory persists. Meaningful deployment delayed to 2030+.
Competitive Position	15%+ greater market share captured. Fintech competition absorbed through partnership.	Reasonable competitive standing. Some segment losses to fintechs offset by AI efficiency gains.	Accelerating market share loss in small business, mortgage, retail deposits. M&A; pressure intensifies.
Operating Cost	25-35% operational cost reduction by 2030. Efficiency ratios improve dramatically.	10-15% cost reduction. Gradual improvement. Headcount stable with role reshaping.	Rising compliance and technology costs without offsetting AI efficiency gains.
Fraud & Security	AI-powered defense keeps pace with offense. False positive rates cut 50%+.	Mixed defense posture. Periodic losses before defenses catch up.	AI fraud attacks accelerate against legacy defenses. Losses significantly above industry average.
Regulatory Outcome	Strong governance positions bank as trusted AI deployer. Smooth examinations.	Compliance maintained. Some remediation costs as guidance evolves.	Examination findings on model risk. Fair lending concerns from unvalidated AI tools.

THE COMMUNITY BANK SPECIFIC FORECAST

Community banks face the same AI future as megabanks — but through a different lens. The adoption gap is real: 79% of banks over \$250B have active GenAI projects vs ~40% of banks under \$10B. But most community banks already use AI in their most consequential processes through core provider and card network infrastructure. The question is whether they govern that AI deliberately and extend it strategically. AI's highest value for community banks is not replacing relationship banking — it is amplifying it. A loan officer with better data, faster turnaround, and proactive early-warning alerts is a more effective relationship banker, not a diminished one.

Building an AI Governance Framework

What community bank AI governance looks like in practice — what the board needs, what compliance needs, and the elements of a framework that will satisfy examiners and protect the institution.

First Priority: Conduct a Vendor AI Audit

The near-term risk in most community banks often comes not from AI they chose to implement, but from AI that arrived through vendor feature updates, employee use of general-purpose tools, and embedded software capabilities activated by default. First Community Bank and Trust's audit revealed AI features in existing software that the bank had not previously recognized. Leadership should assume AI activity already exists across operations, service, compliance, and administration.

STARTING POINT: THE VENDOR AI AUDIT

Review every third-party software contract and platform configuration for AI features. Contact each core provider, digital banking vendor, lending system vendor, compliance software vendor, and fraud platform in writing. Ask: (1) Does your platform include AI features? (2) Which are enabled by default? (3) What data do they use? (4) How do outputs get generated? (5) What documentation is available for examination? Most community banks will discover 8-15 AI-powered tools currently active without formal governance.

AI Governance Framework Components

Component	What It Covers	Owner	Review Cadence
AI Inventory	Every AI system in use — proprietary, vendor-embedded, and employee-accessed. Name, function, data inputs, output type, approval status.	CIO / CRO	Quarterly update; immediate notification of new deployments
AI Use Case Tiering	Classification by risk: (1) Immediate value — fraud, employee assistance; (2) Controlled pilot — customer interactions, lending; (3) Deferred — autonomous decisioning.	AI Governance Committee	Reviewed with each new use case request
Vendor Due Diligence Standards	Minimum requirements: model documentation, validation evidence, data use restrictions, bias testing results, regulatory compliance representation, exit provisions.	CRO / Compliance	Initial procurement + annual review

Component	What It Covers	Owner	Review Cadence
Fair Lending Testing Protocol	For any AI used in lending: disparate impact testing across race, gender, age, and national origin. Documentation of methodology, results, and remediation.	Compliance / CLO	Pre-deployment + semi-annual monitoring
Employee Usage Policy	Which AI tools employees may use, for what purposes, with what data, and with what review requirements before AI-generated content is used externally or in regulatory contexts.	HR / Compliance / CIO	Annual review; updated when new tools approved
AI Incident Response Plan	Distinct from IT incident response. Covers: model failures producing wrong outputs, bias events discovered post-deployment, deepfake fraud events, vendor AI failures.	CRO / CISO	Annual tabletop exercise; updated after incidents
Board Reporting Dashboard	Quarterly reporting: current AI inventory, use cases approved/piloted/deferred, any incidents or examiner observations, vendor audit status, upcoming decisions.	CEO / CRO	Quarterly to the board
AI Output Record Retention	Policy covering AI-generated communications, loan denial letters, compliance reports. What model produced it, what inputs it received, whether human reviewed it, retention period.	Compliance / Legal	Established before deploying content-generating AI tools

BOARD OVERSIGHT: THE PRACTICAL STANDARD

Banking examiners are now explicitly asking boards to demonstrate meaningful AI oversight. Best-practice community bank boards in 2026 are doing four things: (1) receiving quarterly AI dashboards showing the inventory, risk tier, and any examiner observations; (2) approving major AI use cases and vendor contracts above defined dollar thresholds; (3) participating in annual AI education sessions on model risk, fair lending, and third-party AI risk; and (4) establishing a clear governance mechanism — whether a dedicated committee or standing board agenda item — for AI risk oversight. (OCC Bulletin 2025-26, October 2025)

90-Day Leadership Action Plan

Concrete, sequenced actions for community bank leadership organized by function. What to do in the next 90 days, with the evidence behind each priority. Highest-urgency items appear first within each role.

OVERALL POSTURE FOR THE NEXT 90 DAYS

For most community banks in early 2026, the strongest AI posture is targeted augmentation tied to customer service, fraud control, and efficiency — with measured pilots in lending support. This fits current adoption patterns, the relationship banking model described by Federal Reserve leadership, and the risk tolerance appropriate for regulated institutions.

Board of Directors

- 1 Schedule a structured AI education session in the next 60 days covering: what AI is currently in use at the bank, regulatory expectations for board oversight, fair lending implications of AI in lending decisions, and the strategic competitive context. Examiners will ask about this.
 - 2 Request a current-state AI inventory from management: what AI systems are active, what data do they use, which are governed, which are not. Most boards will discover AI running without their knowledge.
 - 3 Establish a board-level AI governance mechanism — whether a standing agenda item, dedicated committee, or expanded audit committee scope — with defined reporting cadence and clear accountability.
 - 4 Approve an AI investment threshold policy: what dollar level of AI commitment requires board approval. Multi-year contracts, data infrastructure upgrades, and new critical vendor relationships should be board-approved.
 - 5 Receive a briefing on the stablecoin deposit competition risk and OCC national trust charter proposal before the comment period closes (May 1, 2026). This is a funding story, not just a technology story.
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Chief Executive Officer

- 1 Choose the bank's AI posture: targeted augmentation (highest confidence path), broad experimentation (high risk without governance), or deliberate deferral (competitive risk that compounds daily).
 - 2 Approve a concise AI strategy document (2-3 pages) aligning AI with the bank's business model, markets, relationship banking identity, and risk appetite. Boards, regulators, and vendors expect a coherent AI narrative, not ad hoc projects.
 - 3 Communicate explicitly and repeatedly to staff that AI is being deployed to make them more effective, not to replace them. Staff resistance is the most commonly cited execution failure in AI deployments.
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- 4 Prioritize fraud budget review immediately. 40-50% of institutions saw higher fraud losses in 2025; most expect 2026 to worsen. AI fraud defense and AI-enabled fraud offense are on the same capability doubling curve.
- 5 Identify internal AI champions at the executive and department level. Banks with AI advocates in multiple departments adopt faster and more consistently.

Chief Risk Officer & Compliance

- 1 Conduct a vendor AI audit. Contact every significant technology vendor in writing: what AI features does your platform include, which are enabled by default, what data do they use, what documentation is available for examination.
- 2 Map all AI uses to existing model risk management, third-party risk management, privacy, information security, fair lending, and complaint management processes.
- 3 Conduct or commission fair lending testing on any AI used in credit decisions. The ECOA and Fair Housing Act apply. Disparate impact liability exists even for facially neutral algorithms. Test before examiners do.
- 4 Draft an AI-specific incident response playbook covering: model failures producing systematically wrong outputs, bias events discovered post-deployment, deepfake fraud events, and vendor AI failures. Conduct a tabletop exercise within 90 days.
- 5 Review every active AI vendor contract for AI-specific provisions: data use restrictions, model documentation requirements, bias testing obligations, accuracy warranties, and exit provisions. Standard SaaS agreements are insufficient.

Chief Information Officer & Security

- 1 Implement AI-enhanced fraud monitoring for every significant payment channel if not already active. AI fraud attacks are outpacing rule-based defenses. This is the most urgent technology deployment priority today.
- 2 Establish data boundaries and access controls for all AI tools used by employees — especially general-purpose GenAI tools. Know what data is leaving the bank's perimeter, to where, and under what data use agreements.
- 3 Engage the core banking provider directly in writing. Request a current and 12-month AI roadmap. Ask specifically about: agentic automation features, fraud visualization capabilities, open banking API availability.
- 4 Begin a data quality assessment tied to the top one or two AI use cases the bank plans to deploy. Data quality is the most commonly cited execution failure in AI projects.
- 5 Update cybersecurity training to address AI-specific threats: deepfake voice cloning in social engineering, AI-generated phishing that defeats generic awareness training, and the emerging agentic AI attack surface.

Chief Lending Officer

- 1 Evaluate AI document extraction and financial statement spreading tools — the fastest-ROI, lowest-risk lending AI deployment. Tools through nCino, Abrigo, and Biz2X reduce loan file processing time 60-80%.
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- 2** Assess whether the bank's small business lending process can be improved with an AI lending assistant. If small business loan conversion is below 30%, an AI-assisted pre-qualification tool may be able to double or triple it.

- 3** Identify 2-3 portfolio segments where AI-powered early warning would be most valuable: commercial real estate concentration, agricultural portfolios, or manufacturing-dependent SMB relationships.

- 4** Ensure any AI used in lending decisions has an explainability mechanism adequate for adverse action notices. Review CFPB Circular 2022-03 with legal counsel. Document the decision path for all AI-assisted credit decisions.

Why Community Banks Are Positioned to Win

The counterintuitive truth about AI and community banking: the technology is most valuable exactly where community banks are strongest.

"The great irony of the AI transition is that the technology is most valuable in contexts where relationships matter most — and community banking is precisely that context."

Federal Reserve research and industry analysis synthesized, 2025-2026

Every major research source — from the Federal Reserve to McKinsey to Treasury — converges on the same insight: the relationship model is AI's greatest ally, not its competition. Consider what AI actually does best:

AI excels at processing large volumes of structured data to identify patterns. Community banks have something megabanks cannot replicate: deep, multi-year, trust-based relationships with their customers that generate richer signals than any anonymous transaction dataset. When AI analyzes that data, it amplifies contextual knowledge that no distant algorithmic lender can match.

AI excels at automating routine, repetitive tasks. Community bank staff spend enormous proportions of their time on exactly these tasks — document intake, data entry, compliance checklists, alert review. AI that handles these tasks frees the most valuable resource in community banking: the attention of a trusted local banker.

AI excels at enabling proactive outreach at scale. The community bank advantage has always been that the local lender knows when a customer needs help before they ask. AI-powered predictive analytics can surface that knowledge — flagging when a small business customer's cash flow patterns suggest stress, or when a retail customer's behavior signals a life event — enabling timely, relationship-deepening outreach that no megabank can replicate at the personalized level community banks can.

The Three-Phase Community Bank Roadmap

Phase 1 (2026) — Operationalizing AI Building the Foundation

40% of community bank executives rank AI as their #1 strategic priority. Focus: deploying generative AI for fraud management, back-office operations, lending, marketing, and contact centers. Building foundational data infrastructure. Establishing AI policies, controls, and governance frameworks. The banks that do this well in 2026 will have a 2-year head start on those that wait.

Phase 2 (2027–2028) —
Collaborative Intelligence
**AI Handling the
Mechanical, Humans
Delivering the
Personal**

Community banks leverage their unique strengths — trust and relationships — while using AI to amplify human capabilities. Key developments: shared AI utilities (consortia pooling resources, echoing successful ATM network and ACH rail collaborations); deeper vendor ecosystem integration; talent development focused on AI supervision not just usage.

Phase 3 (2029+) — The
Relationship Bank
Reinvented
**AI as the Engine That
Powers the
Relationship**

Bankers freed from paperwork focus entirely on deep relationship building, complex problem-solving, and community leadership. AI becomes the engine that powers the relationship — not a replacement for it. The institutions that master this balance will not only survive but deepen their relevance in an increasingly automated world.

THE SINGLE MOST IMPORTANT STRATEGIC INSIGHT

Community banks' enduring competitive advantage is relationship banking. AI's highest value is not replacing that advantage — it is amplifying it. Giving loan officers better information faster. Freeing customer-facing staff from routine inquiries so they can focus on complex financial needs. Enabling proactive outreach based on predictive analytics that no community banker could generate manually at scale. AI does not change the community banking mission. It equips banks to pursue it more effectively than ever before. Every large bank in America has more capital, more data, more technology staff, and more AI investment than any community bank. None of them can walk into a customer's business, sit across the table, and make a lending decision based on a decade of relationship knowledge. AI makes that decision faster, better-informed, and more accurate — but it does not make it. Community bankers do.

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