FEDERAL RESERVE BANK of ST. LOUIS

Banking Insights

Topics of Interest to Community Bankers

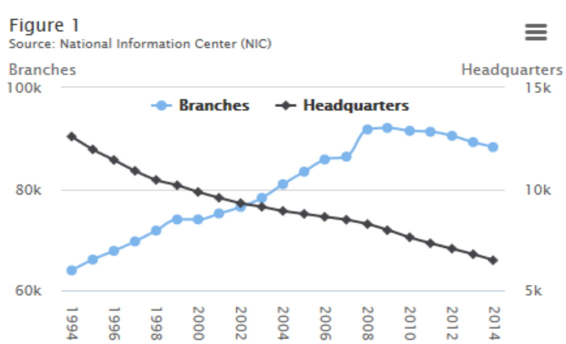
Recent U.S. Facility and Deposit Trends

Summary

Bank and thrift charters have experienced a multidecade decline. More recently, however, the number of bank and thrift branches has fallen. This recent trend has led to an overall reduction in the number of banking facilities in the United States. At the same time, the banking system has experienced an influx of deposits in banks of all sizes. This briefing examines the current trends in banking facilities and deposits.

Background and Analysis

Bank charters have steadily decreased since the early 1990s. (See Figure 1.) From 1994 to 2004, the number of charters decreased from 12,589 to 8,918 (a 29.2 percent decline). The passage of the Riegle-Neal Interstate Banking and Branching Efficiency Act (Riegle-Neal Act) in 1994, which allowed banks to branch and merge across state lines, accelerated the decline even further, allowing banking organizations to collapse charters from different states, turning separate banks into bank branches. Mergers and acquisitions also played a significant role in the decline in bank charters; there were 1,122 completed deals ($1.6 billion total target assets) from 2004 to 2007.[1] Bank failures contributed to the loss of 507 bank charters between 2008 and 2014. Furthermore, bank charter creation in the U.S. has been lacking, with just three de novo institutions launched in the past five years.



Branching Trends

Industry analysis and academic research in the 1990s suggested that technological innovations and regulatory changes would present a challenge to "brick-and-mortar" banking.[2] The expansion of ATMs, the development of call centers and the rise in Internet banking challenged the role of the traditional bank branch. However, despite these technological advancements, banks continued to expand their branch networks. From 1994 to 2004, the number of branches of U.S. banks and thrifts increased by 26.6 percent as many former bank headquarters became branches of the acquiring parent organizations. The largest annual increase in branches occurred in 2008—just prior to the most recent financial crisis—when the number of branches jumped 6.2 percent. Between 2009 and 2014, however, the number of bank and thrift branches decreased 4.1 percent.

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[1] SNL Financial; Mergers and Acquisitions Statistics & Graphs

[2] The Evolution of U.S. Bank Branch Networks: Growth, Consolidation, and Strategy (2004), Beverly Hirtle and Christopher Metli

While the total number of branches in the U.S. banking system has decreased since 2009, the number of branches in large branch networks (a network with 100 or more branches) steadily increased through 2012, followed by consecutive annual decreases.[2] (See Figure 2.) In 2014, total branches of 13 of the 15 largest banking firms declined; only Wells Fargo and U.S. Bank continued to grow their networks in 2014.[3] (See Table 1.)

Figure 2
Source: Summary of Deposits Data (FDIC)

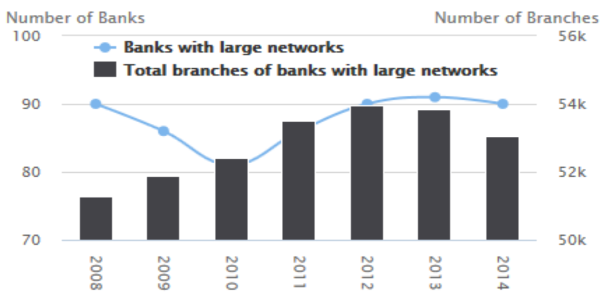


Table 1 - Number of branches in branch network

Rank (2014)	Bank Name	2014	2013	Change in branches
1	Wells Fargo Bank	6,309	6,292	17
2	JPMorgan Chase Bank	5,678	5,693	-15
3	Bank of America	5,093	5,398	-305
4	U.S. Bank	3,237	3,139	98
5	PNC Bank	2,820	2,947	-127
6	Branch Banking and Trust Company	1,842	1,850	-8
7	Regions Bank	1,672	1,708	-36
8	SunTrust Bank	1,513	1,582	-69
9	Fifth Third Bank	1,347	1,369	-22
10	TD Bank	1,327	1,334	-7
11	KeyBank	1,025	1,066	-41
12	Citibank	957	1,030	-73
13	Capital One	884	922	-38
14	Citizens Bank	861	1,001	-140
15	Woodforest National Bank	762	790	-28

Source: Summary of Deposit Data, FDIC

Size Class Trends

Analyzing branching trends by size class, regardless of branch network size, reveals interesting trends as well. The average number of branches for banks with total assets of less than $50 billion either remained stable or increased slightly from 2008 to 2014.[3] (See Table 2.) The average number of branches for banks with total assets of more than $50 billion decreased during the same time period. Banks with assets of more than $250 billion had, on average, 138 fewer branches in 2014 than they did in 2008. It is worth noting that banks may move between size classes as a result of mergers and acquisitions or organic growth/downsizing. However, the total number of banks in the largest two size classes remained relatively unchanged from 2008 and 2014, so that does not account for the downward movement.

Table 2 - Average number of branches by year and size class

Year	Measure	Less than $1 billion	$1-10 billion	$10-50 billion	$50-250 billion	More than $250 billion
2008	Number of Banks	7,766	559	78	32	6
	Average Number of Branches	3.2	32.1	106.2	649.4	3,150.0
2009	Number of Banks	7,484	585	79	31	6
	Average Number of Branches	3.3	31.3	106.3	587.7	3,685.2
2010	Number of Banks	7,156	560	70	29	6
	Average Number of Branches	3.3	32.2	122.2	548.2	4,094.5
2011	Number of Banks	6,850	566	70	31	6
	Average Number of Branches	3.3	33.4	122.0	531.3	4,076.3
2012	Number of Banks	6,589	558	71	30	7
	Average Number of Branches	3.3	34.0	117.0	548.9	3,543.4
2013	Number of Banks	6,289	553	72	29	7
	Average Number of Branches	3.3	33.8	122.8	563.0	3,500.6
2014	Number of Banks	5,987	572	73	29	8
	Average Number of Branches	3.3	32.8	129.2	545.3	3,012.4

Source: Summary of Deposit Data, FDIC

Additional Insight: There are a few significant examples of banks moving size classes. In 2009, U.S. Bank moved from the $50-$250 billion size class to the more than $250 billion size class. Also, in 2009, Countrywide Financial ($50-$250 billion) was acquired by Bank of America (more than $250 billion), Washington Mutual (more than $250 billion) was acquired by JPMorgan Chase Bank (more than $250 billion). In 2010, PNC Bank acquired Wachovia Bank, moving PNC from the $50-250 billion size class to the more than $250 billion size class.

The most significant decreases in the number of branches can be traced to the nation's largest institutions as they restructure their branch networks after years of acquisitions.[4] Certain branches may not have produced the desired profitability. Moreover, large branch networks often benefit from brand awareness and technological advantages, which allow them to close branches with less customer impact. Regional banks have also reduced their branch networks, but not by as much, as these institutions tend to rely more on branches than technology to serve clients.

Banking Facilities in MSAs

Another way to assess the recent trend is to look at how it has changed the concentration of banking facilities relative to population in certain parts of the country. Metropolitan statistical areas (MSAs) across the nation have varying degrees of banking facility concentrations, defined as the ratio of banking offices per 10,000 people, and each MSA has contributed to the trend differently.[5] The U.S. average (weighted) offices per 10,000 people in MSAs was 2.84 in 2014 (excluding MSAs located in Puerto Rico).

3 Summary of Deposit (FDIC) data uses June 30 as the cutoff date for each year.

4 Regional Banks Play Catch-Up with Branch Closures (2015), Jackie Stewart

5 Population source: U.S. Census Bureau, 2010 Census Data

Some MSAs had high concentrations of banking facilities in 2008 but still experienced a net increase in banking facilities between 2008 and 2014. These included MSAs such as Sioux City, IA-NE-SD, Carbondale-Marion, IL, Naples-Immokalee-Marco Island, FL, and Cape Girardeau, MO-IL. Although MSAs in California and Alaska had some of the lowest ratios of banking offices per 10,000 people in 2008, they experienced net decreases in the number of offices from 2008 to 2014. Other MSAs that also had some of the lowest ratios, such as El Paso, TX, and Los Angeles-Long Beach-Anaheim, CA, saw large net increases in the number of banking offices over the same time period.

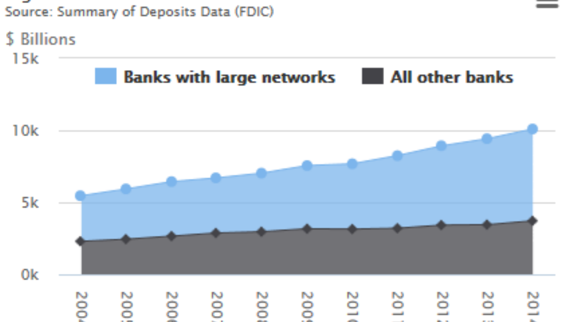
Deposit Trends

Although the number of banking offices has decreased since the onset of the financial crisis, total deposits in the banking system have not followed a similar trend. The financial crisis actually triggered an increase in U.S. deposits, most likely due to higher risk aversion.

The sustained low interest rate environment has also played a role in deposit growth at banks. Although low interest rates often prompt a decrease in deposits as savers look elsewhere for yield, higher risk aversion post-crisis could mute this effect. Since more attractive investment options are scarce, investors and individuals are keeping increased amounts of cash in noninterest-bearing accounts that they can quickly and easily withdraw when investment opportunities arise.

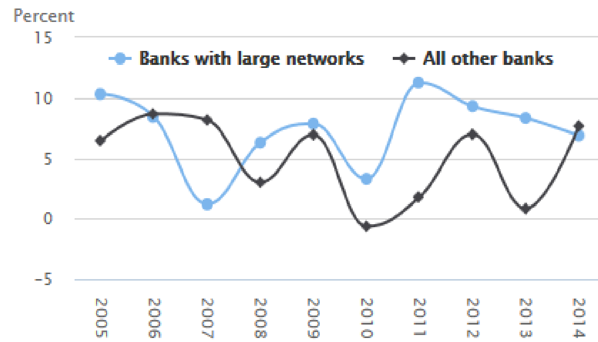
Figure 3 shows the influx of deposits into the banking system from 2004 to 2014. While total deposits rose at banks with branching networks of all sizes between 2008 and 2014, deposits increased more (56.9 percent) at banks with large networks (90 banks in 2014) than they did (25.5 percent) at all other banks (6,579 in 2014).

Figure 3
Source: Summary of Deposits Data (FDIC)



The trend of higher deposit growth rates for institutions with larger branch networks reversed in 2014. (See Figure 4.) Last year, the aggregate amount of deposits grew at an annual rate of 6.9 percent in banks with large networks, while aggregate deposits in all other banks grew by 7.7 percent. Total deposits in the banking system increased by $674.8 billion (7.2 percent) from 2013 to 2014.

Figure 4
Source: Summary of Deposits Data (FDIC)



Conclusion

It is unclear whether the number of bank branches will continue to follow the trend that started in 2009. As banks continue to merge with and acquire one another, the branch locations of the newly acquired bank may be unnecessary to the purchasing bank, and they may be closed or sold. While the shift toward mobile and online banking has prompted some banks to alter their branch network, long-term consumer preferences remain uncertain.

Although the number of branches has decreased, total deposits in the banking system continue to grow. Banks with large branch networks increased their deposits by 56.9 percent from 2008 to 2014, while other banks managed a 25.5 percent increase during the same time period.