FACTORS SHAPING RECENT TRENDS IN BANKING OFFICE STRUCTURE FOR COMMUNITY AND NONCOMMUNITY BANKS

2017 Summary of Deposits Highlights

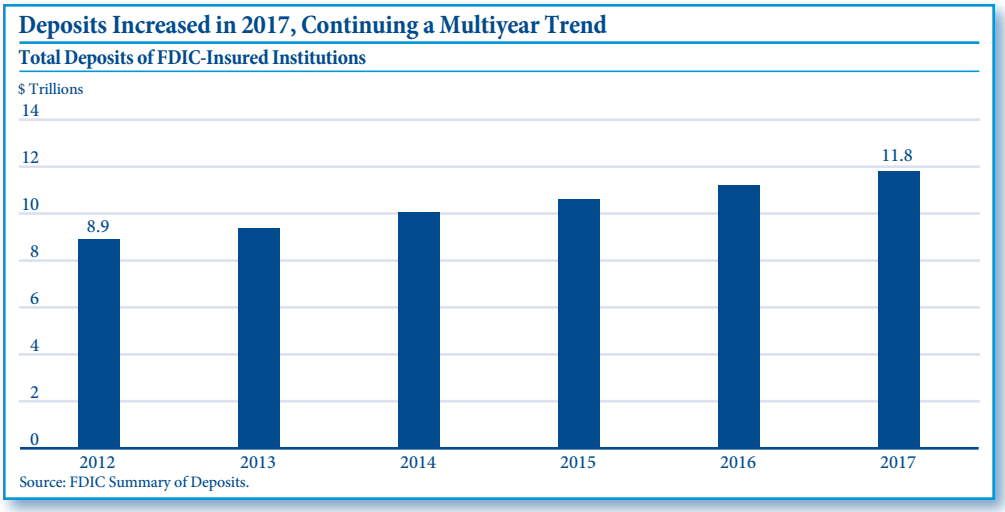
Deposit growth and office contraction are once again the trends reflected in the Summary of Deposits (SOD) survey.[1] This paper highlights key findings from the June 30, 2017, SOD survey and discusses factors that may be influencing the ongoing decline in the number of offices, including branches and main offices, of FDIC-insured institutions.

Although deposits continued to grow in 2017, the rate of growth has slowed because of slower growth in metropolitan areas. Micropolitan and rural areas reported an increase in the pace of deposit growth, driven by community banks.[2] Community bank deposit growth has exceeded noncommunity bank deposit growth on a percentage basis in metropolitan, micropolitan, and rural areas since 2015. The trend of office contraction accelerated in 2017, and the greatest declines occurred in metropolitan and micropolitan areas. Less than one-fifth of banks reported a net decrease in their number of offices over the past five years. However, the reduction in the number of offices by those banks has been large enough to drive a sizable decline in the overall number of offices operated by FDIC-insured institutions. This continuing trend can be partially attributed to factors such as population migration, office expense mitigation, industry consolidation, and financial technology.

Total Deposits of FDIC-Insured Institutions Continue to Grow

Total deposits of all FDIC-insured institutions increased by roughly $570 billion, or 5.1 percent, from June 2016 to June 2017.[3] FDIC-insured institutions held $11.8 trillion in deposits in 2017, compared with $11.2 trillion in 2016 (Chart 1). Deposit growth in 2017 was lower than the 5.8 percent five-year annual growth rate.[4] Deposits grew even as the number of institutions and offices declined. As a result, deposits per institution increased 10 percent to $2.0 billion in 2017. Deposits per office increased 7.4 percent, from $122 million in 2016 to $131 million in 2017.

Chart 1



[1] The term "deposits" refers to deposits in domestic offices—meaning offices of FDIC-insured institutions located in the United States or U.S. territories. U.S. offices of foreign institutions and their deposits are not included.

[2] Community banks are identified based on criteria defined in the *FDIC Community Banking Study,* December 2012, https://www.fdic.gov/regulations/resources/cbi/report/cbi-full.pdf.

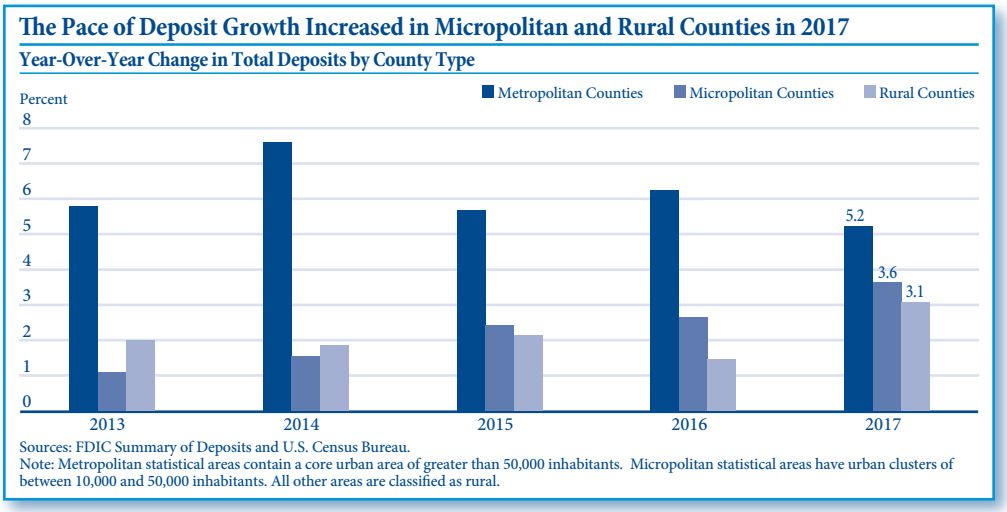
[3] All figures are as of June 30 in any given year, and all growth rates are between SOD filings, which report data as of June 30 each year.

[4] The five-year compound annual growth rate represents the average annual rate of growth that would be necessary to produce the net change over five years. For simplicity, it will be referred to here as "five-year annual growth."

Deposit Growth Slowed in Metropolitan Counties

Although deposits overall grew at a slower rate in 2017 than in past years, deposit growth in micropolitan and rural areas increased.[5] In fact, 2017 deposit growth in nonmetropolitan areas was higher than at any point over the past five years (Chart 2). Deposits increased by 3.1 percent in rural areas, which outpaced the five-year annual growth rate of 2.1 percent. Similarly, deposits grew by 3.6 percent in micropolitan areas, which exceeded the five-year annual growth of 2.2 percent. In contrast, metropolitan areas reported slower deposit growth in 2017 than in any of the past five years. Deposits in metropolitan areas increased by 5.2 percent, down from the five-year annual growth rate of 6.1 percent. This slowdown in deposit growth in metropolitan areas, which account for almost 93 percent of total deposits, largely explains the lower growth rate of deposits overall.

Chart 2



Sources: FDIC Summary of Deposits and U.S. Census Bureau.
Note: Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

Deposit Growth at Community Banks Outpaces Deposit Growth at Noncommunity Banks in Every County Type

In a reversal of trend, community banks reported greater merger-adjusted deposit growth than noncommunity banks in 2017.[6] Noncommunity banks, which reported a five-year annual deposit growth rate of 6.0 percent, reported an increase in deposits of only 4.9 percent in 2017. Community banks, which reported a five-year annual deposit growth rate of only 4.7 percent, reported a 6.4 percent increase in deposits in 2017.

Deposit growth at community banks has outpaced deposit growth at noncommunity banks in micropolitan and rural areas over the past five years, and in recent years has begun to outpace noncommunity bank deposit growth in metropolitan areas. Still, as of 2017, the five-year annual growth rate of noncommunity banks exceeds that of community banks in metropolitan areas (Chart 3).

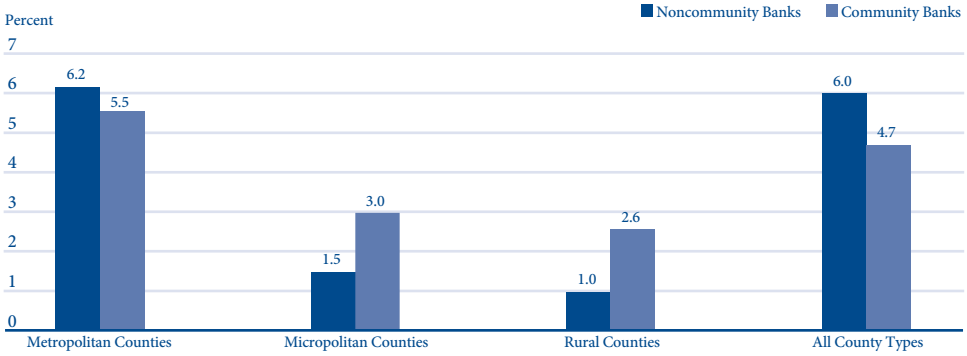
[5] Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are counted as rural. Statistical areas consist of one or more counties. This analysis uses "areas" and "counties" interchangeably, and refers to the combination of micropolitan and rural areas as nonmetropolitan areas.

[6] Figures are adjusted for mergers whenever calculations are made for subgroups of institutions. This includes comparing any industry subgroups such as those banks that increased, decreased, or maintained office counts, as well as community and noncommunity banks. When these groups are compared across time, figures are adjusted for mergers. No other figures in this analysis were adjusted for mergers, because doing so is required only of industry subgroups.

Chart 3

Community and Noncommunity Banks Report Strongest Deposit Growth in Metropolitan Counties

Five-Year Average Annual Deposit Growth



Sources: FDIC Summary of Deposits and U.S. Census Bureau.
Note: Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

Noncommunity banks reported a five-year annual increase in deposits of 1.5 percent in micropolitan areas and 1.0 percent in rural areas, while community banks reported annual increases of 3.0 percent in micropolitan areas and 2.6 percent in rural areas. That disparity continued in 2017, when noncommunity banks reported deposit growth 1.8 percentage points lower than community banks in micropolitan areas and 0.9 percentage points lower in rural areas.

In metropolitan areas, noncommunity banks reported a five-year annual increase in deposits that was 0.7 percentage points higher than community banks. In 2017, however, community banks in metropolitan areas reported deposit growth that was 2.5 percentage points higher than noncommunity banks. Community bank deposit growth has exceeded noncommunity bank deposit growth in metropolitan areas since 2015.

The pace of deposit growth at community banks in 2017 contributed to a year-over-year increase in their share of deposits nationally and in metropolitan, micropolitan, and rural areas. Over the past five years, however, the community bank share of deposits has risen only in nonmetropolitan areas. Community banks continue to hold a majority of deposits in micropolitan areas (53 percent) and rural areas (71 percent), while they hold less than 12 percent of deposits in metropolitan areas. The growth in community bank deposits in metropolitan areas over the past five years has not been large enough to offset growth by noncommunity banks, and thus the share of deposits held by community banks in metropolitan areas has fallen. Although the decline in the community bank share of deposits in metropolitan areas was slight, it was enough to cause the community bank share of total deposits to fall from 16.1 percent in 2012 to 15.3 percent in 2017.

The Decline in the Number of U.S. Banking Offices Accelerates

Since reaching a peak of nearly 100,000 in June 2009, the number of banking offices operated by FDIC-insured institutions has declined steadily. The trend continued in 2017, with the number of offices declining by 1,977 (2.2 percent) to 89,847. This change represents the fastest rate of decline in U.S. banking offices since the trend began in 2010, and exceeds the five-year annual decline of 1.6 percent. In all, banking offices operated by FDIC-insured institutions have declined by 7,484, or 7.7 percent, over the past five years.

This decline in the number of offices has been driven by a relatively small subset of banks—only 17.5 percent of banks reported a net decline in offices between 2012 and 2017. A higher percentage of banks, 21.8 percent, actually reported an increase in offices, while the remaining 60.7 percent of banks reported no net change in office counts. However, the number of offices closed by the few banks that reduced offices outstripped gains in offices by the rest of the banks. Banks that reported a decline in the number of offices were more likely to be noncommunity banks and were generally larger than those that did not, both in average total assets and number of offices (see Table).

A Small Subset of Banks Reduced Offices Enough to Drive the National Office Decline From 2012 to 2017

	Institutions That Reduced Offices	Institutions That Increased Offices	Institutions With Unchanged Offices
Number of Institutions	1,013	1,259	3,515
Average Total Assets (Thousands), 2017	$12,439,423	$1,651,278	$631,848
Average Offices per Institution, 2017	58	14	4
Total Change in Offices	–10,126	+2,642	0
Percent of Office Change by Noncommunity Banks	81%	21%	0%
Percent of Office Change by Community Banks	19%	79%	0%

Sources: FDIC Summary of Deposits and Consolidated Reports of Condition and Income.

Rural Counties Continue to Report the Highest Office Density

Rural counties maintained the highest office density, defined as offices per 10,000 people, while metropolitan, micropolitan, and rural areas all continued to report declines in office density at a slow and steady pace.[7] Rural areas reported an office density of 4.7 in 2017, compared with 3.6 in micropolitan areas and 2.5 in metropolitan areas.

Since 1987, office density has fallen by 0.8 in metropolitan counties, by 0.5 in micropolitan counties, and by 0.4 in rural counties. The relatively low rate of decline in office density in rural areas is a result of the outsized presence of community banks in those areas. The rate of reduction in the number of offices by community banks is lower than among noncommunity banks. Community banks make up 72.4 percent of offices in rural areas, so trends in community banks have a large influence on trends in rural areas.

Rural Counties Continue to Report Slowest Decline in Office Numbers

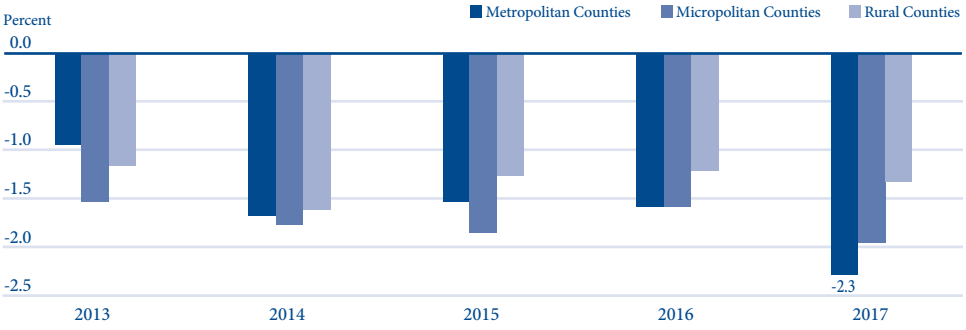
Rural areas have had the smallest reduction in offices over time, reporting only a 6.4 percent decline between 2012 and 2017, compared with 8.4 percent in micropolitan areas and 7.8 percent in metropolitan areas. Rural areas also reported a smaller year-over-year percentage decline in offices in four of the past five years. Micropolitan areas reported the largest percentage decrease in offices in three of the past five years (Chart 4). Overall, micropolitan areas have reported the largest percentage decline in offices since the national trend of office reductions began in 2010.

[7] Population data are from Moody's Analytics. Data for 2017 are forecasted by Moody's Analytics. Data from 2016 are used as the 2017 forecast for Alaska, Hawaii, and Virginia.

Chart 4

Micropolitan Counties Have Reported the Largest Percentage Decline in Offices, While Rural Counties Have Reported the Smallest Decline

Year-Over-Year Change in Offices by County Type



Sources: FDIC Summary of Deposits and U.S. Census Bureau.
Note: Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

However, the county type with the largest decline in the number of offices has shifted from micropolitan to metropolitan in the past two years. The pace of office closures increased in metropolitan areas in 2017. Offices declined 2.3 percent during the year, compared with the five-year annual decline of only 1.7 percent. In absolute terms, the vast majority of banking offices are located in metropolitan areas. Therefore, it is not surprising that between 2012 and 2017 the majority of national office closures also have occurred in metropolitan areas, even though losses have been higher in micropolitan areas on a percentage basis.

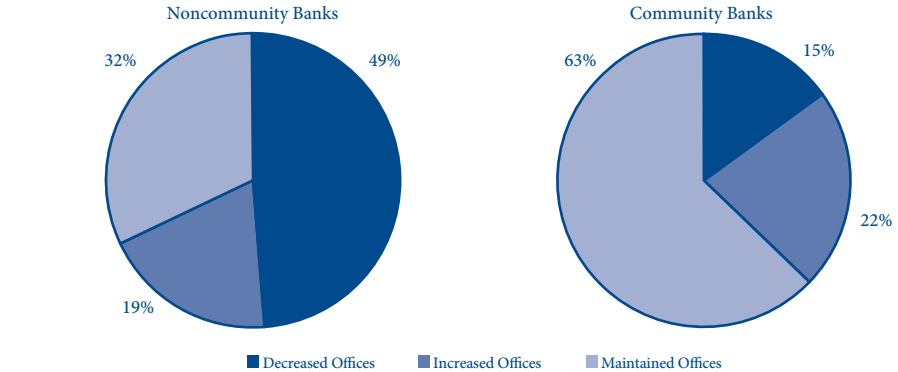
Community Bank Offices Increased Slightly in 2017

Noncommunity banks have driven the national decline in the number of offices for many years, and were particularly aggressive in office reductions between 2016 and 2017. Noncommunity banks have reduced offices by a total of 7,629 (11.5 percent) over the past five years. In 2017, offices operated by noncommunity banks declined by 3.3 percent (2,011 offices)—a marked increase from the five-year annual decline of 2.4 percent. Nearly half of noncommunity banks reported reduced office counts between 2012 and 2017 (Chart 5). In contrast, community banks have been much more likely to maintain their existing offices or grow their branch networks. Only 14.9 percent of community banks reported a decline in office counts between 2012 and 2017. Community banks operated 31,244 offices in 2017, up 34 offices (0.1 percent) from the past year and up 145 offices (0.5 percent) from five years ago.

Chart 5

Noncommunity Banks Have Been Much More Likely to Close Offices Than Community Banks

2012–2017



Source: FDIC Summary of Deposits.

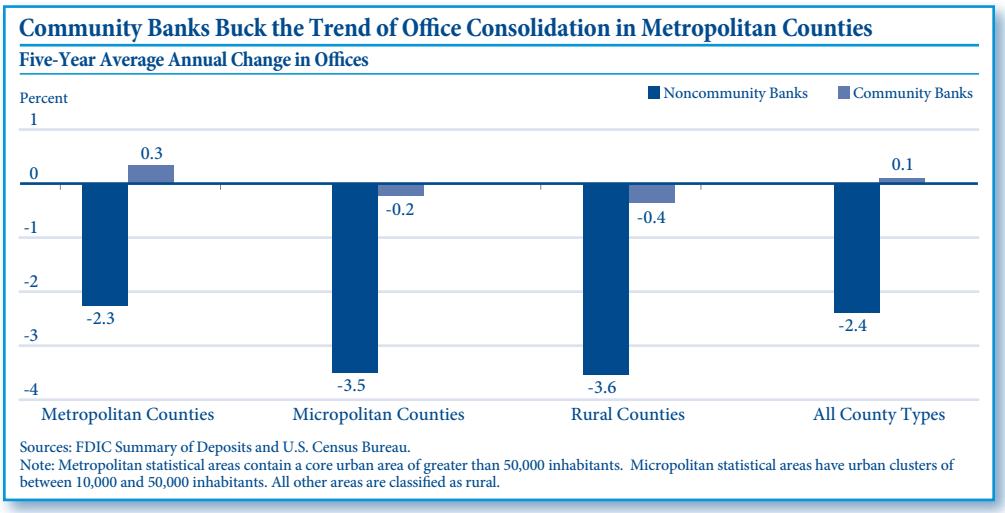
Noncommunity Banks Reduced Offices in Both Metropolitan and Nonmetropolitan Counties

Community banks increased their number of offices in metropolitan areas and overall from 2012 to 2017, while noncommunity banks reduced their number of offices in all areas. Noncommunity banks reported a five-year annual decline in offices of 3.5 percent in micropolitan areas and 3.6 percent in rural areas, far more than the community bank declines of 0.2 percent in micropolitan areas and 0.4 percent in rural areas (Chart 6). The pace of office closures among noncommunity banks increased in 2017 as office numbers declined by 4.4 percent in micropolitan areas and 3.8 percent in rural areas. In contrast, community bank closures slowed. These banks reported no change in offices in micropolitan areas and a 0.3 percent decrease in offices in rural areas.

In metropolitan areas, noncommunity banks reported a five-year annual decline in offices of 2.3 percent, compared with a 0.3 percent increase by community banks. In 2017, noncommunity banks reduced offices by 3.2 percent in metropolitan areas, while community banks reported slight office growth of 0.3 percent in these areas.

Between 2012 and 2017, and in 2017 alone, the overall increase in community bank offices and the minimal decrease in community bank offices in nonmetropolitan areas led to a rise in the community bank share of offices in all areas and nationally.

Chart 6



Sources: FDIC Summary of Deposits and U.S. Census Bureau.
Note: Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

Many Factors May Explain the National Decline in the Number of Offices

More than 7,000 offices have closed during the past five years, and office density has declined across the country. A bank may weigh many different factors when making the business decision to close offices. For example, measurable factors may include population migration, office expense, industry consolidation, and financial technology. The rest of this article explores these factors to see if they contribute to office reductions. Relationships between these factors are likely. Each section of analysis that follows suggests a causal relationship, but does not control for other factors, as doing so is outside of the scope of this article. The outcome of this analysis suggests these factors should be included in future research on this topic.

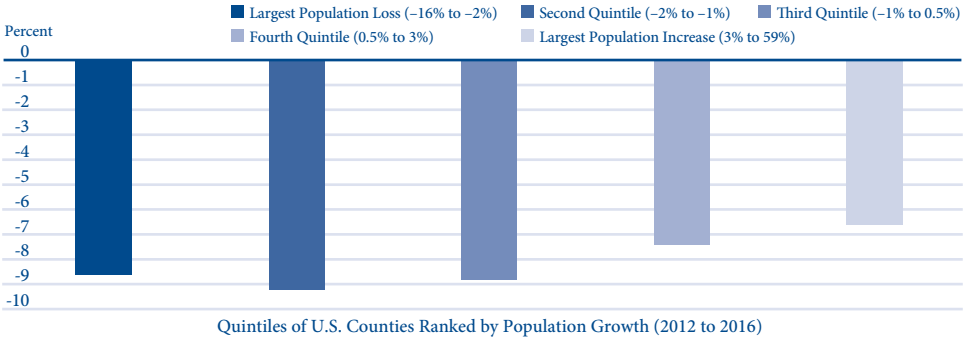
Rates of Population Decline Correspond to Rates of Decline in the Number of Offices

Some 3,116 U.S. counties were home to banking offices of FDIC-insured institutions in either 2012 or 2017.[8] Of these, some 1,680 counties (54 percent) lost population over that interval according to the most recent annual figures from the U.S. Census Bureau.[9] The rate of decline in banking offices was measurably higher in counties that lost population than in counties where population increased (Chart 7). This pattern suggests that the decline in the number of offices may be attributable at least in part to declines in population. However, the number of banking offices also declined in counties where population increased over this period, which suggests that the general decline in office locations is in part attributable to factors other than the loss of population.

Chart 7

Counties With Increasing Population Have Reported the Smallest Rate of Decline in the Number of Offices

Change in Number of Offices, 2012 to 2017



Sources: FDIC Summary of Deposits and U.S. Census Bureau.
Note: Each quintile represents 20 percent of U.S. counties, ordered by population growth from 2012 to 2016.

Institutions With Higher Premises Expense Are More Likely to Shed Offices

During the post crisis period, low interest rates have compressed net interest margins for banks of all sizes.[10] As a result, many institutions have turned to expense controls to strengthen their bottom lines. There are multiple ways to analyze whether expenses for premises and fixed assets (premises expense) may contribute to a bank's decision to close offices.[11] This analysis will consider two of those ways. First, premises expense should increase more slowly at banks that reduce offices. Indeed, between 2012 and 2017, banks that reduced their number of offices reported an increase in premises expense of 6.3 percent—less than the 13.2 percent increase at banks with no change in their number of offices and much less than the 23.6 percent increase at banks that increased their number of offices.[12]

[8] This figure excludes population levels in U.S. territories because the U.S. Census Bureau does not produce annual population estimates at the county level for territories. For an analysis of population trends at the county level over a longer time period and the effect of population changes on banks, see John Anderlik and Richard Cofer, "Long-Term Trends in Rural Depopulation and Their Implications for Community Banks," *FDIC Quarterly* 8, no. 2 (2014): 44–59, https://www.fdic.gov/bank/analytical/quarterly/2014-vol8-2/article2.pdf.

[9] The most recent annual population figures are from 2016. See U.S. Census Bureau, "County Population Totals Tables: 2010-2016," https://www.census.gov/data/tables/2016/demo/popest/counties-total.html.

[10] See Jared Fronk, "Core Profitability of Community Banks: 1985-2015," *FDIC Quarterly* 10, no. 4 (2017): 37–44, https://www.fdic.gov/bank/analytical/quarterly/2016-vol10-4/article1.pdf.

[11] Banks list "expenses of premises and fixed assets" in consolidated reports of income. These expenses include rent, property taxes, utilities, maintenance, and many other items. For a complete list, see Federal Financial Institutions Examination Council, "Line Item Instructions for the Consolidated Report of Income," https://www.fdic.gov/regulations/resources/call/crinst/2017-03/317ri-033117.pdf.

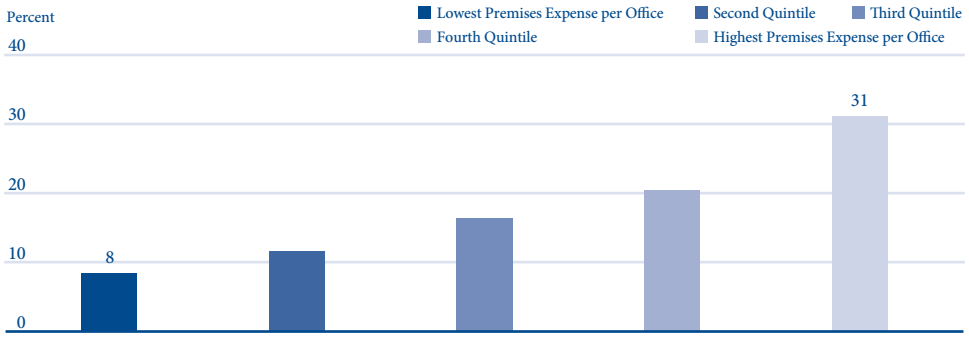
[12] The analysis of bank premises expense is merger-adjusted. It is important to combine the offices and premises expense of banks involved in a merger for a "like-to-like" comparison between years.

Second, while it is reasonable to presume that slowing growth in premises expense may be a motivation for shedding offices, a stronger case exists if the banks that are reducing their numbers of offices have higher premises expense in the first place. In 2012, the average premises expense per office among banks that subsequently reduced their numbers of offices was $143,291—much higher than the average of $64,640 at banks that increased their numbers of offices. It stands to reason that if high premises expense serves as a motivation for reducing office counts, then banks with higher premises expense should be more likely to close offices. Indeed, banks in the top 20 percent of premises expense per office in 2012 were the most likely to reduce office counts in the following five years, while banks in the lowest 20 percent of premises expense per office were the least likely (Chart 8). Only 8.4 percent of banks with the lowest premises expense per office reduced their number of offices, while 31.1 percent of banks with the highest premises expense per office reduced their number of offices. Similarly, banks in the highest 20 percent of premises expense per office were the least likely to increase office counts (Chart 9). Therefore, it is possible that the decline in the number of offices is at least partly attributable to a desire by banks to limit increases in premises expense or reduce premises expense.

Chart 8

Banks With the Highest Premises Expense per Office Were More Likely to Reduce Their Number of Offices

Banks That Reduced Offices From 2012 to 2017

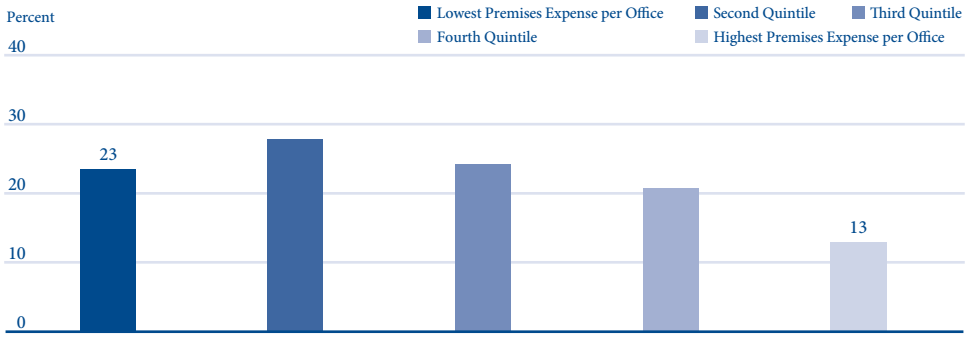


Sources: FDIC Summary of Deposits and Consolidated Reports of Condition and Income.

Chart 9

Banks With the Highest Premises Expense per Office Were Also the Least Likely to Increase Their Number of Offices

Banks That Increased Offices From 2012 to 2017



Sources: FDIC Summary of Deposits and Consolidated Reports of Condition and Income.

Mergers Between Banks Account for Some Reduction in Offices

The rate of intercompany bank mergers quadrupled following the financial crisis as the wave of post crisis failures receded. The merger rate climbed from 1.0 percent in 2009 to a 17-year high of 4.0 percent in 2015.[13] It is plausible that the increase in merger activity has contributed to the decline in offices, as banks may close duplicative offices if two institutions operating in the same area merge. With that in mind, this analysis compares the rate of office decline at banks involved in a merger (acquirers) with the rate of decline at banks not involved in a merger (nonacquirers).

Merger-adjusted data show that acquirers reduce offices at a higher rate than nonacquirers. From 2012 to 2017, acquiring banks reported 2.8 percent fewer offices in the SOD immediately following a merger, double the 1.4 percent rate of office decline at nonacquirers. Community bank acquirers shed offices at a slower rate than noncommunity banks, but both community and noncommunity bank acquirers report fewer offices between SOD filings. Because acquirers close offices at a higher rate than nonacquirers, it is likely that mergers account for some of the reduction in total offices. Nevertheless, the 2.8 percent rate of office decline at acquirers amounts to a total of 1,409 offices, or just 18.8 percent of total office closures from 2012 to 2017. Even if it is likely that many of the 1,409 offices were closed as a direct result of the merger, it is clear that mergers account for a relatively small portion of the overall decline in offices during this period.

Technology Reduces the Need for a Physical Presence

Technology allows traditional interactions between banks and customers to take place remotely, reducing the need for banks to maintain a physical presence. In 2015, the FDIC's *National Survey of Unbanked and Underbanked Households* collected data on the methods used by consumers to access their banking accounts.[14] The survey showed that fewer than half of consumers (49.2 percent) used a bank teller or automated teller machine (ATM) as the primary means of accessing their account, down from 56.6 percent in 2013. Online and mobile banking were the primary methods used by 46.4 percent of customers, up from 38.6 percent in 2013. There is nothing to suggest that the trend toward a virtual channel as the primary means of accessing a banking account has abated since the survey data were collected.

That said, it is also important to keep the trends in context. Consumers continue to demand access to tellers and ATMs even as their primary means of accessing their accounts shift. Seventy-five percent of households used bank tellers in 2015, and 70 percent of households used an ATM or kiosk. This shows that physical offices remain a vital channel for banks to deliver financial services to their customers, and that brick-and-mortar banking and electronic banking are more complements than substitutes for one another. This is especially true at community banks, where relationship banking plays a larger role. Technology has likely lowered the equilibrium number of offices needed to serve customers and thus may have contributed to the reduction in bank offices since 2010. However, the evidence also suggests that physical banking offices continue to be an important conduit for delivering banking services, particularly among community banks.[15]

[13] The merger rate is calculated as the number of banks merged as a percentage of total number of banks at past year-end.
[14] Federal Deposit Insurance Corporation, "2015 FDIC National Survey of Unbanked and Underbanked Households," October 20, 2016, https://www.fdic.gov/householdsurvey/2015/2015report.pdf.
[15] See Eric C. Breitenstein and John M. McGee, "Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World," *FDIC Quarterly* 9, no. 1 (2015): 37–51, https://www.fdic.gov/bank/analytical/quarterly/2015-vol9-1/fdic-4q2014-v9n1-brickandmortar.pdf.

Conclusion

The 2017 Summary of Deposits data show that recent trends in overall offices and deposits of FDIC-insured institutions continued in the year ending in June 2017. Total deposits increased, and they increased at a faster rate among community banks than noncommunity banks. The total number of offices decreased, which continues a trend that began in 2010. The decline in the number of offices was driven by larger banks that tend to operate in metropolitan areas.

Four factors may contribute to the decision to close offices. First, the rate of decline in the number of offices at the county level corresponds to the rate of population decline, which suggests that banks may, in part, close offices as a result of people moving out of areas that they service. Second, the decline in the number of offices seems to be partly driven by a desire to increase efficiency and profitability, and institutions with higher premises expense per office have reduced office counts at a higher rate than their counterparts. Third, industry consolidation likely plays a role in some office closures as the rate of office decline is higher among acquirers than nonacquirers. Finally, consumers may have less of a need for physical offices for some services as banks have increasingly made those services available digitally.

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