Chapter 2 - Structural Change Among Community and Noncommunity Banks

In the past 25 years, the number of banks has declined sharply. Between 1984 and 2011, the total number of federally insured bank and thrift charters declined by 59 percent, from 17,901 to 7,357. A confluence of new charters, failures, mergers between banking companies, and consolidation of charters within holding companies underlie this decline. Moreover, these changes and other structural changes in the industry (such as the enormous growth among the very largest banks) have taken place in distinct waves associated with banking crises and the business cycle and were influenced by regulatory changes that have generally been conducive to consolidation over time.

Community banks emerged from this period fewer in number and with a diminished share of banking industry assets. Nonetheless, they continue to represent by far the most common business model among FDIC-insured institutions.

This chapter analyzes the decline in the number of banks to determine the effects of consolidation, mergers, failures, and new charters individually. In order to gauge the stability of banks of differing asset size, rates of consolidation, merger, failure, and survivorship are calculated by asset size groups and for community and noncommunity banks. The impact of bank failures among different bank groups is captured by computing a failure index, which measures the frequency of failures within one group relative to failures for all banks during any period.

Consolidation

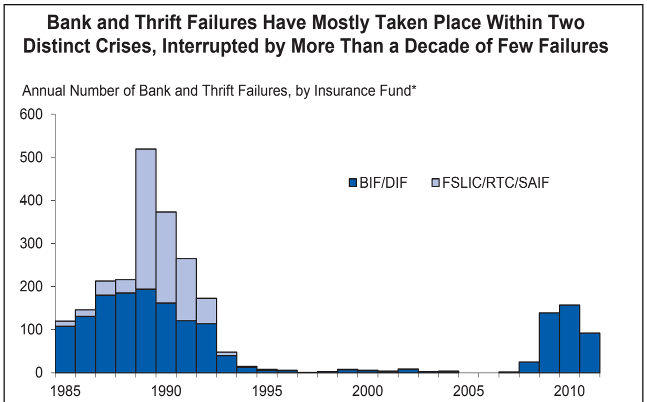
The banking industry experienced much consolidation during the study period from 1984 through 2011.[1] Of the 15,432 banks (as opposed to banking organizations) that exited the industry between 1984 and 2011, 17 percent failed, 49 percent merged with an unaffiliated bank, and another 32 percent consolidated with other charters within their existing bank holding company.[2] These failures, mergers, and consolidation have occurred in distinct waves. Most failures during the period (2,555 in all) occurred because of the banking and thrift crisis of the late 1980s and early 1990s and the financial crisis of 2007-2008 and its aftermath (see Chart 2.1). In contrast, only 47 institutions failed during the interval from 1996 to 2005.

Mergers peaked in the mid-1980s and mid-1990s, during periods of economic expansion (see Chart 2.2). The average number of unassisted mergers was 346 per year between 1985 and 2000 and declined to 182 per year from 2001 through 2011, with the three slowest years for merger activity occurring between 2009 and 2011. The annual number of intracompany consolidations (see Chart 2.3) also generally rose in the late 1980s and then declined after the mid-1990s. Charter consolidations averaged 234

[1] The study period extends from year-end 1984 through year-end 2011. Time series analysis of stock variables (variables measured at a point in time) reported at year-end will extend from 1984 through 2011. Time series analysis of flow variables (variables measured across a period of time) will extend from 1985 through 2011.

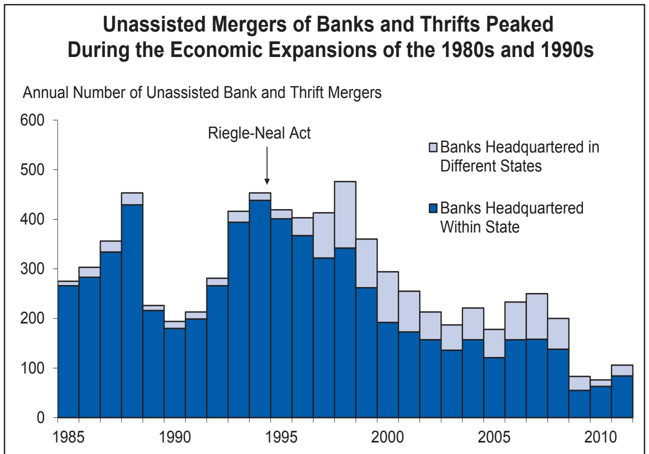
[2] An additional 365 institutions (about 2 percent of charters) self-liquidated or otherwise exited the industry without failure or merger during this period.

Chart 2.1



Source: FDIC.
* FSLIC/RTC/SAIF failures indicate those resolved by the Federal Savings and Loan Insurance Corporation (FSLIC), the Resolution Trust Corporation (RTC), or by the FDIC under its Savings Association Insurance Fund (SAIF). The SAIF was merged with the Bank Insurance Fund (BIF) to form the Deposit Insurance Fund (DIF) on March 31, 2006.

Chart 2.2



Source: FDIC.

Chart 2.3

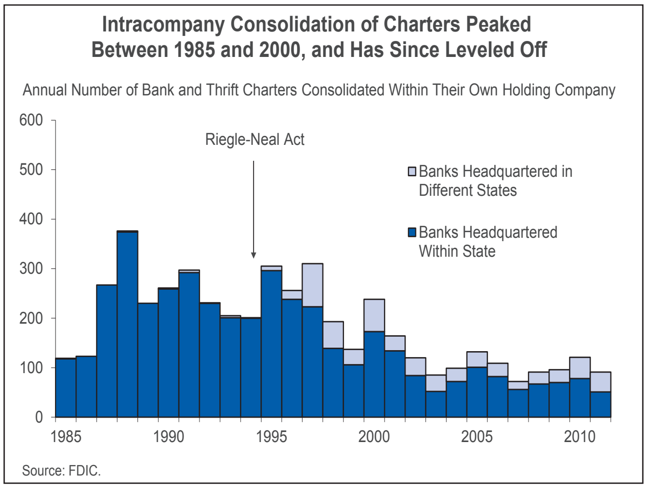
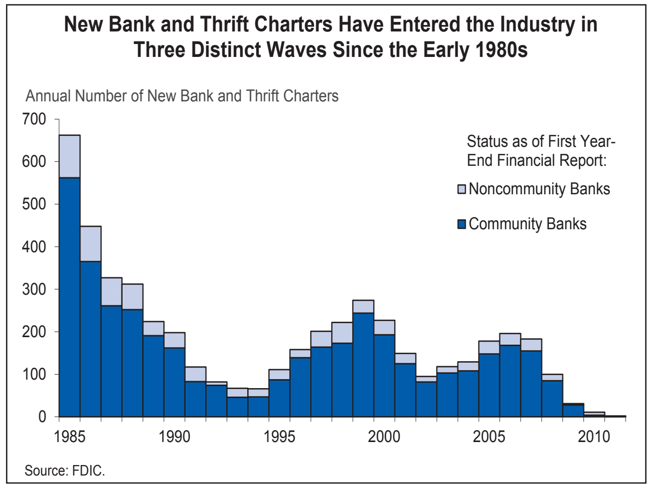


Chart 2.4



per year between 1985 and 2000 but slowed to 107 per year from 2001 through 2011.

The relaxation of restrictions on intrastate branching and interstate banking that took place in the 1980s and early 1990s facilitated both mergers and consolidations. While only 16 states permitted unrestricted intrastate branching in 1984, by 1994 the number had risen to 40.[3] Similarly, while 42 states restricted interstate combinations of banking charters in 1984, by 1994 only Hawaii retained this restriction.[4] The Interstate Banking and Branching Efficiency (or Riegle-Neal) Act of 1994 allowed full interstate branching, which made possible the interstate consolidation of charters within banking companies.[5] While consolidation occurred throughout the 27-year period, mergers and consolidations peaked, both in number and as a percent of existing charters, in the latter half of the 1990s, soon after these restrictions were relaxed.

New Charters

Cutting against the consolidation trend since 1984, a large number of new charters were added to the industry over the study period. Some 4,888 new charters came into existence between 1984 and 2011, of which 83 percent were community banks as of their first year-end financial report. Chart 2.4 shows that these new charters arose in three distinct waves, all of which coincided with economic expansions. The first wave of new charters occurred during the mid-to-late 1980s, followed by smaller waves in the late-1990s and the mid-2000s. During these relatively prosperous years, rising loan demand created opportunities for new institutions to seek business, while generally strong bank equity share prices reflected the ready availability of capital to fund startup banks. As will be discussed later in the study, these plans were frequently put to the test within a few years as prosperity gave way to more difficult economic circumstances. Periods during and after recessions have been associated with much slower chartering activity, with the period from 2009 through 2011 marking the three slowest years of chartering activity over the 27-year study period.

The Net Effect of Structural Change

Chart 2.5 and Chart 2.6 depict the net effects of structural change in banking between 1984 and 2011 in terms of the total number and assets of banks and thrifts in five size groups. The net effect of structural change refers to the overall change in number and assets of banks and thrifts by size group without further adjustment. For example, some banks may have crossed from one size group to another during the study period. The chart reflects three important developments. The first is the net decline of 10,544 in the number of federally insured banking and thrift charters over this period. This net consolidation in total banking charters is more than fully accounted for by a gross decline of 11,392 in the number of banks in the smallest size class, with assets less than $100 million. The number of institutions in every other size class increased, on net, during this period. The second development is the enormous growth that took place among the largest banks. The number of institutions with assets greater than $10 billion grew from 32 to 107 during the period, while their assets grew from just over $1 trillion (27 percent of indus-

[3] Source: Strahan (2002). The District of Columbia is not included in these state counts.
[4] Source: Strahan (2002).
[5] The Riegle-Neal Act required that every state allow interstate branching by 1997, but included an opt-out provision that was invoked only by Texas and Montana. Both states subsequently adopted interstate branching. See Aguirregabiria, Clark and Wang (2012) p. 11.

Chart 2.5

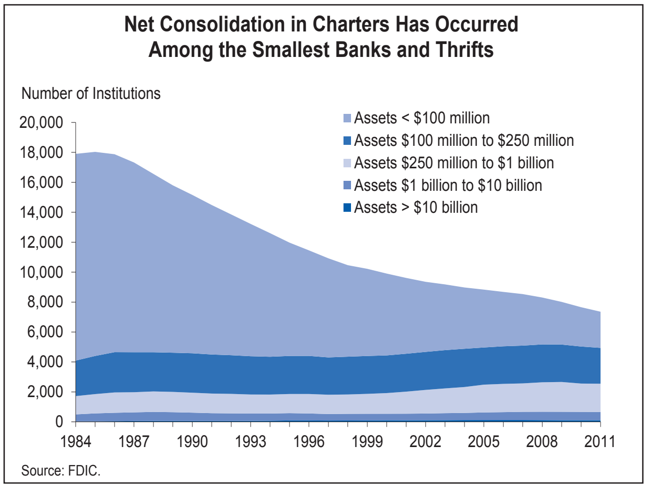
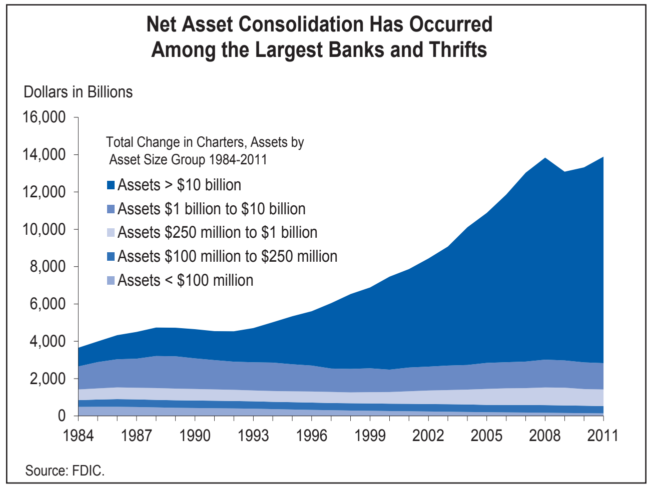


Chart 2.6



try assets) in 1984 to $11.1 trillion (80 percent of industry assets) in 2011. The third development is the relative stability among institutions in the middle three size groups, with assets between $100 million and $10 billion, which grew in number by 19 percent and in assets by 24 percent over this 27-year period.

While these institutions between $100 million and $10 billion appear to have been the most stable group, in fact, their ranks were constantly being thinned over time by failures, mergers, and consolidations and replenished by new charters and growth among smaller institutions. Chart 2.7 shows that institutions starting out the period with assets between $100 million and $10 billion had <u>lower</u> survival rates and higher failure rates than both the smallest and the largest institutions. In addition, only the largest institutions, with assets greater than $10 billion, merged more often than these banks.

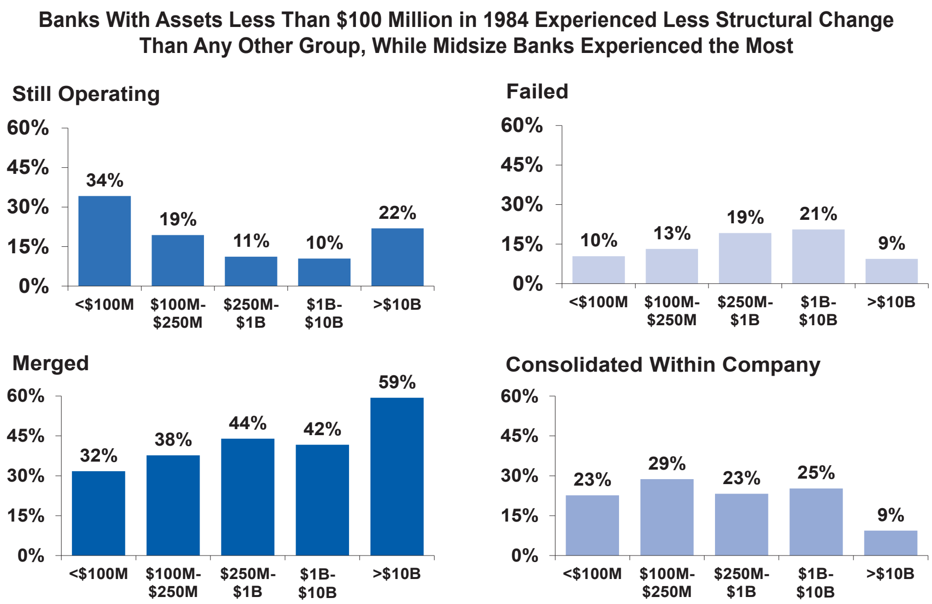
In contrast, institutions starting out the period with assets less than $100 million—the group that would experience a net decline of 82 percent in their numbers by 2011—were in fact <u>more likely</u> than any other size group to survive the entire 27-year period. Institutions in this smallest size group were less likely to fail or merge than any other size group, while they consolidated at a rate that was similar to the other groups. Of all the institutions that started out in 1984 with total assets less than $100 million, 2,774 of them—or 20 percent of the total—not only survived until 2011 but grew into one of the larger size groups. In fact, 11 of them ended up as charters with over $10 billion in assets. Moreover, while most of the new charters that came into the industry during this period started out small, with 88 percent reporting less than $100 million in assets at their first year end, most of them tended to grow and move into larger size groups; 24 percent of the new charters that survived to 2011 continued to report assets less than $100 million at that time.

In the end, these cross-cutting trends lead to some paradoxical results. While the net number and assets of banks between $100 million and $10 billion have grown at a steady rate over time, this group has experienced more change in membership than either the smallest or the largest institutions. In addition, while the number of institutions in the smallest size group accounted for all the net decline in federally insured bank and thrift charters over this period, they were in fact the most stable group of institutions. Newly chartered institutions and other banks that started the period with assets less than $100 million were able to succeed and grow often enough to fully replenish the ranks of institutions between $100 million and $10 billion, which underwent the greatest degree of consolidation.

Structural consolidation also brought about the other main development reflected in Chart 2.6, the elevenfold increase in banking industry assets at charters with assets greater than $10 billion, giving these 107 institutions control of 80 percent of industry assets by 2011. About one-half of the increase in assets at these banks over the study period came directly from the acquisition and consolidation of other charters. In total, the 107 largest institutions directly acquired or consolidated 1,258 charters with $5.6 trillion in total assets.[6] In turn, these 1,258 acquisition targets had already directly or indirectly

[6] Direct acquisitions refer to acquisitions or consolidations where the bank or banking organization is the target (bank or banking organization being acquired) in the merger transaction. Indirect acquisitions refer to banks or banking organizations that were previously acquired by the target bank or banking organization in a merger transaction.

Chart 2.7



Source: FDIC.

Increased Concentration of Banking Assets in the Very Largest Institutions

Between 1984 and 2011, as the number of federally insured banks and thrift institutions was declining by 59 percent, total industry assets grew almost fourfold, from $3.7 trillion to $13.9 trillion. Banks with assets over $10 billion had almost all of this growth (see Chart 2.6). If this group is stratified further, however, growth within this group of banks was actually concentrated at the very largest banks, most notably in the four largest banking organizations as of year-end 2011: JP Morgan Chase & Co., Bank of America Corporation, Citigroup Inc., and Wells Fargo & Company. Total assets held by banks in just these four organizations increased from $228 billion in 1984 (6.2 percent of industry assets in 1984) to $6.1 trillion (44.2 percent of industry assets in 2011).

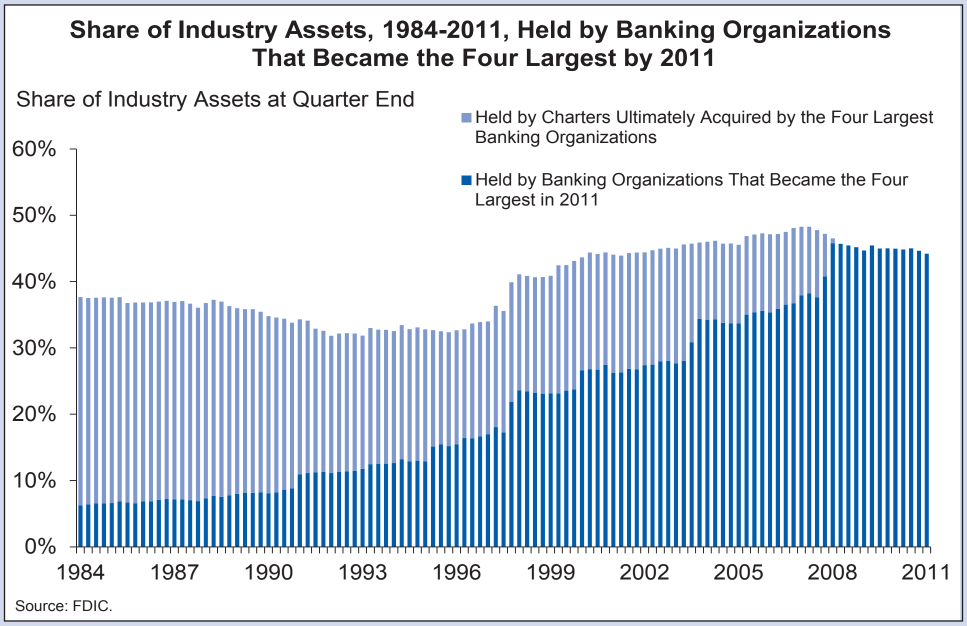
Assets held by other charters with assets over $10 billion also grew during this period, but their share of industry assets did not grow nearly as dramatically as the share held by the four largest banking organizations. At year-end 1984, the 29 banks with assets over $10 billion that were not part of today's four largest banking organizations held 22 percent of industry assets. Twenty-seven years later, 94 banks outside these four largest banking organizations held assets greater than $10 billion, and their share of industry assets had risen to 35 percent.

Between 1984 and 2011, the four largest banking organizations directly acquired 353 insured institutions with total assets of $2.5 trillion. These direct acquisition targets included many large institutions, with 24 reporting assets greater than $10 billion when they were acquired. In addition, the direct acquisition targets of the four largest banking organizations had previously acquired another 1,841 federally insured banks and thrifts, which we refer to as indirect acquisition targets.

Chart 2.8 depicts the share of industry assets held by banks in the four largest banking organizations in every quarter from year-end 1984 to year-end 2011, along with the total assets of institutions they would eventually acquire directly or indirectly. In 1984, the four largest banking organizations held just 6.2 percent of industry assets, but charters they would eventually acquire held another 31.4 percent of industry assets at that time. Summed together, the assets of the four largest banking organizations and their eventual acquisition targets represented 37.7 percent of industry asset in 1984, close to the industry share the four largest banking organizations would hold in 2011.

As these four banking organizations rapidly grew over time, the composition of their loan portfolios shifted toward retail lending. In 1984, one-to-four family mortgages represented just over 9 percent of their total loans, and loans to individuals made up another 17 percent. By 2011, one-to-four family mortgages made up 37 percent of total loan balances and loans to individuals almost 22 percent.

Chart 2.8



Retail loans have always represented a large share of banking industry loan portfolios, and that share increased from 45 percent in 1984 to 51 percent in 2011. A far more significant development over the period was the enormous increase in the share of total retail loans held by the top four banking organizations. The share of total one-to-four family mortgages held by these organizations rose from 2 percent in 1984 to 45 percent in 2011, while their share of loans to individuals rose from 8 percent to 51 percent. As retail lending became much more concentrated at the largest banking organizations, community banks not only held a smaller share of total industry assets, but also loan portfolios that were more heavily concentrated in the various types of commercial loans.[1]

Acquisitions by these large banking organizations significantly expanded not just their balance sheets, but also their branch networks. The number of total banking offices operated by the top four banking organizations more than tripled to 18,743 between 1994 and 2011. During this period, these four banking organizations acquired institutions with 12,859 banking offices. Just under one-fifth of all U.S. branches in 2011 belonged to one of the top four banking organizations, compared with approximately 5 percent in 1994 (see Table 2.1). In 2011, the top four banking organizations operated at least one office in 43 percent of all U.S. counties.

These four banking organizations have greatly expanded their branch networks and share of total banking offices in the largest U.S. cities. In metropolitan statistical areas ranked in the top 25 percent by population, the top four banking organizations operated 26 percent of all banking offices in 2011 compared with just 6 percent in 1994.[2] For comparison, in all other U.S. metropolitan areas, the top four banking organizations held a 14 percent share of all branches in 2011 (Chart 2.9).

Table 2.1 Total Offices of Banking Organizations That Became the Four Largest as of 2011

	Number of Banking Offices	Percent of Total U.S. Banking Offices
Total Banking Offices of the Four BHCs in 1994	3,904	4.8%
Offices Added Through Acquisition, 1994-2011	12,859	--
Total Banking Offices of the Four BHCs in 2011	18,743	19.1%

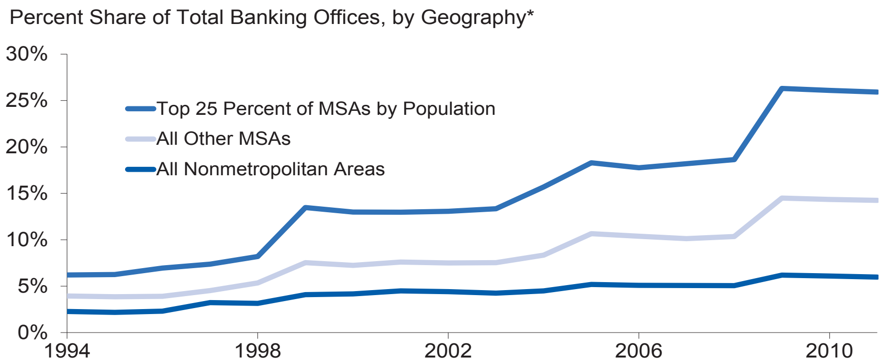
Source: FDIC.

[1] Changes in the composition of community bank loan portfolios are discussed in more detail in Chapter 5, Comparative Performance of Community Bank Lending Specialty Groups.

[2] The population ranking is based on Moody's data as of June 2011.

Chart 2.9

The Four Largest Banking Organizations Have Greatly Expanded Their Branch Networks and Office Share in the Largest U.S. Cities



Sources: FDIC, Moody's Analytics, U.S. Bureau of Census.
Note: The four largest banking organizations as of year-end 2011 were: Bank of America Corporation, Citigroup Inc., JP Morgan Chase & Co., and Wells Fargo & Company.
*Calculated as the weighted average share of banking offices operated by organizations that became the four largest as of 2011. Metropolitan Statistical Areas (MSAs) are ranked in size according to 2011 total population.

Table 2.2 Number of Community and Noncommunity Banking Organizations, Charters and Assets, 1984-2011

Year	Banking Organizations		Bank and Thrift Charters		Total Assets ($ Billion)	
	Community	Noncommunity	Community	Noncommunity	Community	Noncommunity
1984	14,408	478	15,663	2,238	$1,379.8	$2,273.3
1985	14,265	508	15,728	2,305	$1,461.6	$2,531.8
1986	13,790	523	15,426	2,450	$1,512.2	$2,815.3
1987	13,314	558	14,967	2,358	$1,499.3	$3,002.8
1988	12,715	570	14,323	2,237	$1,496.2	$3,240.3
1989	12,109	553	13,707	2,089	$1,445.4	$3,281.5
1990	11,582	540	13,150	2,008	$1,396.6	$3,252.0
1991	11,133	514	12,615	1,867	$1,374.5	$3,169.2
1992	10,692	475	12,081	1,772	$1,343.0	$3,193.3
1993	10,162	438	11,524	1,697	$1,310.8	$3,397.1
1994	9,612	438	10,925	1,679	$1,280.8	$3,739.9
1995	9,156	429	10,381	1,590	$1,288.2	$4,052.8
1996	8,794	414	10,078	1,376	$1,316.3	$4,294.9
1997	8,475	418	9,674	1,249	$1,322.6	$4,722.1
1998	8,098	426	9,206	1,258	$1,303.7	$5,227.4
1999	7,920	436	9,018	1,204	$1,343.8	$5,539.8
2000	7,799	450	8,817	1,087	$1,390.2	$6,072.7
2001	7,663	442	8,622	992	$1,499.1	$6,369.9
2002	7,518	450	8,416	938	$1,550.5	$6,885.4
2003	7,397	448	8,260	921	$1,612.2	$7,463.4
2004	7,246	461	8,045	931	$1,611.1	$8,496.3
2005	7,183	459	7,933	900	$1,746.1	$9,133.1
2006	7,073	454	7,758	922	$1,794.4	$10,067.4
2007	6,952	456	7,626	908	$1,840.3	$11,193.6
2008	6,835	449	7,446	859	$1,924.9	$11,916.3
2009	6,719	402	7,252	760	$1,992.8	$11,094.0
2010	6,524	390	7,016	642	$1,944.0	$11,375.0
2011	6,356	364	6,799	558	$1,972.7	$11,919.5

Source: FDIC.

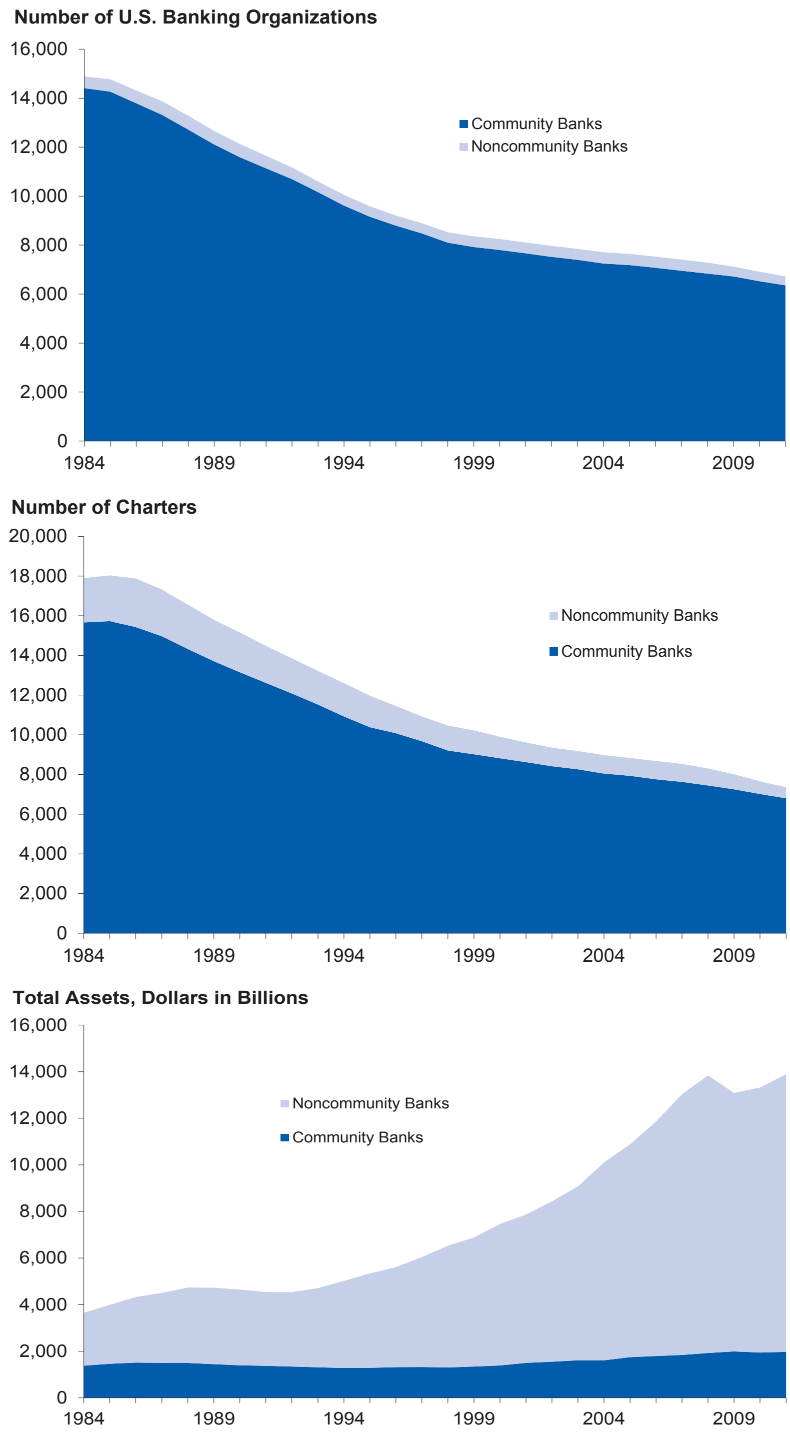
Table 2.3 Community and Noncommunity Banking Organizations, Charters and Assets, as Percent of Total, 1984-2011

Year	Banking Organizations		Bank and Thrift Charters		Total Assets	
	Community	Noncommunity	Community	Noncommunity	Community	Noncommunity
1984	97%	3%	87%	13%	38%	62%
1985	97%	3%	87%	13%	37%	63%
1986	96%	4%	86%	14%	35%	65%
1987	96%	4%	86%	14%	33%	67%
1988	96%	4%	86%	14%	32%	68%
1989	96%	4%	87%	13%	31%	69%
1990	96%	4%	87%	13%	30%	70%
1991	96%	4%	87%	13%	30%	70%
1992	96%	4%	87%	13%	30%	70%
1993	96%	4%	87%	13%	28%	72%
1994	96%	4%	87%	13%	26%	74%
1995	96%	4%	87%	13%	24%	76%
1996	96%	4%	88%	12%	23%	77%
1997	95%	5%	89%	11%	22%	78%
1998	95%	5%	88%	12%	20%	80%
1999	95%	5%	88%	12%	20%	80%
2000	95%	5%	89%	11%	19%	81%
2001	95%	5%	90%	10%	19%	81%
2002	94%	6%	90%	10%	18%	82%
2003	94%	6%	90%	10%	18%	82%
2004	94%	6%	90%	10%	16%	84%
2005	94%	6%	90%	10%	16%	84%
2006	94%	6%	89%	11%	15%	85%
2007	94%	6%	89%	11%	14%	86%
2008	94%	6%	90%	10%	14%	86%
2009	94%	6%	91%	9%	15%	85%
2010	94%	6%	92%	8%	15%	85%
2011	95%	5%	92%	8%	14%	86%

Source: FDIC.

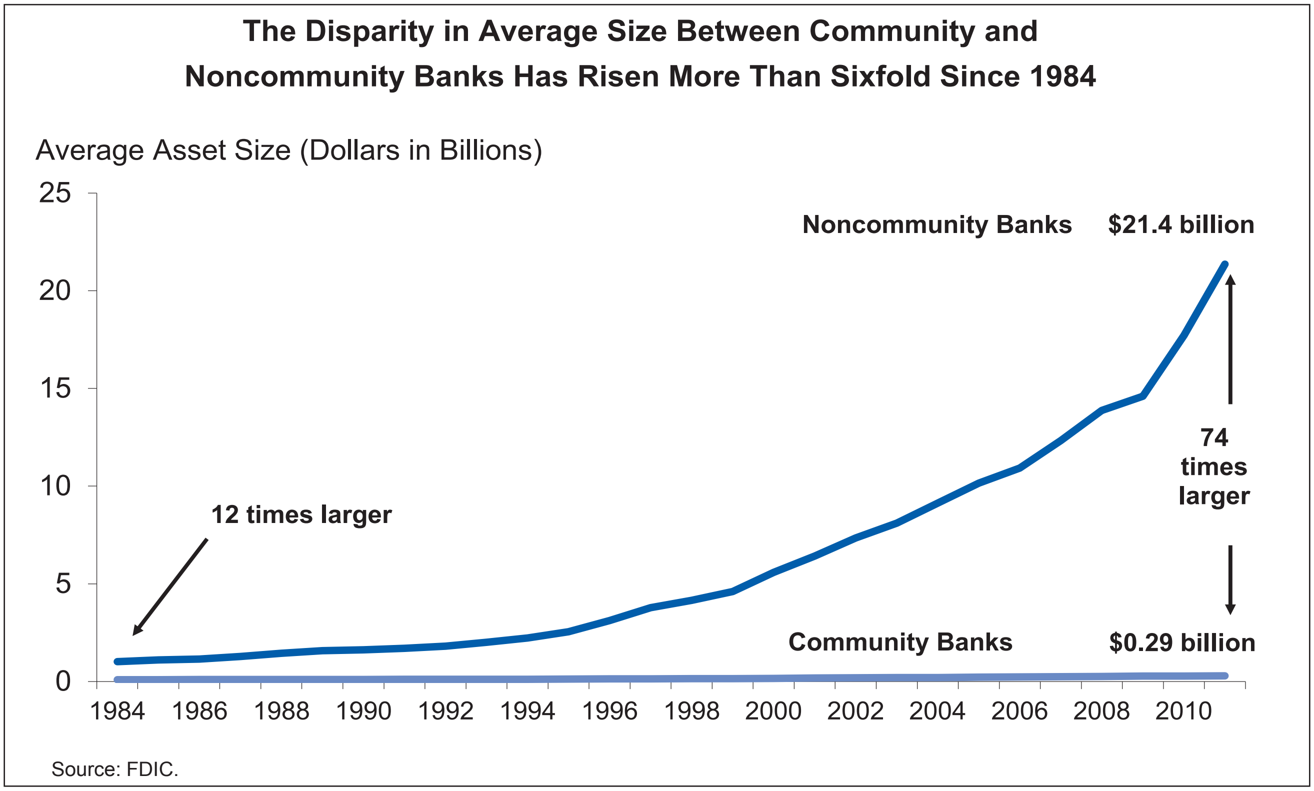
Chart 2.10

Long-Term Consolidation of Charters and Assets at Community and Noncommunity Banks



Source: FDIC.

Chart 2.11



acquired or consolidated 7,515 other charters since the beginning of the study period in 1984. In this way, banks that closed the study period with assets greater than $10 billion directly or indirectly absorbed 57 percent of the charters that exited the industry between 1984 and 2011.

Structural Change Among Community and Noncommunity Banks

The effects of structural change are also evident when viewed through the lens of the FDIC's research definition for community banks. Table 2.2, Table 2.3, and Chart 2.10 depict long-term net structural change among FDIC-insured community and noncommunity banks in terms of the number of banking organizations, the number of charters, and total assets. These tables show that both community and noncommunity banking organizations have experienced substantial declines in their numbers since 1984. Over this period, the number of community banks declined by 56 percent while the number of noncommunity banks declined by 23 percent. The faster rate of consolidation, however, has not appreciably diminished the community bank share of U.S. banking organizations. While community banks made up 97 percent of all U.S. banking organizations in 1984, their share had fallen only slightly to 95 percent by 2011.

In addition, when measured in terms of the number of individual banks, community banks have risen as a proportion of all federally insured banks and thrifts, from 87 percent to 92 percent. Noncommunity banks consolidated much faster over the period when measured in terms of charters, which declined by 72 percent, than when measured in terms of banking organizations, which declined by 23 percent. This disparity is entirely attributable to a very high rate of charter consolidation within noncommunity banking organizations during the period, as discussed further below.

Noncommunity banks have accumulated an overwhelming share of industry assets over the past 27 years. While noncommunity banking organizations held $2.3 trillion in assets in 1984 (62 percent of industry assets at that time), by 2011 they held $11.9 trillion in assets, or 86 percent of industry assets. The increased concentration of industry assets at noncommunity banks has resulted in a rising disparity in the average size of institutions in these two groups. Chart 2.11 shows that while noncommunity banks were, on average, 12 times larger than community institutions in 1984, by 2011 they had become 74 times as large.

Table 2.4 Transition Matrix: Structural Change Among Community and Noncommunity Banks, 1984-2011

Group of Origin		Institutions That Closed: 1985-2011 Failed	Consolidated	Merged	Other Closing	Total	Institutions Reporting in 2011 Community Banks	Noncommunity Banks	Total
Number of Institutions									
Community Banks in 1984	15,663	1,902	2,893	5,459	172	10,426	5,004	233	5,237
Noncommunity Banks in 1984	2,238	179	1,321	566	38	2,104	50	84	134
Total Banks in 1984	17,901	2,081	4,214	6,025	210	12,530	5,054	317	5,371
New Charters, 1985-2011	4,888	474	715	1,558	155	2,902	1,740	246	1,986
Total, Banks in 1984 Plus New Charters	22,789	2,555	4,929	7,583	365	15,432	6,794	563	7,357
Percent of Institutions in Group of Origin									
Community Banks in 1984	100%	12%	18%	35%	1%	67%	32%	1%	33%
Noncommunity Banks in 1984	100%	8%	59%	25%	2%	94%	2%	4%	6%
Total Banks in 1984	100%	12%	24%	34%	1%	70%	28%	2%	30%
New Charters, 1985-2011	100%	10%	15%	32%	3%	59%	36%	5%	41%
Total, Banks in 1984 Plus New Charters	100%	11%	22%	33%	2%	68%	30%	2%	32%

Source: FDIC.

Despite Declining Numbers, Community Banks Have Proved Resilient

Notwithstanding the sharp decline in the number of banks with assets less than $100 million and the accumulation of industry assets at noncommunity banks, the community banking sector continued to represent the vast majority of banking organizations (95 percent) and charters (92 percent) as of 2011. Moreover, as was the case when discussing charters with assets less than $100 million, community banks in some ways experienced less structural change than noncommunity banks over the period of this study.

Table 2.4 is a *transition matrix* that highlights the various sources of structural change among community and noncommunity banks. Of the 17,901 charters that reported at year-end 1984, 5,372 reported continuously through 2011, for an overall survival rate of 30 percent. Among institutions that started out in 1984 as community banks, however, the survival rate was 33 percent, compared with only 6 percent for those that began as noncommunity banks. Thus, community banks were more than five times more likely than noncommunity banks to remain in operation for the entire 27-year period.

Of the 2,238 charters that started out in 1984 as noncommunity banks, only 134 survived through 2011. Of those that survived, 37 percent had become community banks by the end of the period. In contrast, of the 5,237 institutions that started out in 1984 as community banks and survived through 2011, 96 percent continued to report as community banks. Nonetheless, given that the vast majority of institutions at any given time are community banks, switching even a small percentage of them to noncommunity banks will result in a large increase in that category. Some 41 percent of institutions reporting as noncommunity banks in 2011 had originally reported as community banks in 1984.

Table 2.5 Failure Index*

Group	Community and Noncommunity Banks 1985-2011 and by Five-Year Interval 1986-1990	1991-1995	1996-2000	2001-2005	2006-2010	1985-2011
Community Banks	1.05	1.00	0.95	0.95	0.93	1.01
Noncommunity Banks	0.71	1.03	1.37	1.45	1.60	0.92
Total Number of Failures	1,467	509	24	20	323	2,435

Source: FDIC.

*The failure index for each group is calculated as failures within that group as a ratio to all failures divided by institutions in that group as a ratio to all institutions in that period. Index values above 1 indicate that institutions in the group failed more often than their prevalence in the population, while index values less than 1 indicate that they failed less often.

Most of the consolidation among both community and noncommunity charters during the period was the product of voluntary mergers and consolidations within banking holding companies, as opposed to failures. Table 2.4 shows that of all institutions reporting in 1984 or newly chartered before 2011, 55 percent had exited the industry by 2011 through merger or consolidation, while another 11 percent had failed. Among institutions that started in 1984 as community banks, 35 percent exited through merger, while 18 percent consolidated and 12 percent failed. Among those that started out in 1984 as noncommunity banks, 25 percent exited through merger, while 59 percent consolidated and 8 percent failed. Of the 4,888 institutions that were newly chartered during the period, 59 percent had exited by 2011, with the majority exiting via merger. New entrants that survived to 2011 were more likely than the general population to be noncommunity banks, with 14 percent of them reporting as such in 2011.

Another way to view the resiliency of community banks is to examine their failure rates. Community banks and noncommunity banks have failed in roughly the same proportions since 1984. Overall, just over 89 percent of all institutions that have failed since 1984 have been community banks, roughly in line with their prevalence among all banks, which varied between 86 percent and 92 percent during the study period. A more comprehensive measure of relative failure rates between community and noncommunity banks is a *failure index* that measures the frequency of failures within each group relative to their prevalence among all banks for any period, expressed as:

$$\text{Failure Index} = \frac{\dfrac{\text{Failures in group}}{\text{All failures}}}{\dfrac{\text{Banks in group}}{\text{All banks}}}$$

Table 2.5 calculates the failure index for community and noncommunity banks for the entire period 1985 through 2011, as well as for five-year intervals between 1986 and 2010. For the period as a whole, community banks failed at a rate slightly above their prevalence in the population, while noncommunity banks failed slightly less often. Among the five-year intervals between 1986 and 2010, however, community banks had a higher propensity to fail than noncommunity banks only during the 1986-1990 period, when more than half the failures occurred. In every other five-year period since 1990, noncommunity banks have had a higher propensity to fail.

Another measure of the relative stability of community banks is found in the age distribution of charters. As of 2011, 69 percent of community bank charters were more than 50 years old, compared with 58 percent of noncommunity banks. This distinction is important because charters older than 50 years have historically been underrepresented among bank failures. In fact, the failure index of institutions older than 50 years was 0.63 for the entire period between 1984 and 2011, compared with an index value of 1.65 for all banks less than 50 years old, indicating that the younger banks failed about two-and-a-

Table 2.6 Acquisitions Were Instrumental in the Rapid Growth of Assets at Noncommunity Banks Between 1984 and 2011

		As of Year-End 2011		Between 1984 and 2011			
				Number of Charters Acquired			
Group		Number of Charters	Total Assets ($ Million)	Directly	Indirectly	Assets of Charters Directly Acquired ($ Million)	Assets Acquired as Percent of 2011 Total Assets
Community Banks	Reported at Year-End 1984	5,057	$1,436,786	2,573	567	$217,204	15.1%
	New Charter After 1984	1,742	$535,952	454	103	$65,641	12.3%
	Total	6,799	$1,972,737	3,027	670	$282,844	14.3%
Noncommunity Banks	Reported at Year-End 1984	314	$10,129,136	2,111	8,147	$5,494,491	54.2%
	New Charter After 1984	244	$1,790,372	290	343	$514,868	28.8%
	Total	558	$11,919,507	2,401	8,490	$6,009,360	50.4%
Total		**7,357**	**$13,892,245**	**5,428**	**9,160**	**$6,292,204**	**45.3%**

Source: FDIC.

half times more often than the older banks over the 27-year period. Moreover, noncommunity banks have been overrepresented among new charters.

Of the 4,888 new charters established during the period, 17 percent were, by definition, noncommunity banks at their first year-end financial report. This exceeds the proportion of noncommunity banks in the industry as a whole, which was just 8 percent in 2011. Of the 563 noncommunity banks reporting at year-end 2011, 246 (almost 44 percent) had been chartered since 1984. In contrast, institutions chartered since 1984 made up just 26 percent of community banks as of 2011.

Sources of Asset Growth

The dramatic shift in industry assets from community to noncommunity banks over this period naturally leads to the question about the sources of asset growth. Table 2.6 compares the total assets of community and noncommunity banks reporting in 2011 to the assets of institutions they have directly acquired or consolidated since 1984.

As with the previous discussion of banks with assets greater than $10 billion, growth in the assets of noncommunity banks came about largely on the strength of charter acquisition. The 558 noncommunity banks operating at year-end 2011 directly acquired or consolidated 2,401 charters during the period with assets of $6 trillion, an amount equal to just over one-half of the assets held by noncommunity bank in 2011. Moreover, the 2,401 institutions directly acquired by noncommunity banks had already acquired or consolidated 8,490 other charters since the beginning of the period in 1984. In this way, institutions reporting as noncommunity banks in 2011 directly or indirectly absorbed 71 percent of the charters that exited the industry between 1984 and 2011.

By contrast, acquisition appears to represent a far less important source of asset growth for community institutions over this period. Relative to their numbers, community banks reporting in 2011 accounted for far fewer direct and, especially, indirect acquisitions than did noncommunity banks. Moreover, the assets of institutions directly acquired by community banks during the period totaled to only around 15 percent of the assets held by community banks in 2011, indicating that acquisition and consolidation were far less important to charter growth among community institutions.

Summary

Large-scale structural change in the banking industry since 1984 has reduced the number of federally insured banking and thrift charters by over half, and has resulted in the largest institutions holding well over one-half of industry assets. Amid the waves of new charters, failures, mergers, and intracompany consolidations that reshaped the industry over this period, community banks declined in number and, in particular, in terms of their share of banking industry assets. Nonetheless, they also showed signs of resilience, remaining by far the most prevalent form of FDIC-insured institution. Community banks reporting in 1984 were five times more likely than noncommunity banks to report continuously through 2011, and those that did nearly always continued to meet the FDIC research definition of a community bank. By contrast, noncommunity banks were much more likely to consolidate, be acquired, or undertake acquisitions themselves than were the more stable community banks, leading these banks to accumulate an 86 percent share of banking industry assets by year-end 2011. Chapter 3 explores the implications of industry consolidation on the geography of U.S. community banking.