FYI: An Update on Emerging Issues in Banking

Highlights from the 2005 Summary of Deposits Data

October 26, 2005

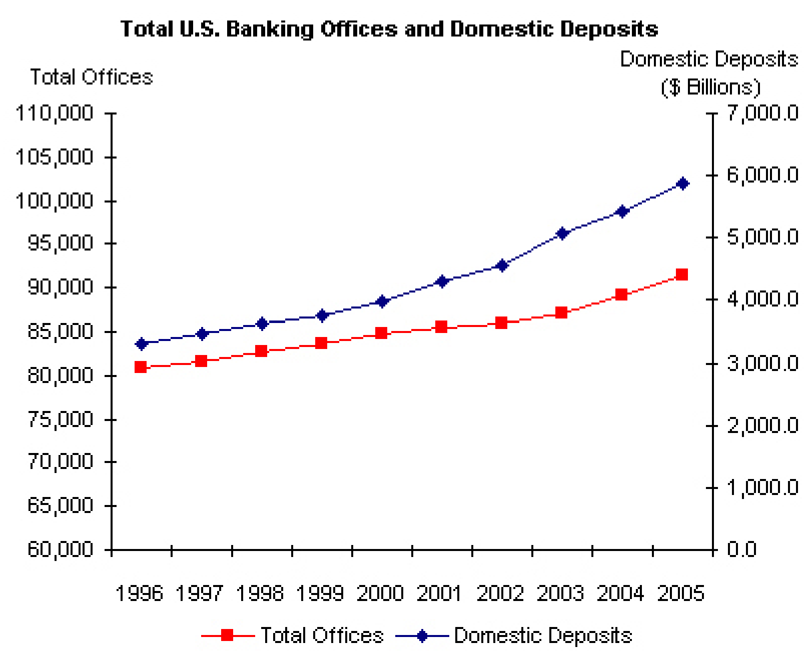
This *FYI* has been revised to reflect updates in the Summary of Deposits data as of October 26, 2005. See endnote 6 for details.

Today marks the official release of the 2005 Summary of Deposits (SOD) data, a report detailing total deposits at the individual office level for every FDIC-insured institution. Collected each June by the FDIC and the Office of Thrift Supervision (OTS), the SOD represents a rich resource for analyzing deposit market trends at the national and local levels.[1] This issue of *FYI* highlights some preliminary conclusions from this year's SOD data.

Despite Industry Consolidation, Offices and Deposits Continue to Grow

Consolidation in the number of U.S. banking charters and banking organizations is a well-documented trend that has been ongoing since the mid-1980s.[2] However, despite long-term consolidation in the industry, the number of U.S. banking offices and their total deposits continue to grow steadily. As of June 30, FDIC-insured institutions reported having 91,407 domestic offices located in the United States, an annual increase of 2,255 offices (3 percent) over the past year, with $5.9 trillion in deposits, an increase of $460 billion (8 percent) in domestic deposits over the same period (see Chart 1).[3]

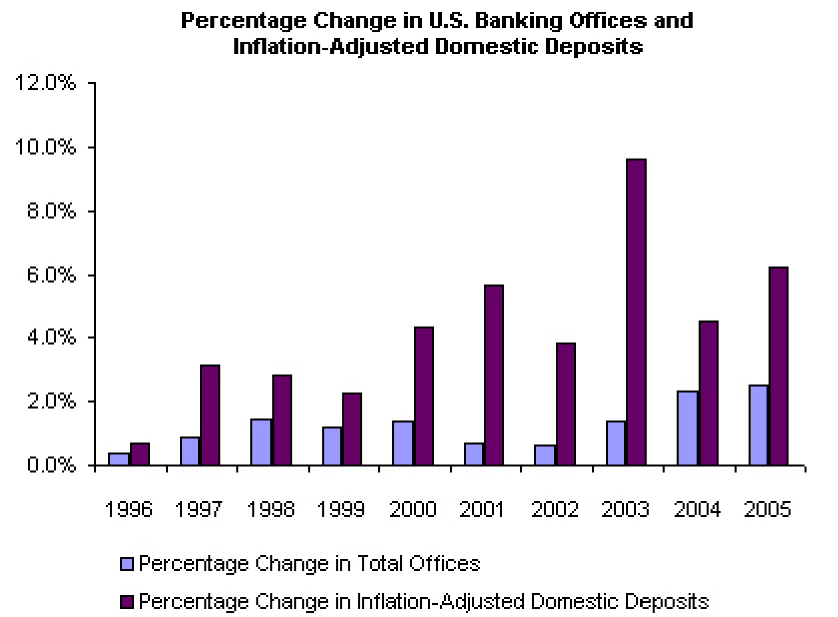
Chart 1



Source: FDIC

The growth rate of deposits has exceeded the growth rate in total offices in each of the past 10 years. This is true even if deposit growth is adjusted for the effects of inflation over the same period using the gross domestic product price index, as in Chart 2. As of 1995, there were just $3.2 trillion in deposits held by 80,473 offices.

Chart 2



Source: FDIC

Most New Offices Were Full-Service Locations

The largest single source of increase in the number of banking offices during 2005 was standalone full-service locations, which increased by 2,078, or 3 percent. These standard brick-and-mortar branches provide customers with a place to visit for personalized service and represent 93 percent of the total increase in offices for the year. Another 228 new full-service offices appeared in shared space within retail locations across the country for an increase of 5 percent. The fastest-growing office type in percentage terms was limited-service operations that were mobile or seasonal in nature. Limited-service offices increased by 13 percent, or 54 offices, during the year. The largest decline was in home-banking offices, which declined by 27 (16 percent) over the year.[4] However, despite this decline, the remaining home-banking offices were able to increase deposits faster than any other office type, up by 39 percent, or $17.8 billion.

Growth in Offices Has Been Fastest in Metropolitan Areas

A common set of questions that analysts seek to answer using the SOD data involves where branch offices are growing the fastest and why. Since 1994, the SOD data have assisted in answering these questions by designating the local geography of each office in terms of street address, zip code, county, state, and *core based statistical area*, or CBSA, designation of the Bureau of the Census.[5] This year the SOD data also make use of the Census Bureau definition for *micropolitan statistical areas*, clusters of counties with populations of 10,000 to 50,000 located mostly around larger metropolitan areas.

As in previous years, metropolitan areas were the drivers of growth in offices during the year. The numbers of offices in metropolitan areas increased 3 percent during the year, and have risen by 15 percent since 1995 (see Table 1). Areas designated under the new micropolitan area definition showed a 1 percent increase in offices for the year, which was consistent with their 10-year average rate of growth. By contrast, other non-metro counties showed no appreciable growth in offices since 2004 and just a 6 percent increase since 1995.

Table 1

U.S. Banking Offices in Metropolitan, Micropolitan, and Other Statistical Areas

Type of Area	Count of Offices			One Year Percentage Change	10 Year Percentage Change
	1995	2004	2005		
Metropolitan Statistical Areas	60,454	67,634	69,711	3%	15%
Micropolitan Statistical Areas	10,795	11,728	11,892	1%	10%
Other Areas	9,224	9,790	9,804	0%	6%
Total	80,473	89,152	91,407	3%	13%

Source: FDIC

Metropolitan areas also outpaced micropolitan and non-metro areas in terms of deposit growth (Table 2). Deposits grew by 9 percent in metropolitan areas during the most recent year (a rate similar to their annual average since 1995), while deposit growth in micropolitan areas was 5 percent. As was the case for growth in the number of branch offices, non-metro areas also lagged the nation in terms of deposit growth, registering an increase of just 3 percent for the year.

Table 2

Domestic Deposits of U.S. Banking Offices in Metropolitan, Micropolitan, and Other Statistical Areas

Type of Area	Deposits ($ Billions)			One Year Percentage Change	10 Year Percentage Change
	1995	2004	2005		
Metropolitan Statistical Areas	2,709	4,745	5,177	9%	91%
Micropolitan Statistical Areas	286	412	431	5%	51%
Other Areas	194	259	267	3%	38%
Total	3,190	5,416	5,876	8%	84%

Source: FDIC

The headquarters location of new charters may also indicate what types of markets are attractive locations for banks and thrifts. During the year ending in June, there was an increase of 147 new charters, of which 127, or 86 percent, were headquartered in metropolitan areas. Micropolitan areas gained 11 new charters and other non-metro counties picked up the remaining nine.

Mergers Have Shifted Deposits Between Markets

Trends in SOD totals at the state and market levels can be distorted by mergers and restructurings. There were 351 charter mergers between the last two surveys, and buyers absorbed over $1 trillion in assets and just over $600 billion in total deposits. Two-thirds of these transactions involved mergers with charters from different markets.

Charter mergers tend to skew the results because of shifts in main office deposit-taking activities, such as large corporate deposit operations.[6] One way to compensate for the geographic shifts induced in the SOD data by mergers is to restrict analyses of changes across time to branch offices only and omit all headquarters offices. Removing main offices from the analysis reduces the total number of offices by 10 percent and the level of total deposits by 27 percent. The remaining branch offices showed deposit growth of almost 10 percent for the year. While this is higher than the 8-percent increase in total office deposits, much of the difference can be explained by the fact that some 351 main offices were converted to branches during the year.

To access the full capabilities of the Summary of Deposits data, please consult the SOD main page on the FDIC web site at:
https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1

Endnotes

[1] All institutions that operate branch offices beyond their home office and must file a financial report are required to submit SOD surveys to the FDIC or the Office of Thrift Supervision. Unit banks, which are banks with just a single headquarters office, have been combined with the branch office data to form the SOD database. The entire SOD database can be accessed through the FDIC web site at www.fdic.gov.

[2] The FDIC published a series of studies analyzing consolidation and other long-term banking trends in its 2004 *Future of Banking* study.

[3] Offices here include those in the 50 states and the District of Columbia but not those in U. S. territories. The SOD database captures domestic deposits only, and for convenience we refer to these as deposits in this report.

[4] Full-service home banking offices are operations centers where a customer can access their accounts through a phone, PC or web site to apply for loans, make fund transfers, and other types of electronic transactions.

[5] CBSA's, which include both Metropolitan and Micropolitan Areas, are defined by the new Metropolitan Statistical Areas (MSAs) which are based on the 2000 Census. For more information, see MSA

[6] The initial release of this *FYI* report indicated that deposits in Ohio increased on net by $106 billion during the year--more than any other state. A subsequent revision to

the SOD data has reduced the net increase in Ohio to less than $1 billion. California's net deposit increase of $83 billion is now the largest of any state during the year ending in June 2005.

About *FYI*

FYI is an electronic bulletin summarizing current information about the trends that are driving change in the banking industry, plus links to the wide array of other FDIC publications and data tools.

Disclaimer

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Chart 1: Total Offices and Domestic Deposits		
Report Date	**Total Offices**	**Domestic Deposits ($ Billions)**
1996	80,827	3301.1
1997	81,541	3470.8
1998	82,722	3629.6
1999	83,703	3752.7
2000	84,871	3970.1
2001	85,440	4289.4
2002	85,952	4563.8
2003	87,149	5087.9
2004	89,152	5416.4
2005	91,407	5875.8
Source: FDIC		

Chart 2 Percentage Change in Inflation-Adjusted Domestic Deposits and Total Offices		
Report Date	**Percentage Change in Total Offices**	**Percentage Change in Inflation-Adjusted Domestic Deposits**
1996	0.3%	0.7%
1997	0.9%	3.1%
1998	1.4%	2.8%
1999	1.2%	2.3%
2000	1.4%	4.3%
2001	0.7%	5.7%
2002	0.6%	3.8%
2003	1.4%	9.6%
2004	2.3%	4.5%
2005	2.5%	6.2%
Source: FDIC		