Feature Article:

Highlights from the 2010 Summary of Deposits

Each year as of June 30, the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) survey each FDIC-insured institution to collect information on bank and thrift deposits and operating branches and offices. The resulting Summary of Deposits (SOD) is a valuable resource for analyzing deposit and office trends as well as domestic deposit market share.

SOD data were publicly released on October 7, 2010, and are available through the FDIC's Web site at http://www2.fdic.gov/sod/index.asp. Available SOD data include information on the deposits and branching activities of individual FDIC-insured institutions, market share information, and various summary charts and tables. This article highlights findings from the 2010 SOD, focusing on national trends in domestic deposits and banking offices, and presents some information by state, metropolitan area, and institution.[1]

The Number of Offices Declined and Deposit Growth Slowed

The number of FDIC-insured institution offices fell by 1.0 percent to 97,950 during the year ending June 30, 2010, a net decrease of 993 offices and the first decline since 1995.[2] Meanwhile, commercial banks and thrifts reported weak deposit growth during the year. The volume of deposits at FDIC-insured institutions increased only 1.7 percent, the lowest growth rate in 15 years and well below the 7.7 percent rate reported a year ago (see Chart 1).[3]

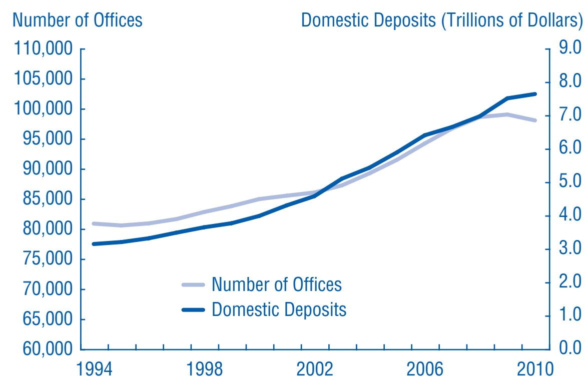
[1] This analysis reflects updates in SOD data as of October 7, 2010. All FDIC-insured institutions that operate branch offices beyond their home office and that are required to file a financial report with one of the Federal Financial Institutions Examination Council agencies must submit responses to SOD surveys to the FDIC or the OTS. Automated teller machines are not considered offices for the purposes of the survey. Call Report information on unit banks (banks with a single headquarters office) has been combined with branch office data to form the SOD database.

[2] SOD data prior to 1994 are not available electronically and therefore are not shown in this article.

[3] Offices include those in the 50 states and the District of Columbia but not those in U.S. territories. The SOD data include domestic deposits only, referred to in this report as "deposits."

Chart 1

The Number of FDIC-Insured Institution Offices Decreased, while Deposit Growth Slowed



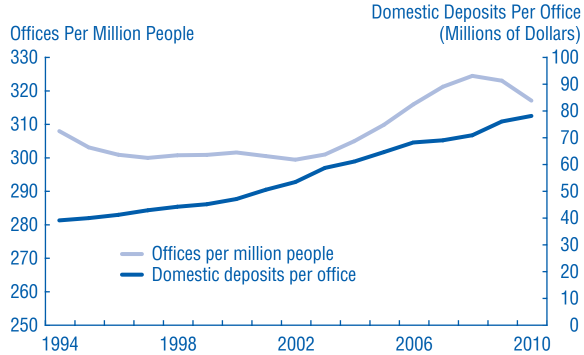
Source: FDIC Summary of Deposits and OTS Branch Office Survey.

The decrease in the number of offices comes at a time when bank failures and problem banks are at their highest levels since the banking crisis of the 1980s and early 1990s. The number of FDIC-insured institutions declined by 365 during the year ending June 30, 2010, compared with a decline of 256 the prior year. Failures and mergers each accounted for roughly half of the decrease.

Branch network contraction may also reflect the industry's continued efforts to reduce expenses in light of the recent recession and protracted recovery. From first quarter 2002 through fourth quarter 2007—roughly the period of the previous expansion—the average noninterest expense to average asset ratio was 3.12 percent, compared with 2.95 percent during the recent recessionary period from first quarter 2008 through second quarter 2009. Since then, the average noninterest expense to average asset ratio has trended slightly lower, to 2.91 percent, indicating that banks and thrifts continue to monitor overhead costs closely. The effects of office contraction and industry cost reduction efforts have particularly affected staffing. The number of employees at FDIC-insured institutions declined 8.1 percent to 2 million between first quarter 2008 and June 30, 2010.

Chart 2

Bank Offices Per Million People Have Declined, and Deposits Per Office Have Climbed



Sources: FDIC Summary of Deposits and OTS Branch Office Survey. Population data from the U.S. Census Bureau (Haver Analytics).

Given the contraction in the number of offices, the ratio of offices per million people decreased 1.8 percent from 2009 to 2010, the second consecutive decrease in this ratio (see Chart 2). The number of offices per million people as of June 30, 2010—317—almost equaled the June 30, 2006, level of 316. The decrease in the number of bank and thrift offices boosted the amount of domestic deposits per office this year, although the rate of growth was below that of prior years, given overall lower deposit growth. Domestic deposits per office increased 2.7 percent in 2010, less than half the 7.3 percent reported in 2009 and also below the five-year compound annual growth rate (CAGR) of 3.9 percent.[4]

Small Cities and Towns Reported the Fastest Deposit Growth

Deposits and offices continue to be concentrated in metropolitan areas. As of June 30, 2010, about 77 percent of offices and 89 percent of domestic deposits were located in metropolitan areas, a level unchanged from 2009 (see Table 1).[5] However, this is the first year since 1995 that the number of offices in metropolitan areas decreased and the number of offices decreased simultaneously in all three community size categories: metropolitan, micropolitan, and "other" areas.[6]

Micropolitan areas—smaller cities and towns—had both the highest deposit growth rate and the lowest percentage of office contraction during the year. Office contraction rates for metropolitan areas and "other" less populated areas were both less than 1.0 percent; however, metropolitan areas had a higher rate of deposit growth. Metropolitan areas had higher five-year CAGRs for both deposit and office growth than either micropolitan or "other" areas.

"Other" Office Types Grew Fastest during the Past Year

Traditional brick-and-mortar offices make up 90 percent of all commercial banking offices; however, the SOD surveys all banking offices, including retail (e.g., offices in supermarkets or other stores), drive-

Table 1

Micropolitan Areas Reported the Highest One-Year Deposit Growth Rate

	Metropolitan Areas		Micropolitan Areas		Other Areas	
	Number of Offices	Domestic Deposits ($ billions)	Number of Offices	Domestic Deposits ($ billions)	Number of Offices	Domestic Deposits ($ billions)
June 2005	69,157	5,178	11,792	431	9,730	267
June 2009	75,950	6,681	12,160	493	9,831	318
June 2010	75,349	6,793	12,147	507	9,746	321
1-Year Growth Rate	-0.8%	1.7%	-0.1%	2.7%	-0.9%	1.0%
5-Year Compound Growth Rate	1.7%	5.6%	0.6%	3.3%	0.0%	3.7%

Source: FDIC Summary of Deposits and OTS Branch Office Survey.

Notes: Deposit-taking offices only. Metropolitan statistical areas have urban clusters of greater than 50,000 or more inhabitants. Each micropolitan statistical area has an urban cluster of between 10,000 and 50,000 inhabitants. Other areas have less population. See U.S. Census Bureau definitions for greater detail.

[4] The CAGR is the *n*th root of the percentage change, where *n* is the number of years in the period.

[5] Metropolitan statistical areas have urban clusters of greater than 50,000 inhabitants.

[6] Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. "Other" areas have populations of 10,000 or fewer inhabitants.

Table 2

Other Banking Offices Increased at the Fastest Rate					
	Brick and Mortar Offices	Retail Offices	Drive-Through Facilities	Other Office Types	Total
June 2005	68,769	4,576	2,762	592	76,699
June 2009	78,163	5,337	2,329	655	86,484
June 2010	77,991	5,259	2,480	760	86,490
1-Year Growth Rate	-0.2%	-1.5%	6.5%	16.0%	0.0%
5-Year Compounded Growth Rate	2.5%	2.8%	-2.1%	5.1%	2.4%

Source: FDIC Summary of Deposits and OTS Branch Office Survey.
Note: Deposit-taking offices of commercial banks only.

through offices, and "other" office types. The "other" category, which comprises primarily mobile or seasonal offices and those that provide back-office support for Internet deposit operations, posted the highest growth rate during the past year, followed by drive-through facilities (see Table 2).[7] This is the second consecutive year that the "other" office category posted the highest growth rate.

Large Organizations Reported the Strongest Deposit Growth

Large organizations (those with more than $10 billion in total deposits) continue to report the largest share of banking offices and domestic deposits among insured banks and thrifts. Large organizations grew deposits during the year ending June 30, 2010 (see Table 3). Deposits at midsized organizations (those with between $1 billion and $10 billion in total deposits) and at small organizations (those with less than $1 billion in total deposits) decreased. Reflective of overall deposit growth, the 2010 deposit growth rate for organizations in each of the three size groups was significantly below its corresponding five-year CAGR.

Office growth for organizations in each of the three size groups was also below its corresponding five-year CAGR during the year. Large organizations posted the only increase (2.5 percent) in the number of offices. The number of offices operated by both midsized and small organizations declined.

Industry office and deposit growth is affected not only by the organic growth of individual institutions and the growth achieved through mergers and acquisitions, but also by the number of institutions that fail. Small and

Table 3

Large Organizations Reported Deposit and Office Growth									
	Large Organizations			Midsized Organizations			Small Organizations		
	Number of Institutions	Number of Offices	Domestic Deposits ($ billions)	Number of Institutions	Number of Offices	Domestic Deposits ($ billions)	Number of Institutions	Number of Offices	Domestic Deposits ($ billions)
June 2005	68	39,019	3,552	376	17,011	1,071	8,382	34,636	1,247
June 2009	69	44,773	4,864	462	19,678	1,274	7,628	33,480	1,347
June 2010	69	45,890	5,075	447	18,982	1,203	7,283	32,360	1,329
1-Year Growth Rate	0.0%	2.5%	4.3%	-3.2%	-3.5%	-5.6%	-4.5%	-3.3%	-1.4%
5-Year Compounded Growth Rate	0.3%	3.3%	7.4%	3.5%	2.2%	2.4%	-2.8%	-1.4%	1.3%

Source: FDIC Summary of Deposits and OTS Branch Office Survey.
Notes: Deposit-taking offices only. Small organizations are those with consolidated deposits less than $1 billion. Midsized organizations are those with consolidated deposits of $1 billion to $10 billion. Large organizations are those with consolidated deposits greater than $10 billion.

[7] Office type information is not provided for OTS-supervised institutions.

Table 4

More Banking Organizations Are Operating in 15 or More States				
Company	Number of States with Deposit Offices	Reported Number of Deposit Offices	Domestic Deposits ($ billions)	Share of Total Domestic Deposits (%)
Wells Fargo & Company	40	6,586	750.4	9.8%
Bank of America Corporation	36	6,041	916.1	11.9%
U.S. Bancorp	26	3,056	169.2	2.2%
JPMorgan Chase & Co.	24	5,227	652.7	8.5%
Beal Bank SSB	21	33	2.6	0.0%
BNP Paribas	20	716	45.0	0.6%
First Citizens Bancshares, Inc.	17	442	17.8	0.2%
Woodforest Financial Group, Inc.	17	736	2.9	0.0%
Northern Trust Corporation	17	88	23.3	0.3%
Dickinson Financial Corporation	17	207	5.0	0.1%
PNC Financial Services Group	16	2,572	177.3	2.3%
Capitol Bancorp Ltd.	16	69	4.2	0.1%
Regions Financial Corporation	16	1,774	95.8	1.2%
KeyCorp	15	1,027	61.8	0.8%
Citigroup Inc.	15	1,023	307.3	4.0%

Sources: FDIC Summary of Deposits and OTS Branch Office Survey.
Note: Deposit-taking offices only.

midsized institutions have been more likely to fail or be acquired, depressing growth for these size categories while boosting growth rates for large institutions, which are more likely to be net acquirers of failed and merged institutions. For example, of the 184 institutions that were acquired through merger transactions in the year ending June 30, 2010, 165 were small organizations and 13 were midsized. Of the 181 institutions that failed last year, 145 were small organizations and 34 were midsized.

The Number of Banking Organizations with Operations in Multiple States Increased

Although no banking organization, even the largest or most geographically diverse, operates in all 50 states and the District of Columbia, the number that operate in at least 15 states increased from 14 to 15 during the year (see Table 4). As of June 30, 2010, only one banking organization—Bank of America Corporation—reported holding more than 10 percent of aggregate domestic deposits. As banking organizations grow larger, they may encounter nationwide deposit concentration limits.[8]

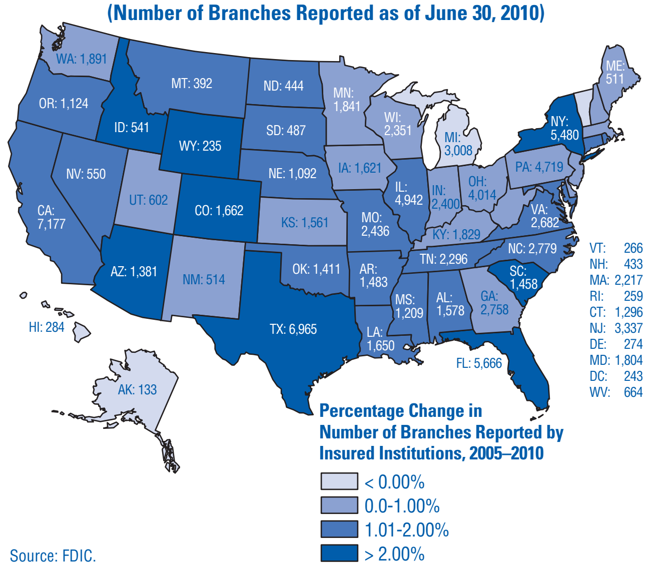
States with the Highest Population Growth Rates Generally Reported Higher Office Growth Rates

Studies have shown that office growth is related to demographic factors such as population, employment, and per capita income growth.[9] In general, states with a faster growing population have experienced greater

[8] Concentration limits are set forth in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as codified by the FDIC in Section 44 of the Federal Deposit Insurance Act. The Act states in part that bank regulatory agencies cannot approve an interstate merger transaction if the resulting bank (including all insured depository institutions that are affiliates of the resulting bank), upon consummation of the transaction, would control more than 10 percent of the total amount of deposits of insured depository institutions in the United States, with certain exceptions. The Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203 (Dodd-Frank) creates an additional cap based on the total liabilities of banking and thrift organizations and nonbank firms identified as posing systemic risk. Dodd-Frank prohibits mergers or acquisitions by such firms if the total consolidated liabilities of the resulting company would exceed 10 percent of the aggregate total consolidated liabilities of such firms.

[9] See Ron Spieker, "Bank Branch Growth Has Been Steady—Will It Continue?" *FDIC Future of Banking Study*, August 2004, http://www.fdic.gov/bank/analytical/future/fob_08.pdf.

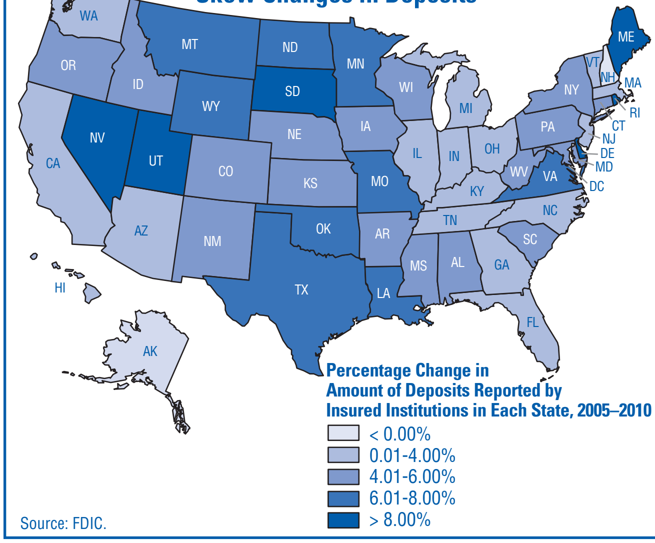
Map 1



Office Growth Was Weakest in the Midwest and Northeast
(Number of Branches Reported as of June 30, 2010)

Source: FDIC.

Map 2



Deposit Growth Was Strong in the Midwest and Southwest, but the Way Deposits Are Assigned by Large Institutions May Skew Changes in Deposits

Source: FDIC.

office growth over the past five years.[10] For example, six of the ten states with the fastest population growth also ranked among the top ten states for office growth during the past five years. However, the relationship was not as strong among states with slow population growth. Of the ten states with the slowest population growth, only four ranked among the bottom ten for office growth.

Deposit volumes are not as strongly correlated with population growth and are driven by other factors, such as state law. Institutions also may follow different procedures when assigning deposits to branches, such as the proximity to the account holder's address, the office where the deposit account is most active, the office where the account originated, or the office assignment used when determining employee compensation. The factors affecting office and deposit growth have contributed to divergent office and deposit growth rates across the nation (see Maps 1 and 2).

Three-Fourths of the Nation's 25 Largest Markets Are "Highly Concentrated" or "Moderately Concentrated"

By law, bank regulatory agencies and the Department of Justice must consider market concentration in their analysis of proposed mergers and acquisitions. The Herfindahl-Hirschman Index (HHI) is a commonly used measure of market concentration.[11] The HHI measures increases in market concentration as banking organizations increase their deposit market share in a particular trade area. As of June 30, 2010, 4 of the 25 largest metropolitan areas had an HHI in the "highly concentrated" range, and another 15 metropolitan areas had an HHI in the "moderately concentrated" range (see Table 5).

Individual trends in market concentration in the nation's 25 largest metropolitan areas were mixed in 2010. The number of metropolitan areas with HHI scores in the "highly concentrated" or "moderately concentrated" range decreased by a net of one when

[10] The five-year compound growth rate in the number of offices by state has a correlation coefficient of 0.51 to the five-year compound growth rate in population by state. In contrast, the five-year compound growth rate in the amount of deposits by state has a correlation coefficient of 0.32 to the five-year compound growth rate in population by state. The correlation coefficient is a statistic that measures the degree to which two or more data series move together.

[11] Under the Department of Justice (DOJ) guidelines, markets with an HHI of less than 1,000 are considered "unconcentrated," those with an HHI between 1,000 and 1,800 are considered "moderately concentrated," and those with an HHI greater than 1,800 are considered "highly concentrated." For more details, see the joint Federal Trade Commission and DOJ Web site on "Horizontal Merger Guidelines" at http://www.usdoj.gov/atr/public/guidelines/horiz_book/hmg1.html.

Table 5

Four of the Largest Metro Areas Are Characterized as "Highly Concentrated" Markets According to the Department of Justice's Herfindahl-Hirschman Index Measurement (Top 25 metropolitan areas by population as of June 30, 2010)

Metropolitan Area	Herfindahl-Hirschman Index	Population Estimate (millions)	5-Year Compounded Growth Rate in Offices	5-Year Compounded Growth Rate in Deposits
Pittsburgh, PA	2,466	2.4	0.2	5.9
San Francisco-Oakland-Fremont, CA	2,323	4.4	1.3	6.1
Minneapolis-St. Paul-Bloomington, MN-WI	2,259	3.3	1.2	10.0
Cincinnati-Middletown, OH-KY-IN	2,028	2.2	0.7	8.9
Phoenix-Mesa-Scottsdale, AZ	1,674	4.4	4.6	3.9
Houston-Sugar Land-Baytown, TX	1,551	6.0	4.1	6.6
Dallas-Fort Worth-Arlington, TX	1,513	6.6	3.7	6.2
Sacramento--Arden-Arcade--Roseville, CA	1,306	2.2	2.3	2.4
Portland-Vancouver-Beaverton, OR-WA	1,293	2.3	1.7	5.7
Baltimore-Towson, MD	1,281	2.7	0.4	5.7
Detroit-Warren-Livonia, MI	1,281	4.4	-0.1	2.3
New York-Northern New Jersey-Long Island, NY-NJ-PA	1,276	19.2	2.1	3.9
San Diego-Carlsbad-San Marcos, CA	1,270	3.1	1.7	2.8
Atlanta-Sandy Springs-Marietta, GA	1,248	5.6	0.8	3.2
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1,224	6.0	0.3	11.4
Seattle-Tacoma-Bellevue, WA	1,151	3.5	0.9	3.6
Riverside-San Bernardino-Ontario, CA	1,116	4.2	3.4	0.8
Boston-Cambridge-Quincy, MA-NH	1,071	4.6	1.0	3.8
Denver-Aurora, CO	1,016	2.6	3.1	6.1
Los Angeles-Long Beach-Santa Ana, CA	962	13.0	1.7	3.2
Washington-Arlington-Alexandria, DC-VA-MD-WV	959	5.5	2.9	4.9
Tampa-St. Petersburg-Clearwater, FL	958	2.8	1.4	5.6
Miami-Fort Lauderdale-Pompano Beach, FL	719	5.5	1.7	2.6
Chicago-Naperville-Joliet, IL-IN-WI	635	9.7	1.5	3.4
St. Louis, MO-IL	632	2.9	2.9	8.2

Sources: FDIC Summary of Deposits and OTS Branch Office Survey, and Moody's Economy.com.

Note: The Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration, is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. Markets in which the HHI is between 1,000 and 1,800 points are considered to be "moderately concentrated," and those in which the HHI is in excess of 1,800 points are considered to be "highly concentrated." For more information, please refer to the joint U.S. Department of Justice and Federal Trade Commission Web site at http://www.usdoj.gov/atr/public/testimony/hhi.htm. Population estimates for 2008 are from Moody's Economy.com.

compared with last year's HHI scores.[12] However, HHI scores for 15 of the 25 largest metropolitan areas increased during the year ending June 30, 2010, up from ten during the prior year.

Within particular markets, some large institutions continue to exert significant local market power. In 11 of the nation's 25 largest metropolitan areas, one institution reports a market share of at least one-fourth of domestic deposits. Overall, the three banking organizations with the largest branch networks have 18 percent of the nation's deposit offices but hold 30 percent of domestic deposits.

Conclusion

The number of banking offices decreased for the first time in 15 years, and deposit growth slowed during the year ending June 30, 2010. The number of offices declined in communities of all sizes as a result of institution failures and merger and acquisition activity as well as the industry's continued efforts to reduce overhead in response to lingering challenges in the operating environment. Large institutions reported higher-than-average deposit growth and slightly positive office growth, and hold significant levels of deposits

[12] Both the Tampa and Washington, DC, metropolitan areas reported HHI scores below 1,000 in 2010; the Boston metropolitan area's HHI score increased to above 1,000.

in a number of markets across the country. Going forward, expectations for future office growth are modest as the industry continues to work through high levels of problem assets and related earnings weaknesses (see accompanying *Quarterly Banking Profile*).

Author: Robert E. Basinger, Senior Financial Analyst
Division of Insurance and Research

The author would like to thank Tom Leonard and Benjamin Tikvina of the Division of Insurance and Research for their contributions to this article.