# FYI: An Update on Emerging Issues in Banking

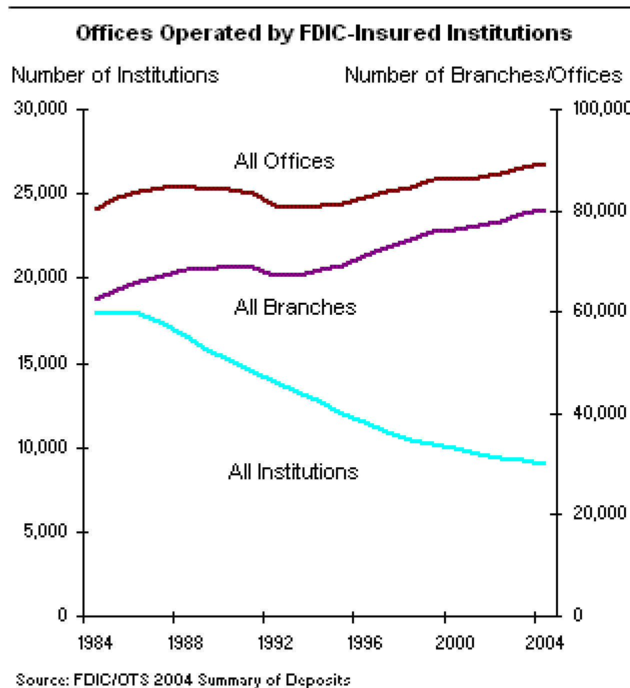
## Branching Continues to Thrive as the U.S. Banking System Consolidates

October 20, 2004

### Overview

Consolidation of FDIC-insured commercial banks and thrifts into fewer and larger companies represents a long-term trend with far-reaching business and regulatory implications.[1] But amid charter consolidation, a steady expansion in the number of U.S. bank and thrift branches is also underway that is itself changing the face of the banking industry. Recent research published under the FDIC Future of Banking Study showed that while the number of commercial banks declined by 29 percent from 1994 through 2003, the number of bank branches increased by 15 percent over the same period to almost 67,000.[2] The study showed that despite consolidation, branches remained a valuable resource in helping banks generate fee income and possibly better manage their overhead expenses.

New data published today as part of the 2004 Summary of Deposits (SOD) release show that the expansion of bank branching continues in place.[3] Further, analysis of the mid-year 2004 data provide yet more evidence that bank branch networks are generally associated with lower expenses, higher fee income, and higher profitability. At the same time, the 2004 data show that charter consolidation and out-of-state branching are leading to more highly concentrated deposit markets in a number of states and metropolitan areas, which could restrict the ability of large institutions to acquire more branches given existing state and federal caps for deposit market share.




### The Expansion of Branch Networks Continues

While the number of both commercial banks and savings institutions has steadily declined, branch banking has continued to expand. In the 12 months ending June 30, 2004, the number of FDIC-insured

institutions declined by 194 while the number of deposit offices operated by these institutions increased by 1,594. At the end of June, these 9,066 institutions operated 89,814 offices.

Most of the expansion in branch banking has come from new brick and mortar offices and retail locations.[4] Full service brick and mortar offices increased by 1,471 to 80,960 in 2004, while the number of full service retail offices increased by 517 to 4,728. During this same period, mobile/seasonal offices increased from 310 to 405. All other office types, including limited service offices, changed only slightly from previous year totals.

The fact that the highest percentage increase (12.3 percent) in branches during the year was observed in retail facilities reflects the ongoing evolution of strategies to bring the bank to the customer. Starting in the late 1970s, this effort was spearheaded by the proliferation of automated teller machines (ATMs), which increased in number from about 10,000 in 1977 to almost 175,000 in just 20 years.[5] In contrast, the take-off in bank branches located in retail facilities began in earnest only in the mid-1990s, and continues apace today. The SOD data show that retail branches have increased from only 302 in 1994 (0.4 percent of total branches) to 4,728 in 2004 (5.3 percent). This rapid increase may indicate an effort to bring a wider range of banking services to retail customers than can be accomplished with ATMs alone.

The pace of growth for large institutions is clearly exceeding the rate for smaller institutions. Larger banks have been branching out at a rate that is faster than small and new banks can grow internally. The latest data show that smaller institutions (defined here as those having $1 billion or less in total assets) operate 33,191 offices (37 percent of the total). However, their trend in both number of offices and total deposits has been declining since at least 1994. Between June 2003 and June 2004, offices of small banks declined by 669 while their total deposits increased slightly from $1.118 trillion to $1.120 trillion. For larger institutions (assets greater than $1 billion), the trend has been just the reverse, with offices increasing from 54,252 to 56,623 and deposits increasing from $4.014 trillion to $4.345 trillion. Approximately $28.0 billion of large bank deposit growth is due to mergers with small institutions, and $15.6 billion in growth resulted from small institutions growing to more than $1 billion in assets.[6] However, even after adjusting for these factors, small institutions grew by more than 4 percent, while large institutions grew slightly more than 7 percent.

Table 1

**FDIC/OTS 2004 Summary of Deposits Change in Offices by Bank Service Type**

| Bank Service Type | Number of Offices 2004 | Number of Offices 2003 | Change in Number of Offices | Change in Number of Offices (%) |
|---|---|---|---|---|
| Full - Brick and Mortar Office | 80,960 | 79,489 | 1,471 | 1.9 |
| Full - Home Banking | 156 | 150 | 6 | 4.0 |
| Full - Retail Office | 4,728 | 4,211 | 517 | 12.3 |
| Limited - Drive-Through/Facility | 3,109 | 3,161 | -52 | -1.6 |
| Limited - Military Facility | 26 | 29 | -3 | -10.3 |
| Limited - Mobile/Seasonal Office | 405 | 310 | 95 | 30.6 |
| Other | 430 | 870 | -440 | -50.6 |
| Total | 89,814 | 88,220 | 1,594 | 1.8 |

Source: FDIC/OTS Summary of Deposits

### Branching Is Generally Related to Better Financial Performance

Table 2 below breaks down FDIC-insured institutions into groups according to how extensive a branch

network each institution maintains. Within these groupings, simple averages were calculated for several financial ratios that can reflect how an institution's branch network contributes to income, expenses and profitability. Based on these calculations, shown in Tables 2A, 2B and 2C, extensive branch networks are generally associated with higher noninterest income, lower interest and noninterest expenses, and higher returns on equity (ROE). Moreover, these relationships are especially evident among community banks, which are less profitable on average than larger institutions. These results suggest that maintaining a branch network may be one way in which smaller institutions can close the profitability gap with their larger rivals.

Table 2A

| **FDIC/OTS 2004 Summary of Deposits<br>Selected Measures for FDIC-Insured Institutions and Offices<br>All Institutions** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Number of Offices** | **Total Institutions** | **Total Offices** | **Total Deposits (Dollars in thousands)** | **Average ROE** | **NonInterest Income*** | **Net Noninterest Expense*** | **Total Interest Expense*** | **Net Expense*** |
| 1 | 2,545 | 2,545 | 284,518,043 | 8.53 | 2.00 | 4.46 | 1.34 | 5.80 |
| 2 - 3 | 2,790 | 6,763 | 410,513,460 | 10.29 | 1.03 | 3.24 | 1.41 | 4.65 |
| 4 - 10 | 2,712 | 15,834 | 592,716,887 | 11.52 | 0.91 | 3.08 | 1.39 | 4.47 |
| 11 - 30 | 714 | 11,610 | 490,258,274 | 12.12 | 1.22 | 3.14 | 1.37 | 4.51 |
| >30 | 275 | 52,451 | 3,637,818,617 | 13.90 | 1.73 | 3.16 | 1.27 | 4.43 |
| Totals | 9,036 | 89,203 | 5,415,825,281 | | | | | |

Table 2B

| **FDIC/OTS 2004 Summary of Deposits<br>Selected Measures for FDIC-Insured Institutions and Offices<br>Large Institutions (Total Assets > $1.0 billion)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Number of Offices** | **Total Institutions** | **Total Offices** | **Total Deposits (Dollars in thousands)** | **Average ROE** | **NonInterest Income*** | **Net Noninterest Expense*** | **Total Interest Expense*** | **Net Expense*** |
| 1 | 51 | 51 | 154,575,284 | 19.45 | 7.49 | 6.60 | 1.33 | 7.93 |
| 2 - 3 | 24 | 56 | 177,536,928 | 15.42 | 3.32 | 3.23 | 1.43 | 4.66 |
| 4 - 10 | 51 | 400 | 75,384,864 | 14.46 | 1.12 | 2.53 | 1.36 | 3.89 |
| 11 - 30 | 191 | 3,863 | 263,532,344 | 12.94 | 1.35 | 2.92 | 1.39 | 4.31 |
| >30 | 257 | 51,696 | 3,627,049,758 | 13.95 | 1.37 | 2.84 | 1.28 | 4.12 |
| Totals | 574 | 56,066 | 4,298,079,178 | | | | | |

Table 2C

| FDIC/OTS 2004 Summary of Deposits<br>Selected Measures for FDIC-Insured Institutions and Offices<br>Smaller Institutions (Total Assets < $1.0 billion) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Number of Offices** | **Total Institutions** | **Total Offices** | **Total Deposits (Dollars in thousands)** | **Average ROE** | **NonInterest Income*** | **Net Noninterest Expense*** | **Total Interest Expense*** | **Net Expense****** |
| 1 | 2,494 | 2,494 | 129,942,759 | 8.30 | 1.89 | 4.42 | 1.34 | 5.76 |
| 2 - 3 | 2,766 | 6,707 | 232,976,532 | 10.25 | 1.01 | 3.24 | 1.41 | 4.65 |
| 4 - 10 | 2,661 | 15,434 | 517,332,023 | 11.46 | 0.91 | 3.09 | 1.39 | 4.48 |
| 11 - 30 | 523 | 7,747 | 226,725,930 | 11.82 | 1.17 | 3.22 | 1.36 | 4.58 |
| >30 | 18 | 755 | 10,768,859 | 13.20 | 6.89 | 7.82 | 1.11 | 8.93 |
| Totals | 8,462 | 33,137 | 1,117,746,103 | | | | | |

*Four Quarters, Percentage of Average Assets
**Total Interest Expense plus Net Noninterest Expense, Four Quarters, Percentage of Average Assets
***Excludes 30 institutions in Puerto Rico and U.S. Territories, and 13 other institutions for which income data was not reported.
Source: FDIC/OTS 2004 Summary of Deposits, Call Reports, and Thrift Financial Reports

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Branch networks appear to help generate higher levels of noninterest income. As was previously demonstrated in the FDIC Future of Banking Study, institutions with multiple banking offices in June 2004 reported higher average ratios of noninterest income to average assets as the number of offices increased. Statistical means tests between institutions having two or three offices and those having more than 30 offices show a significant difference in levels of noninterest income, interest expense and ROE.[7]

Breaking down the industry by asset size further identifies differences in noninterest income ratios at community banks (those holding less than $1 billion in total assets). Community banks with 11 to 30 offices reported average noninterest income that was 16 percent higher than those with only 2 to 3 offices, while those with more than 30 offices reported noninterest income that was more than six times higher.[8] Although more study is needed as to the source of this earnings advantage in fee income, it seems reasonable to conclude that branches are effective engines in generating fees from retail and/or business borrowers.

Not surprisingly, branching networks seem to be associated with lower interest expense ratios, with the advantages being more pronounced in the case of community banks. For the industry as a whole, institutions with 30 or more offices reported interest expenses as a percentage of average assets that were 10 percent lower than the average ratio for institutions with only 2 or 3 offices. Again, statistical means tests show a significant difference between these two groups. Among small banks, this cost advantage, also statistically significant, averaged 21 percent. It is clear that branches are generally effective in helping institutions gather up low-cost core deposits, helping to keep overall interest expenses at a minimum.

The 2004 data show that, for all institutions, branch networks may be associated with lower noninterest expenses. For example, institutions with more than 30 offices report average noninterest expense of 3.16 percent compared with 3.24 percent for those having 2 to 3 offices. However, when a separate comparison is made for large and small institutions, this marginal advantage is less apparent. Neither large nor small institutions appear, on average, to enjoy a statistically significant benefit.

The net contribution of branching networks to the bottom line is reflected in the fifth column of Table 2, which compares average ROE for each group. While the contribution of branch networks to larger banks' profitability is somewhat inconclusive, it seems clear that among community banks, branching networks

are associated with higher ROE ratios. In fact, for community banks with networks of 11-30 offices, average reported ROE was 15 percent higher than the ratio for institutions with only 2 or 3 offices. This result is also statistically significant.

### Geographic Patterns of Growth

Over the past decade, deposits have tended to grow faster at branches that were located within the boundaries of U.S. Metropolitan Statistical Areas (MSAs) compared with growth in non-metro areas.[9] Deposits at branches located within MSAs grew by 78 percent between 1994 and 2004, while deposits in branches located outside MSAs were up 30 percent. But the gap between metro and non-metro areas was smaller when measured in terms of growth in the number of offices. Between 1994 and 2004, the number of offices located in MSAs grew 11 percent, which was only slightly higher than the rate of 8 percent for non-metro areas.

Table 3 shows the 10 states with the largest percentage increase in offices between 1994 and 2004. The largest percentage increase occurred in the state of Colorado, where the number of offices increased from 856 to 1,419 (66 percent). The 10-year increase in total deposits in these states ranged from 50 percent in Oklahoma to 733 percent in Utah. Not surprisingly, these patterns of growth in offices and deposits across the states roughly mirror the long-term growth of the state economies; of the 10 states listed in Table 3, five were also among the 10 states with the largest net addition of payroll jobs over the period.

Table 3

**FDIC/OTS 2004 Summary of Deposits for Selected States***
**States With Greatest Percentage Change in Deposits**

| States | Number of Offices 2004 | Number of Offices 1994 | Change in Number of Offices 1994 - 2004 (%) | Deposits 2004 (Dollars in thousands) | Deposits 1994 (Dollars in thousands) | Change in Deposits 1994 -2004 (%) |
|---|---|---|---|---|---|---|
| Colorado | 1,419 | 856 | 65.8 | 64,469,655 | 35,115,581 | 83.6 |
| Wyoming | 205 | 136 | 50.7 | 7,882,896 | 5,100,901 | 54.5 |
| Texas | 5,480 | 3,833 | 43.0 | 310,346,403 | 173,080,061 | 79.3 |
| Montana | 365 | 257 | 42.0 | 11,911,022 | 7,791,176 | 52.9 |
| Nevada | 474 | 345 | 37.4 | 40,738,192 | 13,074,291 | 211.6 |
| Arkansas | 1,341 | 1,004 | 33.6 | 38,682,129 | 25,229,147 | 53.3 |
| Illinois | 4,394 | 3,363 | 30.7 | 281,924,653 | 186,739,410 | 51.0 |
| Idaho | 488 | 376 | 29.8 | 14,105,372 | 9,284,641 | 51.9 |
| Utah | 600 | 468 | 28.2 | 102,377,839 | 12,291,634 | 732.9 |
| Oklahoma | 1,242 | 991 | 25.3 | 46,322,095 | 30,790,663 | 50.4 |

*Excludes Puerto Rico and U.S. Territories
Source: FDIC/OTS Summary of Deposits

### More Institutions Are Branching Across State Lines

In keeping with the overall trend of charter consolidation, the number of institutions that operate across state lines has increased every year since 1993.[10] The total number of institutions with offices in two or more states increased from 539 in 2003 to 553 in 2004. The total assets and deposits held by multi-state institutions have been increasing as well, although at a somewhat slower rate. This trend is also reflected in data that measure the number of out-of-state branches located in each state and the market shares of those branches. States leading the nation in terms of total deposits in branches owned by out-of-state

companies include Florida (70.6 percent), Arizona (84 percent), Oregon (76.2 percent), and Texas (52.6 percent).

### Market Concentration and Regulatory Ceilings

Consolidation and interstate branching have also led to an increase in the number of cases where an institution holds a share of deposits in one or more states that either approaches or exceeds the market-share cap for that state. The implication is that such institutions may face regulatory constraints to further acquisitions within that state. Table 4 shows 14 cases where an institution is nearing or already exceeding the applicable Riegle-Neal cap or state limit for total market share. Two institutions with interstate operations in two states already exceed deposit caps, with banks in Alaska, Arizona, and the District of Columbia rapidly approaching the cap.[11] A larger number of institutions have market share in excess of 20 percent of state deposit totals. These banks are thus restricted in their ability to grow where mergers with other institutions would exceed the state cap.

Table 4

**FDIC/OTS 2004 Summary of Deposits**
**Banks or Holding Companies With Market Share Near Riegle-Neal or State Limits**

| State | Statewide Deposit Cap on Branch Acquisitions | Institution | Total Deposits (Dollars in thousands) | Market Share (%) |
|---|---|---|---|---|
| AK | 50% | WELLS FARGO & COMPANY | 2,667,414 | 44.9 |
| AZ | 30% | BANK ONE, NATIONAL ASSOCIATION | 16,419,000 | 26.9 |
| CA | 30% ** | BANK OF AMERICA CORPORATION | 140,254,162 | 22.2 |
| CT | 30% | BANK OF AMERICA CORPORATION | 16,971,358 | 20.8 |
| DC | 30%** | WACHOVIA CORPORATION | 4,977,718 | 27.8 |
| FL | 30%** | BANK OF AMERICA CORPORATION | 62,018,922 | 21.0 |
| HI | 30%* | BNP PARIBAS SA | 6,830,683 | 30.4 |
| ID | 30%** | WELLS FARGO & COMPANY | 3,304,823 | 24.1 |
| MA | 30% | BANK OF AMERICA CORPORATION | 38,336,299 | 22.3 |
| MO | 13% | U.S. BANCORP | 10,715,940 | 12.4 |
| NM | 40% | WELLS FARGO & COMPANY | 4,063,283 | 22.6 |
| OR | 30%** | U.S. BANCORP | 8,877,628 | 22.6 |
| SD | 30%** | WELLS FARGO & COMPANY | 39,428,281 | 74.2 |
| WA | 30%*** | BANK OF AMERICA CORPORATION | 19,377,642 | 22.6 |

* Federal cap applies unless waived by Commissioner
** State instituted no deposit cap, therefore federal law of 30% applies (Riegle-Neal Act)
*** Owned either by a foreign or non-bank holding company
**** Waived in certain circumstances
Note: Excludes Puerto Rico and U.S. Territories
Sources: FDIC/OTS Summary of Deposits. State deposit caps provided by Conference of State Bank Supervisory (CSBS).

Beyond the question of branch expansion or acquisition, market concentration is also an important factor in the competitive analysis of proposed mergers and acquisitions that is routinely conducted by both federal bank regulatory agencies and the Department of Justice (DOJ). Since 1982, DOJ has based its merger guidelines on the Herfindahl-Hirschman index of concentration (HHI), although this is only one of several factors taken into consideration.[12] Under these guidelines, markets with an HHI of less than 1000 are considered "unconcentrated"; those with an HHI between 1000 and 1800 are considered "moderately

concentrated"; and those with an HHI greater than 1800 are considered “highly concentrated.”

Tables 5A and 5B below show the 10 states with the highest and lowest HHIs, respectively, as of mid-year 2004.[13] Based on the concentration guidelines that are generally applied in the analysis of banking mergers, some 34 states would currently be considered unconcentrated, while 10 states and the District of Columbia would be considered moderately concentrated and 6 other states considered highly concentrated. These results indicate that there may still be considerable capacity for expansion through mergers and acquisitions.

Table 5A

**FDIC/OTS 2004 Summary of Deposits**
**Herfindahl-Hirschman Index (HHI) of Concentration for Selected States***
**States With Highest HHI Concentration in 2004**

| States | Number of Institutions | 2004 HHI | 1994 HHI | HHI Change 1994-2004 |
|---|---|---|---|---|
| South Dakota | 89 | 5,534 | 891 | +4,643 |
| Utah | 72 | 2,971 | 1,511 | +1,461 |
| Alaska | 9 | 2,786 | 2,600 | +186 |
| Rhode Island | 22 | 2,415 | 2,058 | +357 |
| Hawaii | 10 | 2,194 | 2,010 | +184 |
| North Carolina | 123 | 2,175 | 852 | +1,323 |
| New Hampshire | 37 | 1,664 | 657 | +1,007 |
| Arizona | 69 | 1,612 | 2,163 | -551 |
| Delaware | 39 | 1,604 | 916 | +689 |
| District of Columbia | 27 | 1,600 | 1,426 | +174 |

*Calculations are made on the holding company level.
Source: FDIC/OTS Summary of Deposits

Table 5B

**FDIC/OTS 2004 Summary of Deposits**
**Herfindahl-Hirschman Index (HHI) of Concentration for Selected States***
**States With Lowest HHI Concentration in 2004**

| States | Number of Institutions | 2004 HHI | 1994 HHI | HHI Change 1994-2004 |
|---|---|---|---|---|
| Kansas | 359 | 235 | 313 | -78 |
| Iowa | 348 | 241 | 211 | +31 |
| Kentucky | 225 | 326 | 310 | +15 |
| Arkansas | 149 | 341 | 371 | -30 |
| Oklahoma | 266 | 365 | 231 | +134 |
| Illinois | 676 | 385 | 237 | +148 |
| North Dakota | 94 | 417 | 561 | -144 |
| Indiana | 197 | 429 | 394 | +35 |
| Missouri | 345 | 446 | 631 | -185 |
| Texas | 648 | 446 | 395 | +52 |

*Calculations are made on the holding company level.
Source: FDIC/OTS Summary of Deposits

Table 5C

| FDIC/OTS 2004 Summary of Deposits<br>Herfindahl-Hirschman Index (HHI) of Concentration for Selected States*<br>States With Greatest Change in HHI Concentration | | | | |
|---|---|---|---|---|
| **States** | **Number of Institutions** | **2004 HHI** | **1994 HHI** | **HHI Change 1994-2004** |
| South Dakota | 89 | 5,534 | 891 | +4,643 |
| Utah | 72 | 2,971 | 1,511 | +1,461 |
| North Carolina | 123 | 2,175 | 852 | +1,323 |
| New Hampshire | 37 | 1,664 | 657 | +1,007 |
| New York | 227 | 1,266 | 492 | +773 |
| Delaware | 39 | 1,604 | 916 | +689 |
| Minnesota | 421 | 1,519 | 909 | +609 |
| Louisiana | 172 | 933 | 476 | +457 |
| Vermont | 24 | 1,391 | 1,016 | +376 |
| Massachusetts | 211 | 837 | 489 | +349 |

*Calculations are made on the holding company level.
Source: FDIC/OTS Summary of Deposits

But market concentration has clearly risen in some states over the past decade. Table 5C lists the 10 states with the highest increase in their HHI since 1994.[14] Based on these changes, three of the states (South Dakota, Utah, and North Carolina) would currently be considered highly concentrated, although only one of them (Utah) would have even been considered moderately concentrated a decade ago.

Concentration has also increased in a number of MSAs (Tables 6A, 6B and 6C). The Stockton, California MSA has experienced the largest increase in its HHI of any U.S. metropolitan area since 1994, and by this measure is currently the second-most highly concentrated deposit market in the nation. But it is by no means the only metro area where the deposit market could be considered concentrated. As of June 30, some 90 MSAs (including Stockton) could be highly concentrated, 221 could be considered moderately concentrated, and only 58 MSAs could be considered unconcentrated.[15]

Table 6A

| FDIC/OTS 2004 Summary of Deposits<br>Herfindahl-Hirschman Index (HHI) of Concentration for Selected Metropolitan Statistical Areas*<br>MSA With Highest HHI Concentration in 2004 | | | |
|---|---|---|---|
| **MSA** | **2004** | **1994** | **Change 1994-2004** |
| Sioux Falls, SD | 7,504 | 3,184 | +4,320 |
| Stockton, CA | 6,974 | 970 | +6,004 |
| Columbus, IN | 6,752 | 3,439 | +3,313 |
| Bloomington-Normal, IL | 5,744 | 1,593 | +4,151 |
| Hinesville-Fort Stewart, GA | 5,439 | 5,239 | +201 |
| Charlotte-Gastonia-Concord, NC-SC | 4,673 | 1,411 | +3,262 |

| | | | |
|---|---|---|---|
| San Germán-Cabo Rojo, PR | 4,525 | 4,685 | -160 |
| Columbus, GA-AL | 4,234 | 2,027 | +2,208 |
| Monroe, MI | 4,006 | 3,326 | +679 |
| Laredo, TX | 3,680 | 3,211 | +559 |

*Calculations are made at the holding company level.
Source: FDIC/OTS Summary of Deposits

Table 6B

**FDIC/OTS 2004 Summary of Deposits**
**Herfindahl-Hirschman Index (HHI) of Concentration for Selected Metropolitan Statistical Areas***
**MSA With Lowest HHI Concentration in 2004**

| MSA | 2004 | 1994 | Change 1994-2004 |
|---|---|---|---|
| Kansas City, MO-KS | 477 | 434 | +43 |
| Huntington-Ashland, WV-KY-OH | 525 | 603 | -78 |
| Davenport-Moline-Rock Island, IA-IL | 554 | 557 | -3 |
| Chicago-Naperville-Joliet, IL-IN-WI | 609 | 224 | +385 |
| Peoria, IL | 611 | 858 | -247 |
| Oklahoma City, OK | 640 | 574 | +66 |
| St. Louis, MO-IL | 675 | 640 | +35 |
| Madison, WI | 700 | 762 | -62 |
| Springfield, MO | 707 | 857 | -149 |
| Poughkeepsie-Newburgh-Middletown, NY | 729 | 612 | +117 |

*Calculations are made at the holding company level.
Source: FDIC/OTS Summary of Deposits

Table 6C

**FDIC/OTS 2004 Summary of Deposits**
**Herfindahl-Hirschman Index (HHI) of Concentration for Selected Metropolitan Statistical Areas***
**MSA With Greatest Change in HHI Concentration**

| MSA | 2004 | 1994 | Change 1994-2004 |
|---|---|---|---|
| Stockton, CA | 6,974 | 970 | +6,004 |
| Sioux Falls, SD | 7,504 | 3,184 | +4,320 |
| Bloomington-Normal, IL | 5,744 | 1,593 | +4,151 |
| Columbus, IN | 6,752 | 3,439 | +3,313 |
| Charlotte-Gastonia-Concord, NC-SC | 4,673 | 1,411 | +3,262 |
| Columbus, GA-AL | 4,234 | 2,027 | +2,208 |
| Salt Lake City, UT | 3,562 | 1,383 | +2,180 |
| Terre Haute, IN | 3,195 | 1,612 | +1,583 |
| San Antonio, TX | 2,277 | 880 | +1,396 |
| Fayetteville-Springdale-Rogers, AR-MO | 2,042 | 730 | +1,312 |

*Calculations are made at the holding company level.
Source: FDIC/OTS Summary of Deposits

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### Conclusion

Branch banking continues to expand, even as the overall number of banking institutions continues to decline. Large institutions in particular continue to branch out geographically, and, by far, new brick and mortar offices account for most of this new expansion. Still, the manner in which banks are attempting to reach their customers continues to evolve, as the fastest growing types of branches are those located in retail establishments.

Bank branching continues to thrive because it appears to offer clear financial advantages, at least to certain classes of banks. For small institutions, non-interest income, interest expense and ROE improves with larger branch networks. While similar advantages may accrue to larger institutions, their sparser population makes it difficult to determine whether their branch networks provide them with clear advantages.

The branching data also reflect an increase in deposit market concentration, both at the state level and in certain metropolitan areas. While a number of banks are approaching their market share caps in certain states, there still appears ample room for institutions to grow through merger and acquisition activity.

### About the Summary of Deposits (SOD) Data

The FDIC's SOD website provides a number of useful tools to define geographic markets, identify which institutions operate in a specific market, and determine pro forma market share for competitive analysis and potential mergers. Those interested in more detail on this topic are encouraged to visit the site at https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1 to explore the various resources that are available.

[1] Banking consolidation and market share is the subject of two recent studies published under the FDIC Future of Banking Study. See "The Declining Number of U.S. Banking Organizations: Will the Trend Continue?" and "The Evolving Role of Commercial Banks in U.S. Credit Markets.

[2] This study only included commercial banks. See "Bank Branch Growth Has Been Steady -- Will It Continue?"

[3] Current and historical Summary of Deposits (SOD) data can be accessed through the FDIC's website at https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1. For more information on the annual SOD Survey, see the Survey Forms and Instructions at https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1

[4] Full service brick and mortar offices operate normal hours with a full time staff and may be owned or leased by the institution. Retail offices are those branches that are located in a retail facility such as a supermarket or department store. Mobile/seasonal offices are open for a limited period of time during the week and do not have a fixed location.

[5] See Congressional Budget Office, "Competition in ATM Markets: Are ATMs Money Machines?" July 1998. www.cbo.gov/ftpdocs/6xx/doc666/atmcomp.pdf

[6] The 2004 SOD data now reflects deposit balances in escrow accounts. These balances were not reported for OTS institutions in the survey prior to June 30, 2004 .

[7] Using Satterthwaite tests of unequal variances.

[8] This result was not statistically significant, primarily because there are only 18 small institutions that have more than 30 branches. On the other hand, note that there are only 24 large institutions having 2 to 3 branches. These smaller sample sizes that result for certain categories when the data are divided into large and small groups occasionally make it difficult to obtain significant results.

[9] The Office of Management and Budget establishes and maintains the definitions of Metropolitan and Micropolitan Statistical Areas and other geographic definitions for the purpose of facilitating consistent geographic breakdowns of government statistical data. See www.census.gov/population/www/estimates/metroarea.html

[10] More complete statistics on interstate branching can be found on the FDIC's SOD website at: https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1.

[11] The Riegle- Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle- Neal ) generally prohibits the approval of any interstate merger using the authority of section 44 of the FDI Act, 12 U.S.C. §1831u, if the resulting bank and its affiliates would control 30 percent or more of the total deposits in the state. However, Riegle- Neal would not prohibit an institution from exceeding this limit through organic (internal) growth. States may override the Riegle- Neal state caps by establishing their own caps either above or below the Riegle- Neal limits. Additional Call Report data is required to calculate the Riegle-Neal 10 percent national market share cap.

[12] The HHI is measured as the sum of squares of the market shares in a particular geographic market. It can range from zero in a market having an infinite number of institutions to 10,000 in a market having just one institution (with a 100 percent market share).

[13] HHI is calculated from SOD data, and both the tables and the SOD web application weight all deposits at 100 percent. The HHI is considered in both Riegle-Neal interstate mergers and intrastate mergers. While Tables 5A, 5B, and 5C list the HHIs for entire states, actual merger analyses focus on the relevant geographic markets of the merging institutions and are often much smaller areas.

[14] South Dakota has experienced the greatest increase and has the highest 2004 index value, again due primarily to the move by Wells Fargo.

[15] Deposit market shares for all MSAs can be referenced at the FDIC's SOD homepage at: https://www5.fdic.gov/sod/sodInstBranch.asp?barItem=1.

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**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.

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Chart 1: Offices Operated by FDIC-Insured Institutions

| Date | All Institutions | All Branches | All Offices |
|---|---|---|---|
| 31-Dec-84 | 17,914 | 68,552 | 85,127 |
| 31-Dec-85 | 18,043 | 68,590 | 84,392 |
| 31-Dec-86 | 17,887 | 69,221 | 84,383 |
| 31-Dec-87 | 17,345 | 69,011 | 83,499 |
| 31-Dec-88 | 16,561 | 68,505 | 85,066 |
| 31-Dec-89 | 15,828 | 68,529 | 84,357 |
| 31-Dec-90 | 15,191 | 69,162 | 84,353 |
| 31-Dec-91 | 14,516 | 68,925 | 83,441 |
| 31-Dec-92 | 13,890 | 67,212 | 81,102 |
| 31-Dec-93 | 13,260 | 67,315 | 80,575 |
| 31-Dec-94 | 12,640 | 68,553 | 81,193 |
| 31-Dec-95 | 12,001 | 69,349 | 81,350 |
| 31-Dec-96 | 11,479 | 71,099 | 82,578 |
| 31-Dec-97 | 10,946 | 72,725 | 83,671 |
| 31-Dec-98 | 10,484 | 74,172 | 84,656 |
| 31-Dec-99 | 10,240 | 75,893 | 86,133 |
| 31-Dec-00 | 9,920 | 76,147 | 86,067 |
| 31-Dec-01 | 9,630 | 76,984 | 86,614 |
| 31-Dec-02 | 9,369 | 77,968 | 87,337 |
| 31-Dec-03 | 9,194 | 79,385 | 88,579 |
| 30-Jun-04 | 9,048 | 80,133 | 89,181 |
| Source: FDIC/OTS 2004 Summary of Deposits | | | |