

# Banks Attract More Deposits While Operating Fewer Offices

## Introduction

Deposits across the banking industry grew while the number of offices shrank among noncommunity banks and increased among community banks from the previous year, according to the 2016 Summary of Deposits (SOD) survey. Meanwhile, offices in energy-dependent counties reported almost no deposit growth as natural gas, oil, and coal prices fell.

This paper highlights key findings from the 2016 SOD, derived from office and deposit data that the FDIC collects from all FDIC-insured institutions as of June 30 each year. Recent trends in deposit growth and office contraction continued with the 2016 survey. Community banks reported more deposits and more offices, even as the number of offices declined for the industry as a whole.

Deposits at noncommunity banks grew faster in metropolitan areas than in micropolitan areas and rural areas, although the number of branches of noncommunity banks decreased at similar rates in each of those areas. While the total of all deposits in all offices in counties with high exposure to the energy industry did not increase from a year ago, these offices have stabilized from the 7.1 percent decrease in deposits noted in the 2015 SOD.

## Offices Contract and Deposits Grow at a Steady Rate Industry Wide

In 2016, FDIC-insured institutions reduced their number of offices by 1.5 percent (1,411 offices) to 91,851 for the year ending June 30, 2016 (Chart 1). This decline is on par with the 1.5 percent (1,453 offices) year-over-year decrease in 2015 and marks the seventh consecutive year that the number of offices has declined. During this period, the largest decline occurred in 2014, when office counts dropped 1.7 percent (1,614 offices). Since 2014, the rate of decline in offices has fallen but remains higher than the five-year average decline of 1.3 percent.<sup>1</sup>

Total deposits at FDIC-insured institutions increased 5.8 percent to \$11.2 trillion from the previous year—similar to year-over-year growth in 2015 but slightly lower than the five-year average of 6.4 percent. Due in part to the overall contraction in offices, total deposits per office grew 7.4 percent to \$122 million and the number of offices per 10,000 people declined 2.3 percent to 2.8 (Chart 2). The number of FDIC-insured institutions totaled 6,058 as of June 30, 2016, down from 6,348 one year earlier. Continuing a trend, the number of offices per institution increased to 15.2, up 3.2 percent year over year.

<sup>1</sup> In this analysis, “five-year average” refers to a five-year compound annual growth rate (CAGR).

Chart 1

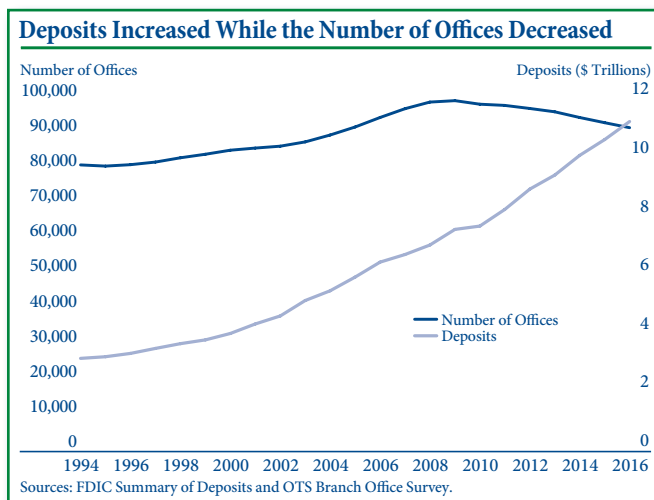
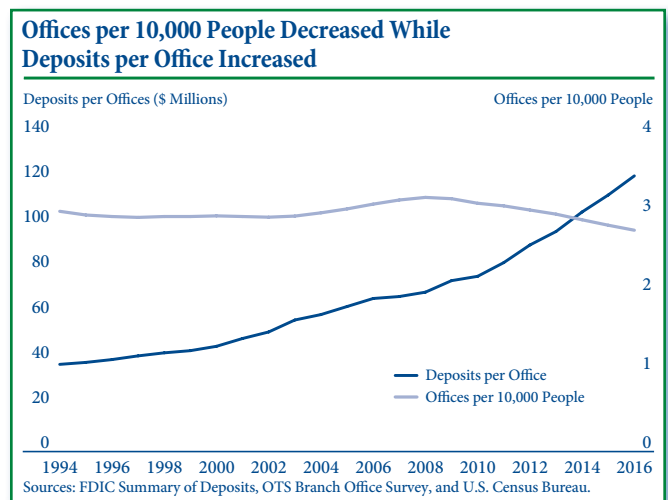


Chart 2



**Metropolitan Areas Drive Deposit Growth, Rural Areas Report Slower Office Contraction**

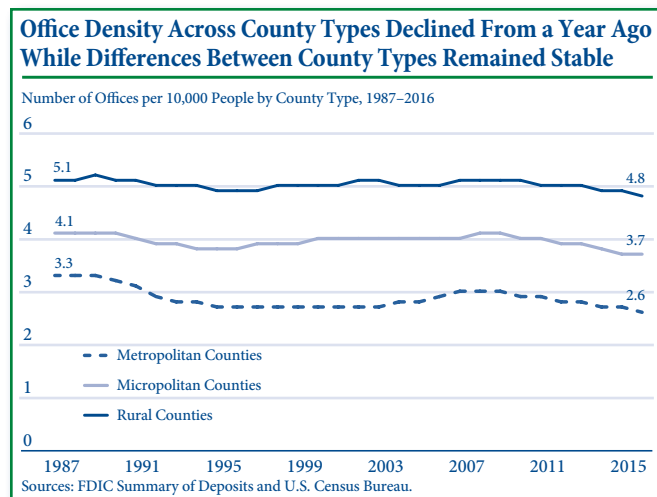
Deposits and offices continue to be concentrated in metropolitan areas: As of June 30, 2016, 79 percent of deposit-taking offices and 93 percent of deposits were located in metropolitan areas. The high percentage of offices and deposits in these areas is not surprising, as nearly 87 percent of the U.S. population lives in a metropolitan area.

Both metropolitan and nonmetropolitan areas reported office contraction and deposit growth year over year (Table 1).<sup>2</sup> Deposits in metropolitan areas grew 6.1 percent from the previous year, compared with increases of 2.6 percent in micropolitan areas and 1.4 percent in rural areas. Deposits in metropolitan and micropolitan areas grew at a faster rate than a year ago, while deposit growth in rural areas slowed to just over half the rate of the previous year. Only micropolitan areas exceeded their five-year average growth rate.

For the third consecutive year, office contraction was slowest in rural areas and fastest in micropolitan areas. The number of offices in rural areas declined 1.2 percent from the previous year, compared with declines of 1.5 percent in metropolitan areas and 1.6 percent in micropolitan areas. The number of offices declined in metropolitan areas for the seventh consecutive year and at a rate faster than their five-year average, while offices declined for only the fifth consecutive year in micropolitan and rural areas and at a rate equal to their five-year averages.

Office density, defined as the number of offices per 10,000 people, compares the relative prevalence of banking services across geographies. Counties in rural and micropolitan areas tend to have higher and more stable densities per 10,000 people, while counties in metropolitan areas tend to have lower densities that have fallen more rapidly over time.<sup>3</sup> Continuing this trend, in 2016 counties located in rural areas reported an office density of 4.8 compared to a reported office density of 3.7 for those in micropolitan areas and 2.6 for those in metropolitan areas (Chart 3).<sup>4</sup> Since 1987, counties in metropolitan areas have reported a loss of 0.7 offices per 10,000 people, the largest loss of office density among area types.

**Chart 3**



<sup>2</sup>Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

<sup>3</sup>See Eric C. Breitenstein and John M. McGee, “Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World,” *FDIC Quarterly*, Vol. 9, No. 1 (2015), [https://www.fdic.gov/bank/analytical/quarterly/2015\\_vol9\\_1/FDIC\\_4Q2014\\_v9n1\\_BrickAndMortar.pdf](https://www.fdic.gov/bank/analytical/quarterly/2015_vol9_1/FDIC_4Q2014_v9n1_BrickAndMortar.pdf).

<sup>4</sup>Population data for 2016 are forecasted by Moody’s Analytics. Data from 2015 are used as the 2016 forecast for Alaska, Hawaii, and Virginia.

## BANKS ATTRACT MORE DEPOSITS WHILE OPERATING FEWER OFFICES

Table 1

Rural Areas Experienced the Slowest Rate of Office Contraction and the Weakest Rate of Deposit Growth						
	Metropolitan Areas		Micropolitan Areas		Rural Areas	
	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)
June 2016	72,686	10,404	10,045	468	9,120	361
June 2015	73,830	9,803	10,205	456	9,227	356
June 2011	77,584	7,480	10,892	424	9,708	326
1-Year Percent Change	-1.5%	6.1%	-1.6%	2.6%	-1.2%	1.4%
5-Year CAGR	-1.3%	6.8%	-1.6%	2.0%	-1.2%	2.1%

Source: FDIC Summary of Deposits.

Notes: CAGR = Compound Annual Growth Rate. Metropolitan statistical areas contain a core urban area of greater than 50,000 inhabitants. Micropolitan statistical areas have urban clusters of between 10,000 and 50,000 inhabitants. All other areas are classified as rural.

### Deposit and Office Trends Remain Stable for the Largest Office Service Types

The largest reported office service types continued to be brick-and-mortar, retail, and drive-through offices.<sup>5</sup> Traditional brick-and-mortar offices represented 90.7 percent of all banking offices in 2016, a share that has remained stable since 2001, while retail offices made up 5.5 percent and drive-through offices comprised 2.6 percent. Continuing a trend that began in 2009, the number of brick-and-mortar offices fell 1.2 percent in 2016, a figure in line with the five-year average (Table 2). Deposits at brick-and-mortar offices increased 5.8 percent. The number of retail offices fell 4.7 percent, accelerating a trend of contraction that began in 2012. Deposits at retail offices rose 3.6 percent. The number of drive-through offices declined by 4.1 percent. Despite reporting a decline in deposits of 0.5 percent in 2016, drive-through offices maintained a five-year average deposit growth of 27.3 percent. This high average is due to a 165.6 percent increase in reported deposits at drive-through offices from 2013 to 2014, primarily due to one large institution reclassifying several offices from brick-and-mortar to drive-through. All other office types represent 1.3 percent of offices, and their number contracted by 2.9 percent in 2016, much faster than the five-year average decline of 0.2 percent. The average trend of slow contraction for all other office types is driven primarily by an increase in the number of offices reporting as trust offices—the only office service type to increase in number for each of the past six years.

Table 2

All Office Types Declined in 2016								
	Brick-and-Mortar Offices		Retail Offices		Drive-Through Facilities		Other Office Types	
	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)
June 2016	83,265	10,763	5,016	101	2,348	90	1,222	279
June 2015	84,295	10,172	5,261	97	2,448	91	1,258	255
June 2011	88,207	7,920	5,968	85	2,772	27	1,237	198
1-Year Percent Change	-1.2%	5.8%	-4.7%	3.6%	-4.1%	-0.5%	-2.9%	9.6%
5-Year CAGR	-1.1%	6.3%	-3.4%	3.5%	-3.3%	27.3%	-0.2%	7.1%

Source: FDIC Summary of Deposits.

Note: CAGR = Compound Annual Growth Rate.

<sup>5</sup>The SOD survey covers several banking office type categories, including brick-and-mortar, retail, drive-through, mobile, seasonal, home banking, trust offices, and more. For a detailed description of all branch service types, see [https://www.fdic.gov/regulations/resources/call/SOD\\_Instructions.pdf](https://www.fdic.gov/regulations/resources/call/SOD_Instructions.pdf).

Over a longer horizon, several office service types ran counter to the trend through 2016. Home banking offices and trust offices reported positive five-year average growth in the number of offices, with home banking offices increasing 1.8 percent and trust offices increasing 15.2 percent. Administrative, military, mobile, seasonal, and trust offices reported negative five-year average growth in deposits.

### Community Bank Offices Increase Slightly While Noncommunity Bank Offices Decline

Unlike noncommunity banks, community banks increased their number of offices from the previous year and from five years prior (Table 3).<sup>6</sup> Fewer noncommunity bank offices and a larger number of community bank offices combined to elevate the share of community bank offices from 32.8 percent in 2011 to 35.2 percent in 2016. Community bank offices increased 0.2 percent (67 offices) year over year, slightly more than the five-year average growth of 0.1 percent per year. The annual increase occurred predominantly in metropolitan areas. Office growth was limited to a small number of institutions, as most community banks (87 percent) reported no change in their total number of offices. Conversely, noncommunity banks were much more likely to open and close offices. Nearly 35 percent of noncommunity banks reported fewer offices than a year ago, more than six times the rate of community banks. Overall, noncommunity bank offices fell by 2.3 percent (1,418 offices), a faster pace than their five-year average. This reduction occurred across metropolitan and nonmetropolitan areas and in every state.

**Table 3**

#### Noncommunity Banks Reduced Offices While Community Banks Maintained Office Numbers

	Community Banks		Noncommunity Banks	
	Number of Offices	Deposits (\$ billions)	Number of Offices	Deposits (\$ billions)
June 2016	32,297	1,752	59,554	9,481
June 2015	32,230	1,657	60,972	8,937
June 2011	32,107	1,415	65,821	6,775
1-Year Percent Change	0.2%	5.8%	-2.3%	6.1%
5-Year CAGR	0.1%	4.4%	-2.0%	7.0%

Source: FDIC Summary of Deposits.

Notes: Data have been adjusted for mergers. See inset box (page 43) for a detailed description of merger adjusting.

Community banks are identified based on criteria defined in the FDIC *Community Banking Study*.

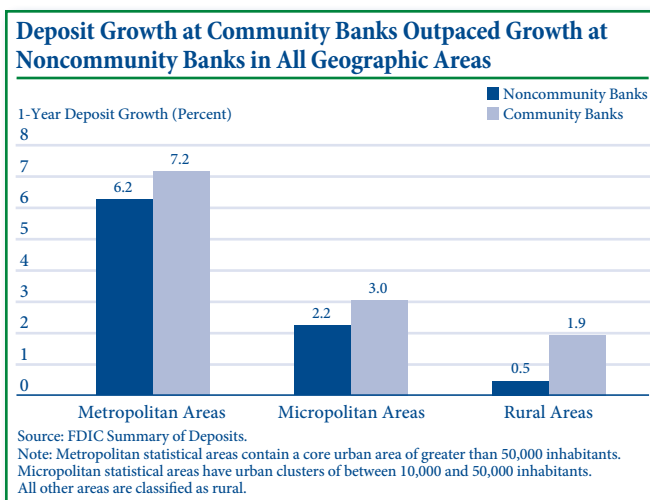
CAGR = Compound Annual Growth Rate.

<sup>6</sup> Community banks are identified based on criteria including asset size and geographic scope of operations. They are defined in the FDIC *Community Banking Study* (2012). Figures in which community and noncommunity banks are compared across time periods are adjusted for mergers. No other figures in this analysis were adjusted for mergers, because doing so is required only of industry subgroups. For more detail on merger adjusting, see the inset box.

## Community and Noncommunity Banks Report Strong Deposit Growth

Deposits increased at community and noncommunity banks. In 2016, community bank deposits increased 5.8 percent (\$95.3 billion) from a year earlier to \$1.75 trillion, with more than two-thirds of community banks reporting an annual increase. The growth rate of community bank deposits outpaced that of noncommunity banks in all geographic areas (Chart 4). In micropolitan and rural areas, community banks held a majority of total deposits and accounted for more than 70 percent of deposit growth. In metropolitan areas, noncommunity banks held most of the deposits and accounted for more than 85 percent of total growth. Total noncommunity bank deposits increased 6.1 percent (\$543.5 billion), with more than three-quarters of noncommunity banks reporting an annual increase.

**Chart 4**



## How Does Merger Adjusting Work? Why Do It?

The analysis of community and noncommunity banks was merger-adjusted with a fixed community bank designation as of June 30, 2016. Merger adjusting aligns acquired banks and their acquiring institutions in previous periods and treats the entities as if the merger had already occurred. Thus, if an institution purchased another during the study interval, merger adjusting combines the deposits and offices of the acquired institution with those of its acquirer in all prior periods. In addition, the community and noncommunity bank designations were fixed as of June 30, 2016, for all prior periods. Both of these steps are required for a “like-to-like” comparison between quarters.

The process of merger adjusting bank data to fix the groupings as of a point in time is important, because not doing so may lead to erroneous conclusions. It is critical to control for changes to an institution’s community bank designation

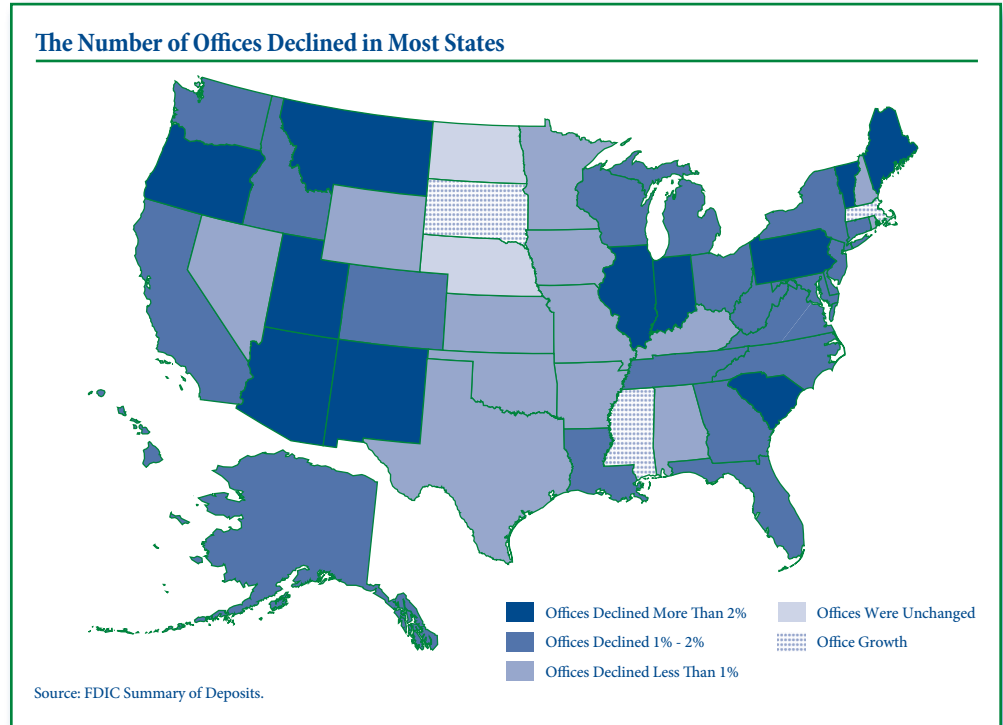
during the study interval, which is frequently the result of a merger. Community bank deposit growth would be understated and community bank office reductions would be overstated in an analysis that does not merger adjust and control for such changes.

Because merger adjusting aligns acquired institutions with the existing acquiring institution, institutions that voluntarily liquidate and failures resulting in a payout were excluded from this analysis. In these cases, there is not an existing institution to which to assign the deposits and branches. A total of 81 institutions, or 1.1 percent of total banks from second quarter 2011, were excluded from prior periods in the community and noncommunity bank portions of this analysis. These institutions tend to be small and account for minor reductions in the total number of offices and deposits in prior periods.

**The Number of Offices Declines in Most States**

The number of offices declined in 45 of the 50 U.S. states between 2015 and 2016, as shown in the map below. The number of offices remained the same in two states and increased in three others. The number of offices also declined in the District of Columbia, Puerto Rico, Guam, and the Northern Mariana Islands. The number of offices did not change in five other areas in which banks must file the Summary of Deposits survey.<sup>7</sup>

**Map**



**The Number of Banks With Offices in Multiple States Increases**

Although the number of banks has declined since the 1980s, the number of banks with offices in multiple states has increased. The Riegle-Neal Interstate Banking and Efficiency Act of 1994 permitted interstate bank branching at the federal level, and the number of banks with offices in multiple states has grown since then.<sup>8</sup> The net number of banks with offices in more than one state increased from 688 to 703 between 2015 and 2016. During that time, 50 banks that previously operated in only one state added offices in additional states, while six banks that operated in multiple states reduced their operations to only one state. Further, 27 banks that operated in multiple states were acquired during the year and two closed.

Over the course of the year, 83 banks added offices in additional states and consequently had broader branch networks in 2016 than in 2015. Twenty banks operated offices in fewer states in 2016 than in 2015.

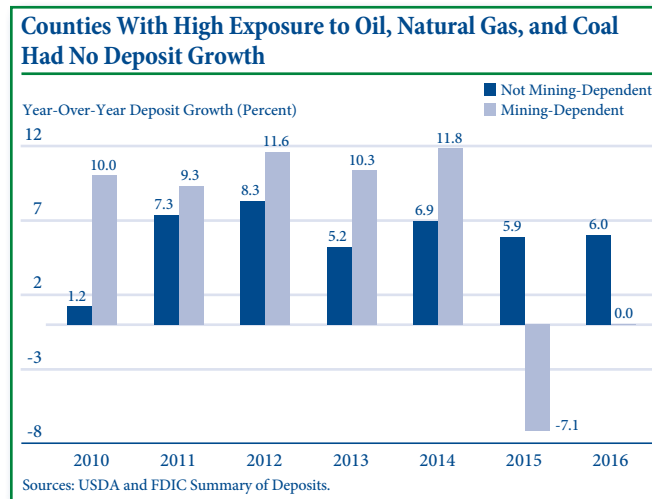
<sup>7</sup> The remaining areas are American Samoa, the Federated States of Micronesia, the Marshall Islands, Palau, and the U.S. Virgin Islands.

<sup>8</sup> Although some states permitted interstate banking before 1994, interstate banking was not permitted nationally until that year. See <https://www.fdic.gov/regulations/laws/rules/6500-3500.html>.

**Offices in Counties Highly Dependent on Energy Activity Show No Deposit Growth**

Falling prices for energy products such as coal, oil, and natural gas contributed to job losses in several parts of the country. Deposit growth was adversely affected in those areas as well. Nationwide, the number of jobs in mining increased more than 38 percent between the fourth quarter of 2009 and the third quarter of 2014. Subsequent to this increase, the number of mining jobs decreased nearly 24 percent between the third quarter of 2014 and the second quarter of 2016 as energy prices fell. The U.S. Department of Agriculture (USDA) labels some U.S. counties as “mining-dependent,” which includes mining of coal, oil, and natural gas as well as support activities.<sup>9</sup> Deposits in mining-dependent counties increased considerably in the earlier part of the decade, when energy exploration in the United States grew rapidly (Chart 5). Deposits in these counties declined in 2015 and were unchanged in 2016, which suggests that deposits in those counties may be stabilizing.

**Chart 5**



**Deposit Market Share Among Metropolitan Areas Shows Little Change**

The SOD data allow for analysis of market concentration in various areas. Markets are considered to be highly concentrated if a high percentage of deposits are held by a small number of institutions. By contrast, if deposits are widely distributed among many institutions, then market concentration is low. Out of 388 metropolitan areas counted in the SOD, slightly more than half (201) experienced an increase in market concentration while 187 experienced a decrease.<sup>10</sup>

**Conclusion**

The 2016 SOD survey shows that recent trends in deposit growth and office contraction of FDIC-insured institutions continued into 2016. Like the overall industry, the vast majority of states and territories reported deposit growth and a decline in the number of offices in 2016. In addition, metropolitan, micropolitan, and rural areas all reported deposit growth and fewer offices. Deposit growth rates in metropolitan areas continue to be higher than those in micropolitan and rural areas, but the gap in growth rates has been narrowing in recent years. Offices declined most slowly in rural areas for each of the past three years.

<sup>9</sup>The USDA defines mining-dependent counties as those in which 13 percent or more of the county’s annual labor and proprietors’ earnings were derived from mining, or 8 percent or more of jobs were in mining, as measured by the 2010–2012 Bureau of Economic Analysis, Local Area Personal Income and Employment data <http://www.ers.usda.gov/data-products/county-typology-codes/descriptions-and-maps.aspx#mining>.

<sup>10</sup>Market concentration is measured by the Herfindahl-Hirschman Index (HHI). This calculation is given by comparing the deposit share of each bank to total deposits in the area. An index score of 0 indicates perfectly equally distributed market share, while a score of 10,000 indicates that a single institution comprises the entire market. A market is considered highly concentrated at a score of 2,500. For an explanation of the HHI and how it is used to determine market concentration, see “Horizontal Merger Guidelines,” published by the Department of Justice at <https://www.justice.gov/atr/horizontal-merger-guidelines-08192010>.

Noncommunity banks drove the overall industry trends in office reductions, as they reported fewer offices in metropolitan, micropolitan, and rural areas, and in all states. Conversely, the total number of community bank offices increased slightly. Community bank office growth occurred predominantly in metropolitan areas and also spanned a majority of states. Deposits at both community and noncommunity banks grew at a similar pace to that of the industry average. Both groups reported deposit growth in metropolitan, micropolitan, and rural areas, and in nearly every state.

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