5th District Footprint

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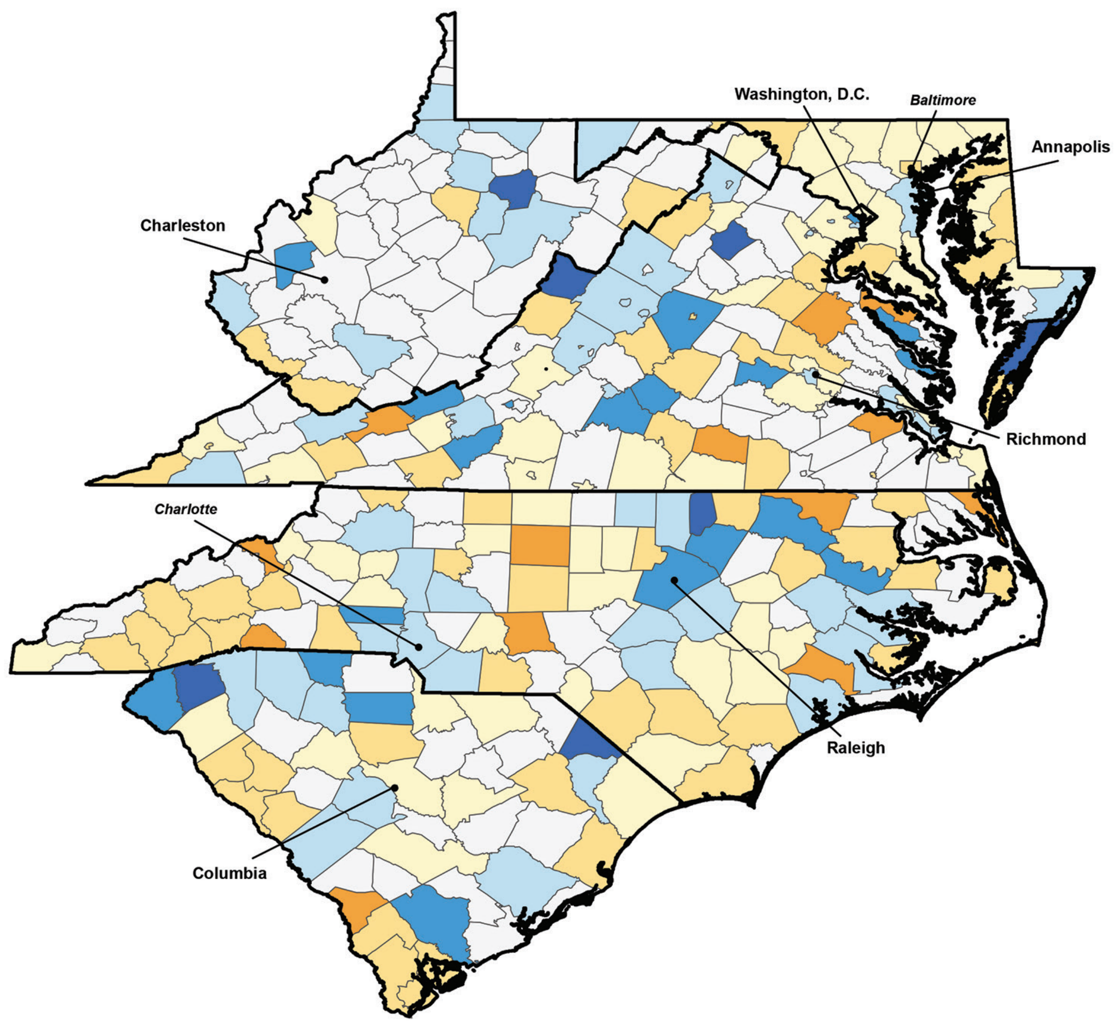

LEGEND

Percentage Change in Banking Institutions by County, 2007-2017

National change: -34.3%

- -75.0 - -34.3 percent
- -34.2 - -15.0 percent
- -14.9 - -0.1 percent
- 0.0 percent
- 0.1 - 25.0 percent
- 25.1 - 50.0 percent
- 50.1 - 100.0 percent

Note: A negative number indicates a decrease in number of financial institutions in a county. A positive number indicates the county gained financial institutions in the time period. "Banking Institutions" are thrifts or full service banks for which the Federal Reserve collects data (no limited service, electronic, loan production offices, ATMs or credit unions) and includes banks that are not regulated by the Federal Reserve. Data reflects number of banks from the 31st of December of each year and savings banks and thrifts in operation in each year.

Source: Federal Reserve System National Information Center (NIC) Structure Data and S&P Global Market Intelligence 2007 and 2017.

Banking Institution Change in the Fifth District

Since the 1980s, the number of banking institutions in the United States has been consistently decreasing.[1] This national trend is attributable to factors such as voluntary consolidation or bank failure, combined with a decline in new bank entry.[2,3] Although there are fewer banking institutions operating in the country, banking landscapes at the county- and state-level are dynamic. This issue of *5th District Footprint* examines the percentage change in banking institutions operating in Fifth District counties since the Great Recession.[4]

In this analysis, "banking institutions" includes traditional banks and thrifts but excludes credit unions, electronic or limited service institutions, loan production offices and ATMs.[5] We focus on institutions rather than branches (banking locations) because consolidation does not necessarily equate to altering bank access or a change in the number of branches in communities, but may impact consumer choice. Counties that lost banking institutions did not necessarily lose branches (banking locations), and counties that had an increase in banking institutions were not guaranteed more branches.

The downward trend in the number of banking institutions operating nationwide is due in part to merger and acquisition (M&A) activity, which broadly describes any type of bank consolidation. A merger is the combination of two insured depository institutions into one and an acquisition is the purchase of one institution by another.[6] Acquisition may include the purchase of a healthy or failed institution, so bank failure can spur M&A activity.[7] Through consolidation, healthy banking institutions have the opportunity to scale their operations, cut costs and reach larger geographic areas.

Enacted in 1977, the Community Reinvestment Act (CRA) encourages financial institutions to help meet the credit needs of the communities in which they operate, necessitating the observation of changes to the locations and operation of banking institutions.[8] As M&A activity shrinks the number of banking institutions operating across the nation, acquiring institutions are introduced to new geographic markets and can engage in CRA-eligible activities in those communities.

M&A activity was frequent in 1990, when economic turmoil spurred widespread bank failure across the nation.[9] In that year, 647 M&A bank and thrift deals were completed.[10] By 2003, the number of deals fell to 270 but steadily increased until the start of the Great Recession.[11] In 2007, there were 324 bank and thrift M&A deals; however, M&A activity dipped slightly before exceeding pre-Recession levels in 2010, with 327 M&A deals. Two hundred fifty-one deals were completed in 2012, which grew to 310 transactions by 2015. Since that year, there has been another decline, ending with 230 deals in 2017.

Unlike the United States as a whole, the Fifth District experienced increased M&A activity during the Great Recession.[12] In 2006, there were 34 M&A deals. Forty-three and 45 deals were made in 2007 and 2008, respectively, before M&A activity in the Fifth District declined in subsequent years. The number of deals fluctuated between 21 and 30 per year between 2011 and 2017.[13] M&A activity captures the market consolidation that leads to an overall decrease in the number of banking institutions. Considering the sustained level of M&A transactions, Fifth District counties and states experienced diverse changes in banking institution operations between 2007 and 2017.

In 2007, 536 banking institutions operated within the Fifth District.[14] Ten years later, there were 382, a decrease of 28.7 percent. Nationally, there was a larger decline of 34.3 percent, from 9,898 in 2007 to 6,506 at the end of 2017. Banking institutions operating within Fifth District states did not decrease evenly — for example, North Carolina lost 30 percent of its institutions while Maryland experienced a decrease of 4.5 percent.[15]

Thirteen counties throughout the Fifth District experienced negative change at or greater than the national rate (those counties are shaded dark orange on the map). Nine largely rural counties in Virginia, North Carolina and South Carolina saw considerable declines, from -75 to -50 percent, in the number of banking institutions operating between 2007 and 2017.[16] At the end of 2007, the number of institutions operating in these counties ranged from three to six. By the end of 2017, all of these counties had between one and two banking institutions operating within their boundaries.

Three counties experienced a 100 percent increase in the 10-year period. All three — Highland and Rappahannock counties, Virginia, and Barbour County, West Virginia — had just one bank operating in the county in 2007 and two by the end of 2017. Six counties with moderately large percentage increases, between 50.0 and 99.9 percent, experienced an increase between one and five institutions over the 10-year period. By 2017, two of those six counties — Vance County, North Carolina, and Pickens County, South Carolina — had more than 10 banking institutions each. The four remaining counties saw large percentage changes from nominal increases of one to three institutions.[17]

There was not uniformity in the 141 counties with no net change. For example, in Kanawha County in southwestern West Virginia, two of the 12 banks in operation at the end of 2007 left the county by the end of 2017. During the same time, two separate banks had begun operation in the county. These changes were not attributable to M&A transactions. Although there were 21 banks operating in Charleston County, South Carolina, in 2007 and 2017, 10 institutions changed or had left the county within the decade. Almost 70 percent of the change was a result of M&A activity and the rest was a result of new banks moving into the county unrelated to M&A transactions. In both of these counties, there was dynamism in the 10-year period, despite zero percentage change in the number of operating institutions.

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1 See Kowalik, Michal, Troy Davig, Charles S. Morris, and Kristen Regehr, "Bank Consolidation and Merger Activity Following the Crisis," *Economic Review*, Issue Q1 2015; Vice Chairman for Supervision Randal K. Quarles speaking to "Community Banking of the 21st Century" Sixth Annual Community Banking and Research Policy Conference, "Trends in Urban and Rural Community Banks," Oct. 4, 2018.

2 Ibid.

3 McCord, Roisin, Edward Prescott, and Tim Sablik, "Explaining the Decline in the Number of Banks Since the Great Recession," Federal Reserve Bank of Richmond *Economic Brief* No. 15-03. Mar. 2015.

4 The Great Recession lasted from December 2007 to June 2009 according to the National Bureau of Economic Research (NBER).

5 Savings banks and thrifts data are obtained from S&P Global Market Intelligence and include federal and state savings banks.

6 Mergers and acquisitions can have slightly different meanings based on the data source. This issue of *5th District Footprint* uses a definition of M&A that includes internal reorganizations. The Federal Deposit Insurance Corporation (FDIC) provides detailed definitions at https://www.fdic.gov/deposit/insurance/assessments/mergers.html.

7 A bank fails when it cannot meet its financial obligations to creditors and depositors. Some bank failures do not result in M&A activity but do contribute to the trending decline in banking institutions.

8 "CRA Community Development Defined," Federal Reserve Bank of Richmond.

9 "An Examination of the Banking Crises of the 1980s and Early 1990s," FDIC.

10 Federal Reserve National Information Center (NIC) data.

11 The United States experienced a low of 270 bank deals in 2003 between the years of 2000 and 2007.

12 M&A activity in the Fifth District refers to mergers and acquisitions that involved banking institutions operating within the District boundary in a given year.

13 In 2017, there were 29 M&A deals.

14 Although the Fifth District does not include Brooke, Hancock, Marshall, Ohio, Tyler and Wetzel counties, West Virginia, this refers to the Fifth District plus those counties for consistency with the mapped area.

15 In 2007, 100 banks were operating in North Carolina and by 2017 that number decreased to 70. Maryland lost four institutions between 2007 and 2017, from 89 to 85, respectively. The District of Columbia had a 9.4 percent increase, South Carolina a 9.0 percent decrease, Virginia a 16.0 percent decrease, and West Virginia a 7.8 percent decrease.

16 These counties include Currituck, Jones, Mitchell and Northampton counties, North Carolina; Allendale County, South Carolina; and Bland, Caroline, Lunenburg and Surry counties, Virginia.

17 These counts do not represent the number of physical banking (branch) locations operating in a county. In cases of bank consolidation, the number of branches can remain unaffected if the acquiring bank chooses to keep all locations operating.

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