5th District Footprint

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Community Development

Since the 1980s, the number of banking institutions in the United States has been consistently decreasing. This national trend is attributable to factors such as voluntary consolidation or bank failure, combined with a decline in new bank entry. 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.

In this analysis, “banking institutions” includes traditional banks and thrifts but excludes credit unions, electronic or limited service institutions, loan production offices and ATMs.

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 choices. 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.

Acquisition may include the purchase of a healthy or failed institution, so bank failure can spur M&A activity. 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.

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. In that year, 647 M&A bank and thrift deals were completed. By 2003, the number of deals fell to 270 but steadily increased until the start of the Great Recession.

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 exceeded pre-Recession levels in 2010, with 327 M&A deals.

The number of deals fluctuated between 21 and 30 per year between 2011 and 2017. M&A activity captures the market consolidation that leads to an overall decrease in the number of banks operating in 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 1990, 22.3 percent of counties lost banking institutions, while 20.8 percent had an increase. Between 2000 and 2007, 36.4 percent of counties lost banking institutions, while 36.4 percent had an increase. Since the Great Recession, there were a 27.8 percent decrease in the number of banking institutions operating in Fifth District counties.

Since 2007, 53.6 percent of banking institutions operating within the Fifth District have been acquired. Ten years later, there were 382, a decrease of 28.7 percent. Nationally, there was a larger decline of 34.3 percent, from 9,988 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.

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.

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 — Vanca 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.

The percentage change in the number of banking institutions operating in each county during the Great Recession and afterward is depicted in the map. The percentage changes for each county are shaded according to the number of banking institutions operating in each county.

The percentage change in banking institutions by county, 2007-2017:

-50.0% to -34.3%
-34.2% to -15.0%
-14.9% to -1.1%
0.0%
0.1% to 25.0%
25.1% to 50.0%
50.1% to 100.0%

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 Deposit Insurance Corporation (FDIC) provides data. The FDIC does not collect data on state-chartered banks, credit unions, or other types of institutions that are not regulated by the Federal Reserve. Data reflects number of deals between the start of December each year and savings banks and thrifts in operation in each year.