The changing composition of bank branches in Seventh Federal Reserve District states

by Robin Newberger, Taz George, and Mark O'Dell

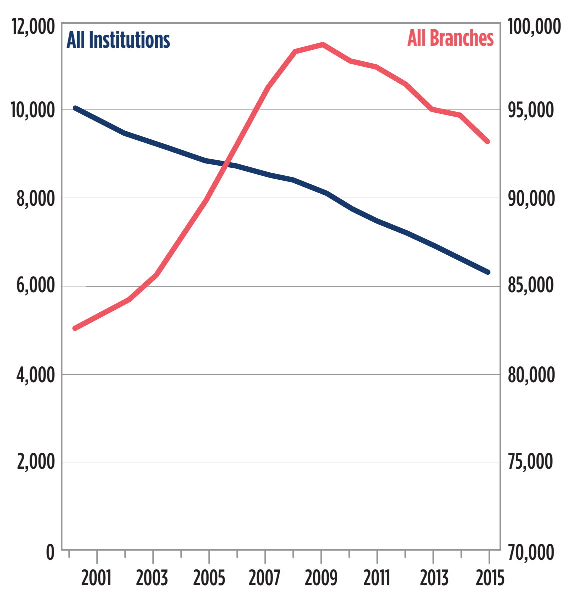
- The number of bank branches in states of the Seventh District has declined since the financial crisis, but at similar rates in lower- and higher-income neighborhoods.
- The branches of large banks have come to represent the majority of branches in the most populated counties within each state.
- Cook County offers an example of how mission-oriented banks play a role in providing bank services in certain areas, with branches of minority-owned banks representing a quarter of community bank branches in lower-income areas of the county.

Introduction

Across the United States, the banking office landscape has shifted substantially since the financial crisis in 2008, reflecting both long-standing trends of small bank closures, as well as more recent patterns of bank branch declines (chart 1). These trends are playing out in the states of the Seventh District as well, where the number of banking offices has declined in each state, and increasingly, community banks are losing their share of branches in certain markets. Low- and moderate-income (LMI) neighborhoods in a few of the District's most populous counties are nearly devoid of community banks.[1]

Still, a closer look into the lower-income places where the branches of community banks have remained suggests that minority-owned institutions are contributing to financial services in lower-income and higher-minority places in at least one part of the Seventh District. In Cook County for example, branches of minority banks make up a quarter to almost half of the community bank branches

Chart 1. U.S. banking institutions and branches



Source: FDIC.

in some high-minority LMI areas. This article describes the changes in bank branch presence over time in the Seventh District by size of institutions and the neighborhoods they serve. The increased presence of large banking institutions in LMI areas, particularly in the largest metro counties of the District, and the persistence of a few minority-owned bank branches in a handful of neighborhoods, warrants understanding what these changes imply for access to financial services among traditionally underserved communities.

The importance of bank branches in low- and moderate-income neighborhoods

Stakeholders looking into trends in branch declines at the national level have focused on different potential implications. The Federal Deposit Insurance Corporation (FDIC) has noted that periodic episodes of contraction have taken place following banking crises (between 1989 and 1995, and 2009 and 2014), and therefore views the current decline within the context of longer-term branch expansion.[2] The FDIC and others have also contemplated the extent to which technology such as ATMs, online, and mobile banking have or could become a substitute for in-bank interactions. For example, an informal survey of large and small banks in the Detroit area in May 2016 showed many banks substituting brick-and-mortar branches with mobile and digital banking.[3] With respect to whether brick-and-mortar branches are important in distressed neighborhoods, some researchers have found that branch proximity matters for borrowing and lending relationships for higher-risk borrowers.[4] Some have cautioned that lack of access to bank branches affects low-income and minority residents more severely than others,[5] underscoring the importance of having branches and bankers situated in lower-income neighborhoods.

To shed light on how these trends are playing out in the Seventh District, this analysis describes bank branch presence over time in the states of Illinois, Indiana, Iowa, Michigan, and Wisconsin,[6] using comprehensive branch-level data from the FDIC from 2000 to 2015. We first categorize branches by the total asset size of the banking institution to which they belong, and by whether or not they identify as a minority-owned institution. We also categorize neighborhoods by income level and plurality (predominant) demographic group, identifying LMI and high-minority census tracts throughout the district. Bank branch locations are geocoded and matched to census tracts. Using the resulting panel dataset, we present descriptive summaries of the change of branch presence over time, with a focus on LMI and high-minority communities, and the characteristics of the banks that serve them.

Note on branch analysis

Branches include both headquarters and branches operated by federally insured banks and thrift institutions. We categorize banks by asset size in four categories. The first category is very small banks with assets below $100 million, which we call small community banks; the second is banks with assets between $100 million and $3 billion, which we call large community banks.[7] We identify large non-community banks as those with more than $25 billion in assets, and medium-sized non-community banks as those with assets between $3 billion and $25 billion. We restate each bank's assets across the period in terms of 2015 dollars.

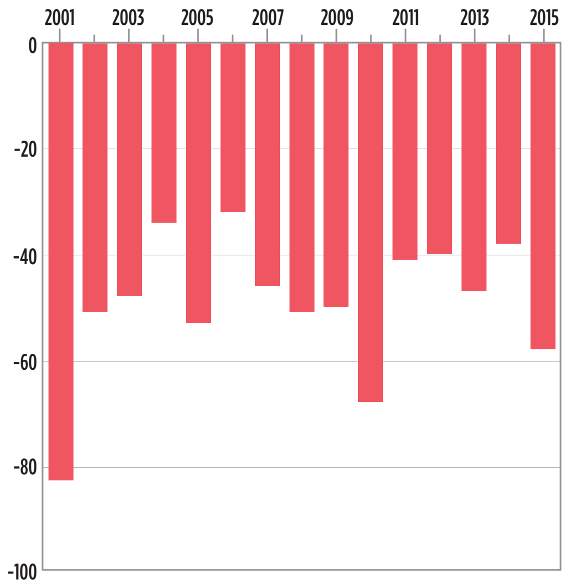
The branch openings, closings, and acquisitions are determined using a unique branch ID and addresses provided in the FDIC's Summary of Deposits annual dataset. We say that a branch has opened if a new branch appears in the Summary of Deposits that cannot be matched to any branch from the previous year, and that a branch closes if a branch ID and its address from a given year's dataset does not appear in the subsequent year's dataset. When acquisitions occur, we identify whether a branch is maintained by the acquiring institution if a new branch ID appears belonging to the acquirer, with the same address as a branch belonging to the acquired institution.

Branch openings and closings in the Seventh District

The number of bank branches began to decline in the states of the Seventh District after the financial crisis, although at no greater rate in low- and moderate-income neighborhoods than in higher-income areas.

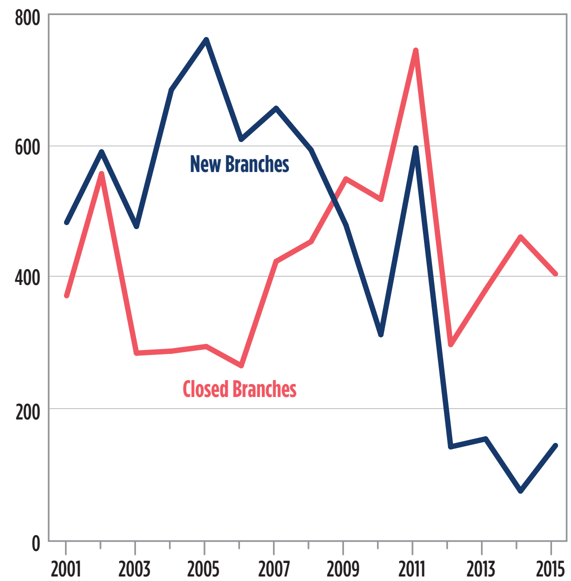
The number of bank institutions and the number of bank branches have trended differently since 2000. At the start of 2015, 740 fewer bank institutions operated in Seventh District states than in 2000. The single largest number

Chart 2. Net change in banks, states in Seventh District



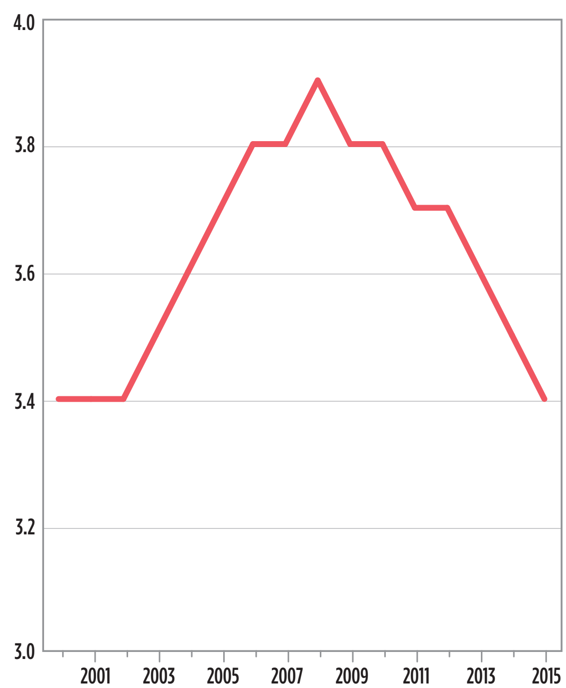
Source: FDIC.

Chart 3. Branch openings and closings, states in Seventh District



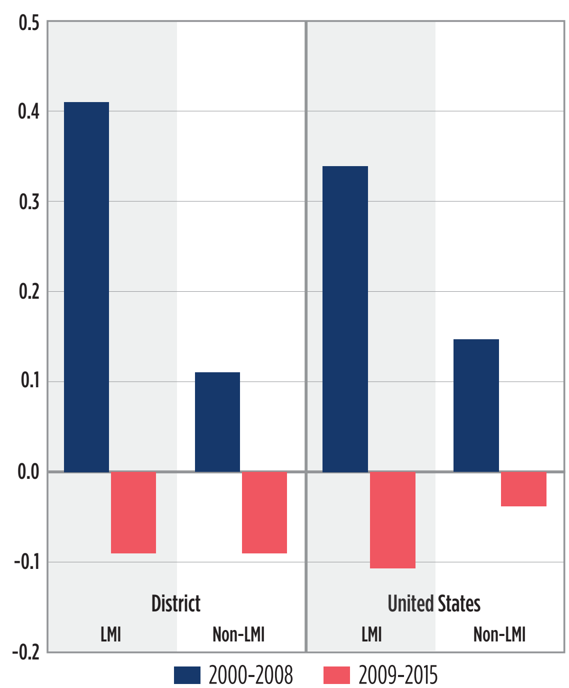
Source: FDIC and authors' calculations.

Chart 4. Seventh District branches per 10,000 people



Source: FDIC and Census.

Chart 5. Change in bank branches, 2000-2008 and 2009-2015



Source: FDIC.

(during our period of analysis) of institutional closures (83) took place in 2001, long before the financial crisis, and closures have continued at a rate of about 50 per year, on average (see chart 2). The number of bank branches, in contrast, grew every year between 2000 and 2008, adding about 2,000 branches (a 16 percent increase) in the Seventh District states during this period. Starting in 2009, in the midst of the Great Recession, the number of branches began to decline, and more than 700 branches closed in 2011 alone. Since 2008, there have been more branch closings than openings (chart 3). As a result, by 2015, there were about 1,400 fewer branches (9 percent) in the Seventh District states compared to the count in 2008, a return to the 2004 level. By way of comparison, in the U.S., there were 5 percent fewer branches between 2008 and 2015.

In relation to population, the rate of branch expansions and contractions follow a similar pattern. Branches per 10,000 people was about the same in the District in 2015 as it was in the early 2000s (chart 4), though the ratio declined in some metro counties like Marion County (Indiana) and Milwaukee County (Wisconsin). In the states of the Seventh District, the change in branch count (or the per-capita branch count) was similar between LMI areas and middle- and upper-income areas since the financial crisis. This is a contrast with the trends for the U.S. Although per-capita branch count was consistently lower in LMI areas throughout the period of analysis (in both the District and in the U.S.), branches in LMI neighborhoods in the Seventh District expanded at a greater rate prior to the financial crisis, but declined by no more than in non-LMI neighborhoods on average after the financial crisis (chart 5).

Changing banking infrastructure in metro counties and LMI areas in the Seventh District

The branches of large banks have come to represent the majority of branches in the most populated counties within each state of the Seventh District.

In addition to the reversal in the overall count of branches, another emerging trend in the Seventh District relates to the changing composition of the banks that operate those branches, particularly in metro areas. Larger community banks ($100 million to $3 billion in assets) have had a fairly constant presence in the Seventh District. These banks operated the plurality of branches (about 45 percent) across Seventh District states both

Table 1. Share of branches by asset size of institutions

States of the 7th District	Average 2000-2008	Average 2009-2015
Illinois		
Under $100M	0.12	0.08
$100M - $3B	0.46	0.44
$3B -$25B	0.15	0.15
At least $25B	0.27	0.34
Indiana		
Under $100M	0.05	0.03
$100M - $3B	0.50	0.42
$3B -$25B	0.18	0.20
At least $25B	0.27	0.35
Iowa		
Under $100M	0.30	0.17
$100M - $3B	0.52	0.64
$3B -$25B	0.05	0.04
At least $25B	0.13	0.15
Michigan		
Under $100M	0.03	0.03
$100M - $3B	0.31	0.29
$3B -$25B	0.19	0.18
At least $25B	0.47	0.51
Wisconsin		
Under $100M	0.11	0.08
$100M - $3B	0.50	0.53
$3B -$25B	0.22	0.12
At least $25B	0.18	0.27
United States		
Under $100M	0.07	0.04
$100M - $3B	0.38	0.35
$3B -$25B	0.16	0.16
At least $25B	0.39	0.45

Source: FDIC.

before and after the financial crisis (table 1). This was the pattern in four of the five states as well (Michigan is the exception), and in Iowa, these $100 million to $3 billion banks accounted for nearly 65 percent of branches. Over the period of our analysis, new (larger) community bank branches outnumbered closed (larger) community bank branches, up until the financial crisis. In part, the pre-crisis expansion of larger community branches is the result of these larger community banks acquiring smaller community banks. Nearly 90 percent of branches of banks with less than $100 million in assets that closed were acquired by a larger community bank (with $100 million to $3 billion in assets) over the period. This trend echoes findings that the FDIC had noted in its study of community banks across the U.S., that community banks today may be somewhat larger than in the past, but they continue to meet the definition of institutions providing traditional banking services to and deriving most of their core deposits from their local markets.[8]

Even so, comparing both small and large community bank branches to all bank branches, branch ownership has been shifting towards the largest banks (with assets of at least $25 billion). This trend is most pronounced in certain parts of the Seventh District. Following a surge in large bank branch creation in the early 2000s, the branches of large banks have come to represent the majority of branches in the most populated counties within each state, and in certain places they far outnumber the branches of banks with assets below $3 billion.[9] Almost 80 percent of branches in Wayne County (Detroit) belonged to large banks in 2015 (see table 2). Similarly, in Marion County (Indianapolis), the most populous county in Indiana, 82 percent of branches belonged to large banks. In Cook County (Chicago) the majority of branches were also associated with large banks, although at 52 percent, this was a much smaller share than in Michigan and Indiana. Polk County (Des Moines) in Iowa was the exception, where fewer than 30 percent of branches were associated with large banks.

Branches of large banks have become particularly prevalent in the lower-income neighborhoods of these counties, where in some places there are few if any branches of community banks. In Wayne County (Detroit), an average of 88 percent of branches in LMI areas were from large banks between 2009 and 2015 (compared to 77 percent of branches in non-LMI areas). In Marion County (Indianapolis), an average of 80 percent of branches in LMI areas represented large banks between 2009 and 2015 (compared to 75 percent in non-LMI areas). The trends were similar in Polk County (38 percent of branches of large banks in LMI areas versus 23 percent in non-LMI areas) and Milwaukee County (48 percent of branches of large banks in LMI areas versus 40 percent in non-LMI areas). Cook County has about the same share of branches of large banks in both LMI and non-LMI neighborhoods, with community bank branches falling in both LMI and non-LMI areas over the 2000-2015 period, and large bank branches increasing. Maps 1 and 2 on page 11 depict the decline in the number of community bank branches in both LMI and non-LMI areas of Cook County, as well as the spread of large bank branches, particularly in LMI areas.

Minority-owned banks in LMI areas

Within Cook County, branches of minority-owned banks have consistently made up about a quarter of community bank branches in LMI areas.

While the share of branches belonging to community banks has fallen in the LMI areas of all the largest counties in the district, the case of Cook County illustrates the fact that mission-oriented banks still play a role in providing bank services in certain LMI areas. Mission-oriented banks such as minority depository institutions (MDIs) are community banks with a mission to work in high-minority or lower-income areas.[10] Most MDIs are located in California, Texas, Florida, and New York, but a sizeable group has historically operated in Illinois (and a few in Wisconsin and Michigan). These Illinois banks include African-American-, Hispanic-, and Asian-American-owned institutions, some of which were originally formed to provide banking services to groups of people who were historically denied credit. Illinois Service Federal Savings and Loan, for example, began in the 1930s to offer mortgages to black citizens looking to purchase better housing. Pacific Global Bank and American Metro Bank were founded in the 1990s and serve communities with large numbers of Asian residents.

As with community banks generally, the number of MDI banks in Cook County fell during the 2000s. After reaching a peak of 17 banks in 2008, the number of institutions headquartered in the state was down to nine banks in 2015 (including the addition of one new MDI in 2011).[11] The decline of bank branches associated with MDIs has been much less pronounced, however. Each of the closed institutions, whether they failed or merged with

Table 2. Share of branches by asset size

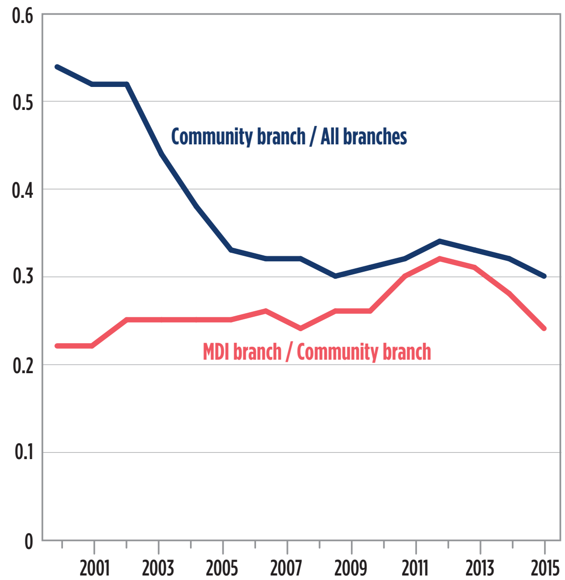
Selected Metro Counties	LMI Average 2000-2008	LMI Average 2009-2015	Non-LMI Average 2000-2008	Non-LMI Average 2009-2015
Cook County (IL)				
Under $100M	0.05	0.03	0.02	0.01
$100M - $3B	0.37	0.29	0.38	0.29
$3B -$25B	0.20	0.16	0.18	0.19
At least $25B	0.38	0.52	0.41	0.51
Marion County (IN)				
Under $100M	0.00	0.00	0.01	0.01
$100M - $3B	0.09	0.07	0.17	0.09
$3B -$25B	0.27	0.13	0.29	0.16
At least $25B	0.64	0.80	0.53	0.75
Polk County (IA)				
Under $100M	0.02	0.01	0.11	0.06
$100M - $3B	0.58	0.53	0.54	0.62
$3B - $25B	0.05	0.08	0.13	0.09
At least $25B	0.34	0.38	0.22	0.23
Wayne County (MI)				
Under $100M	0.02	0.01	0.01	0.00
$100M - $3B	0.07	0.08	0.11	0.11
$3B -$25B	0.10	0.03	0.15	0.11
At least $25B	0.80	0.88	0.72	0.77
Milwaukee County (WI)				
Under $100M	0.08	0.06	0.02	0.00
$100M - $3B	0.39	0.34	0.51	0.46
$3B -$25B	0.23	0.12	0.23	0.14
At least $25B	0.29	0.48	0.23	0.40

Source: FDIC and FFIEC's Census Data for CRA.

another bank, had an acquiring institution; and in most cases, the acquiring bank kept the branches open. Of the 19 branches of MDI banks that were acquired in LMI areas from 2001 to 2015, 13 were still open as of 2015 (68 percent);[12] and of the ten offices of MDI banks that were acquired in middle- and upper-income areas, 70 percent were still open as of 2015.[13] Most of these branches have remained under minority ownership. The FDIC places an emphasis on matching minority-owned banks with other minority investors.

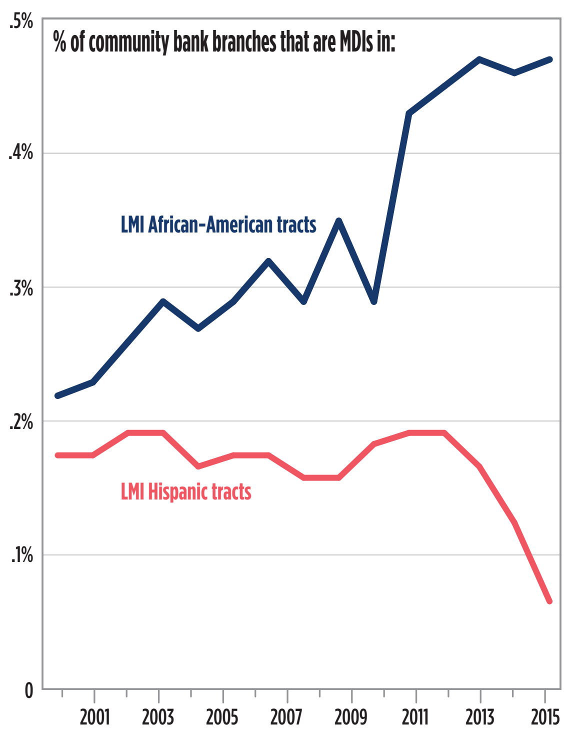
As a consequence, branches of MDI banks in Cook County have consistently made up about a quarter of community bank branches in LMI areas (see chart 6). In fact, the branches of MDIs have trended closer to 30 percent of all community bank branches in LMI areas after the financial crisis. And within certain

Chart 6. Community bank branches and MDI bank branches in LMI census tracts, Cook County



Source: FDIC ans FFIEC's Census Data for CRA.

Chart 7. MDI branches in Cook County LMI tracts



Source: FDIC, Census and FFIEC's Census Data for CRA.

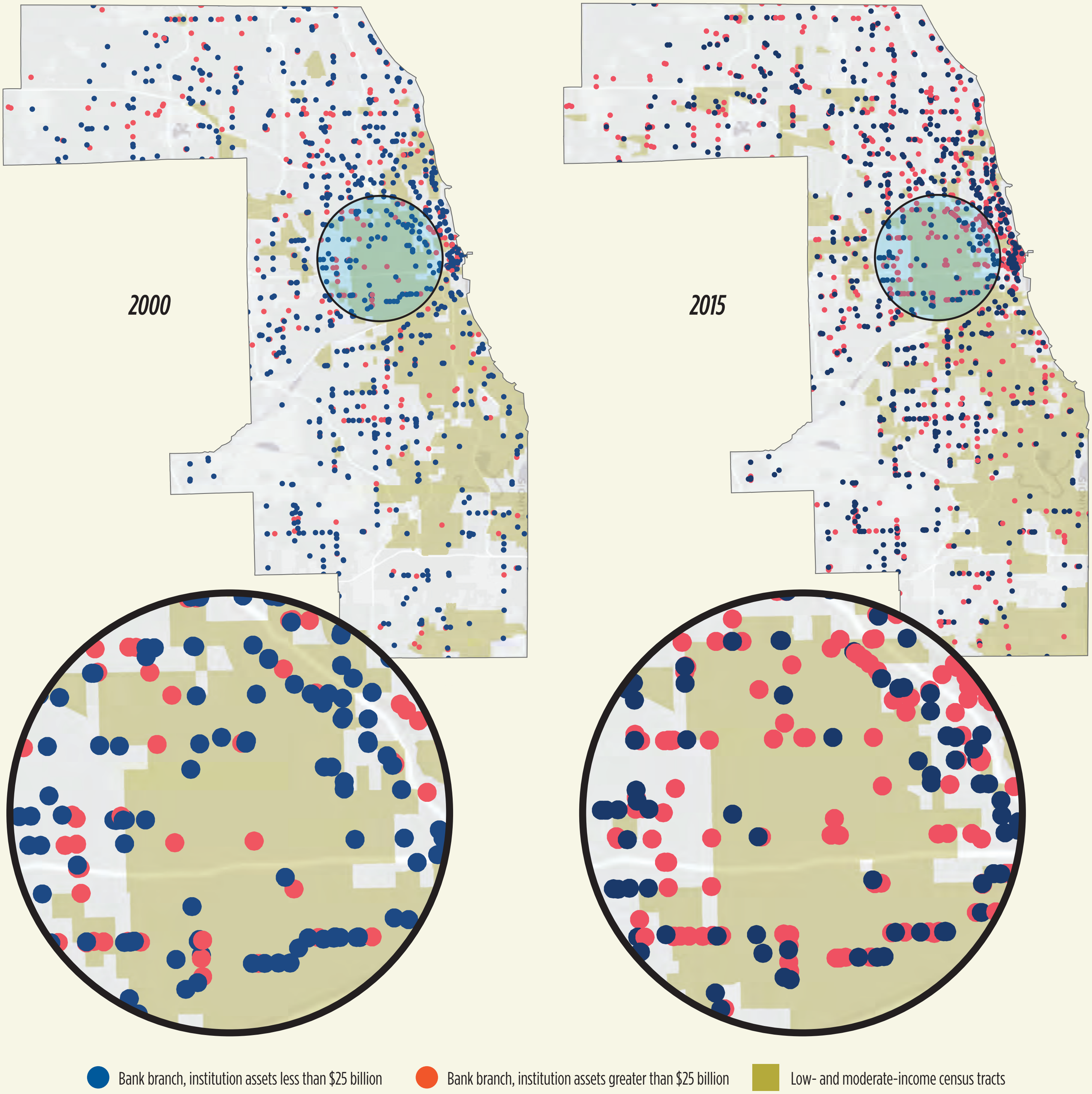
LMI demographics, the share has been even higher. In LMI tracts where the largest population is African American, more than 45 percent of community bank branches belonged to MDIs in 2015 (17 of 36) (see chart 7). In LMI tracts where Asians are the largest demographic group, MDIs accounted for upwards of two-thirds of the branches (although in Cook County there are relatively few Asian LMI census tracts). Stated differently, within the (mainly) African American LMI tracts that had a community bank branch, almost 45 percent (15 of 34) of those census tracts had a branch of an MDI institution in 2015, and in more than 40 percent of the tracts, the MDI was the sole community bank branch in the tract.

The *former* presence of an MDI branch in a lower-income neighborhood may even contribute to a (non-MDI) community bank branch being located in an LMI tract. For example, for most of the 2000s, about a fifth of community bank branches in predominantly Hispanic LMI tracts belonged to an MDI. This share dropped to less than 10 percent (4 out of 40 tracts) as of 2015; but another 35 percent of the (LMI Hispanic) tracts where an MDI branch used to be located (9 of 26 tracts) still had a branch of a community bank in 2015.[14] Twenty-two distinct community banks had branches in predominantly Hispanic LMI neighborhoods (tracts) of Cook County as of 2015. Eighteen distinct community banks (12 of which were not MDIs) had branches in predominantly African American LMI neighborhoods (tracts).

Conclusion and implications

The decrease in the number of bank branches since the financial crisis is focusing new attention on the role of bank branches in neighborhoods and communities. After the extensive expansion of branches prior to the financial crisis, the number of branches has fallen in the states of the Seventh District more aggressively than in the U.S., but the decline in bank branches has taken place at comparable rates in both LMI and in middle- and upper-income neighborhoods of the district. An even more distinctive emerging pattern in bank presence relates to the type of institution – large versus small banks – that maintains branches in these different places. Large bank branches increasingly dominate the banking landscape in LMI areas of metro counties in the Seventh District. Thus the presence of community banks not only varies between metropolitan and non-

Maps 1-2. Cook County bank branches by institution asset size, 2000 and 2015



Source: Bank branch location and institution assets from FDIC Summary of Deposits data. Census tract income from 2000 Decennial Census and 2010-2014 American Community Survey five-year averages. Mapping software and basemap from Esri, HERE, DeLorme, MapmyIndia, OpenStreetMap contributors, and the GIS user community.

metro areas (evidenced by the relatively high share of community bank branches in the states of the Seventh District), but also within metropolitan areas, between lower- and higher-income neighborhoods.

Insofar as the types of banking services or credit review processes differ between community banks and large banks, these trends could have implications for what it means for businesses or people in LMI communities to build relationships with banks. As many experts have noted, community banks are generally relationship banks. They often base credit decisions on local knowledge, and their competitive advantages include information obtained through these long-term relationships.[15] Discussions with minority bankers have underscored the niche these community banks occupy in terms of understanding the context in which they operate and being able to customize products for their customers. This helps illustrate why institutions like minority-owned banks and other mission-focused institutions, in spite of being somewhat more vulnerable, serve a role in certain lower-income, high-minority neighborhoods. As the experience of Cook County shows, while the branches of community banks have declined in lower-income neighborhoods, those belonging to minority banks – particularly African American banks that acquired closed minority depositories – have tended to remain. As new (larger) institutions enter these markets, there is room to ensure that these banks also connect with and serve the particular needs of these markets, and develop relationships that potentially lead to increased credit flows.

Notes

1. Low-income census tracts are those where individual income is less than 50 percent of the area median income. Moderate-income census tracts are those where individual income is between 50 percent and 80 percent of the area median income.

2. FDIC, 2015, "Brick-and-Mortar Banking Remains Prevalent in an Increasingly Virtual World," *FDIC Quarterly*, Vol. 9, No. 1., available at https://www.fdic.gov/bank/analytical/quarterly/2015_vol9_1/FDIC_4Q2014_v9n1_BrickAndMortar.pdf.

3. Henderson, Tom, 2016, "Institutions big and small adapt with more mobility, fewer branches," *Crain's Detroit Business*, May 29, available at http://www.crainsdetroit.com/article/20160529/NEWS/160529836/how-metro-detroit-banks-are-investing-in-digital-age.

4. Emre Ergungor, O., and Stephanie Moulton, 2011, "Do Bank Branches Matter Anymore?," *Economic Commentary*, Federal Reserve Bank of Cleveland, Number 2011-13, August 4; Toussaint-Comeau, Maude, and Robin Newberger, 2014, "Bank Infrastructure and Small Business Funding In Low- and Moderate-Income Neighborhoods in Detroit," Federal Reserve Bank of Chicago white paper; Romero Cortés, Kristle, 2015, "The Role Bank Branches Play in a Mobile Age," *Economic Commentary*, Federal Reserve Bank of Cleveland, Number 2015-14, November 16.

5. Morgan, Donald, Maxim Pinkovsky, and Bryan Yang, 2016, "Banking Deserts, Branch Closings, and Soft Information," *Liberty Street Economics*, Federal Reserve Bank of New York, blog, March 7, available at http://libertystreeteconomics.newyorkfed.org/2016/03/banking-deserts-branch-closings-and-soft-information.html#.V4zkqCUUXsE.

6. The Seventh Federal Reserve District is made up of five states, which includes all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin. For purposes of this analysis, we refer banks and branches in the Seventh District as those in each of these entire states.

7. The Federal Reserve Board, the Office of the Comptroller of the Currency (OCC), and the FDIC each use different definitions to identify what constitutes a community bank. The OCC and the Federal Reserve Board define community banks by asset size. The OCC asset cut-off is $1 billion (see Community Bank Supervision, Comptroller's Handbook), and the Federal Reserve Board asset cut-off is $10 billion (see http://www.federalreserve.gov/bankinforeg/topics/community_banking.htm). The FDIC has developed a functional definition of community banks outlined in the 2012 FDIC Community Banking Study that aggregates the assets of banks under a single holding company charter; excludes banks where more than 50 percent of assets are held in specialty charters like credit cards or industrial loan companies; and includes banks with certain minimum loan-to-deposit ratios and core-deposit ratios. Our definition of community banks with less than $3 billion in assets approximates the Federal Reserve Bank totals (a difference of 1 percent each year).

8. FDIC, 2014, "Community Banks Remain Resilient Amid Industry Consolidation," *FDIC Quarterly, Quarterly Banking Profile: First Quarter 2014*, Vol. 8, No. 2, available at https://www.fdic.gov/bank/analytical/quarterly/2014_vol8_2/FDIC_Quarterly_Vol8No2.pdf.

9. In its 2014 study of bank offices, the FDIC found that community banks held a majority of deposits in rural and micropolitan counties, but a declining share of total metropolitan area deposits between 1987 and 2014 (see FDIC, "Brick-and-Mortar Banking Remains Prevalent in an Increasingly Virtual World," 2014).

10. The FDIC defines minority depository institutions (MDIs) as banks in which: 1) at least 51 percent of the voting stock is owned by minority individuals; or 2) the majority of the board of directors is minority and the community that the institution serves is predominantly minority. The OCC and the Federal Reserve each has its own definition of MDIs that are consistent with the MDI categories defined by Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989.

11. In the Seventh District, the count has fallen from 25 (in 2008) to 13 (in 2015). Of the MDIs in Cook County that closed since 2008, two were African-American-owned, five were Asian-owned, and three were Hispanic-owned. One of the Hispanic-owned institutions both became an MDI and closed between 2008 and 2015.

12. The banks that closed operated 21 offices according to the FDIC SOD, but two of these were non-deposit-taking offices that were next door to deposit-taking branches.

13. Among non-MDI community banks that closed or were acquired, 66 percent of bank branches in LMI tracts remained open in 2015 and 67 of bank branches in non-LMI tracts remained open.

14. Four Hispanic MDIs closed in Cook County during this period, none of which was acquired by another MDI.

15. Lux, Marshall, and Robert Green, 2015, "The State and Fate of Community Banking," M-RCBG Associate Working Paper No. 37, Harvard Kennedy School for Business and Government, February; and FDIC, 2014, "Community Banks Remain Resilient Amid Industry Consolidation," *FDIC Quarterly, Quarterly Banking Profile: First Quarter 2014*, Vol. 8.

Biographies

Robin Newberger is a senior business economist in the Community Development and Policy Studies Division at the Federal Reserve Bank of Chicago.

Taz George is a research analyst in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

Mark O'Dell is a research analyst in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.