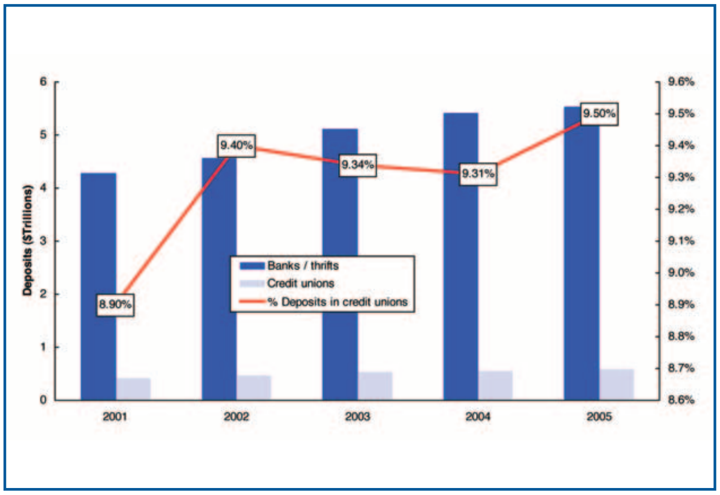
VOL. 17
December 2005
BANCOLOGY
a quarterly journal
THE ART OF BANK PLANNING
bancography

Deposit and Branch Trends: Findings from the latest FDIC and NCUA Statistics

The FDIC recently released its annual statistics summarizing deposit volumes at all FDIC insured branches. In conjunction with similar data released by the NCUA, the statistics reveal notable trends in the industry.

Across the industry, deposits continue to increase, to an aggregate $6.4 trillion in banks, thrifts, and credit unions combined. The industry collectively added nearly $500 billion, or 8% in deposits over the past year. Despite considerable contention among bankers regarding the impact of credit union expansion, the proportion of balances held by credit unions increased minimally.



There are almost 100,000 branches across the nation, and 13 metropolitan areas include over 1,000 branches: New York; Chicago; Los Angeles; Philadelphia; Washington, DC; Boston; Dallas-Fort Worth; Miami-Fort Lauderdale; Atlanta; Detroit; Houston; San Francisco-Oakland; and Pittsburgh. In aggregate, these 13 metros contain over 25% of all US branches. Nationwide, institutions added almost 3,000 branches in the past reporting year, boosting the total branch base by 3%.

For comparative purposes, it can be useful to examine your institution's branch performance against nationwide averages. However, because main offices often contain large commercial and public funds deposit bases, they skew the perception of what an 'average' branch should own. Excluding these branches reveals a more useful benchmark. The median deposit balance of US branches in 2005, excluding main offices and limited service facilities, rose to 32M, from 30M the prior year.

Although many institutions predicate new branch launches on a forecast of annual deposit gains of 8M – 12M, such deposit gains are scarce across the industry. Between June 30, 2004 and June 30, 2005, only 7,700 branches, or 10% of those opened the entire year, posted deposit gains of over 10M. Just over 16,000 branches, representing 21% of the total, posted deposit gains of over 5M in the past year. The median gain was only 1M. The median deposit gain for open offices has remained relatively constant recently, ranging between 800m and 1.1M in each of the prior five years.

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Banks and Credit Unions: Enough room for everyone

In recent years, credit union expansion has been a pervasive topic throughout industry gatherings. At the recent **BAI Retail Delivery Systems Conference**, always one of the financial services industry's largest gatherings, one of the underlying themes of the keynote address was a prediction of an accelerated pace of credit union conversions into commercial banks. Legislatively, both banks and credit unions remain active, and the internet home pages of trade associations such as the **American Bankers Association** and the **Credit Union National Association** feature prominent links to articles advocating their respective positions.

The rise of the community-chartered credit union has certainly increased the degree of competition in many markets. However, despite the greater role of mutual funds and securities in the American investment portfolio, deposit growth continues in both the banking and credit union sectors. Over the past four years, bank deposits have grown at a compound annual rate of 7.3% while credit union deposits have grown at a compound annual rate of 9.5%. Although the credit union growth rate exceeds the bank growth rate, the percentage gain occurred across a deposit base one-tenth the size of the banking base.

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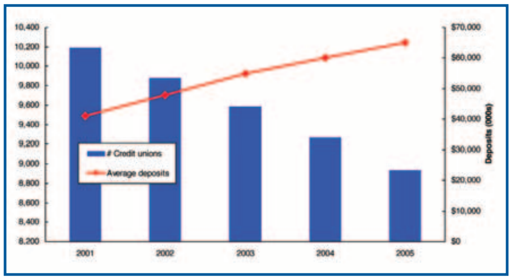

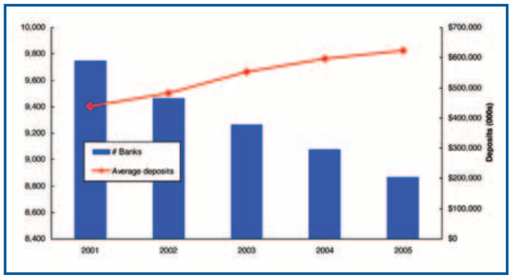

The industry continues to grow more concentrated, and each of the past five years has seen a decline in the number of banks and credit unions, and a corresponding increase in the average size of those institutions. Mergers have affected each side of the industry, resulting in fewer, larger competitors.

Deposit growth is skewed across the nation, with the sunbelt, especially the southwestern states, significantly outgrowing other regions. In terms of deposit growth, on both an absolute and percentage basis, the fastest growing major metros include Phoenix, Orlando, Riverside-San Bernardino, Atlanta, Miami, Sacramento, and San Diego. The next issue of Bancology will examine the regional trends in deposit growth in greater detail.

Banks and Credit Unions: Enough room for everyone

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A graph in the cover article of this issue of Bancology illustrates that the share of deposits held by credit unions nationwide increased from 9.31% to 9.50% during the period from July 1, 2004 to June 30, 2005. Had the credit union share remained constant, the banking side of the industry would have grown by an additional $11 million, or $1,300 per bank, or $140 per branch. These statistics suggest that bankers' fear of deposit erosion by credit unions may be well overstated.

Bankers contend that credit unions' favorable tax treatment provides a cost advantage, and that earnings not paid out as taxes can be spent in the form of pricing premiums or branch expansions. Credit union officers counter that banks' for-profit status allows the banks access to the capital markets and the ability to fund rapid growth through stock issuance. Both arguments and many others hold academic merit but carry little weight with consumers, the ultimate arbiters of deposit growth.

In primary interviews, consumers rarely respond "I prefer using a bank/credit union" as a reason for choosing their primary institution, or as a reason for closing a relationship.

Although pricing and convenience remain dominant in initial institution selection, themes such as consistency of service, needs recognition, and thorough explanation of product features and costs recur in interviews investigating customer satisfaction. And despite their different tax status, there is no significant salary disparity in the teller and customer service functions at banks versus credit unions, so neither sector is benefiting from a workforce with differential qualifications. Rather, the institutions from both sectors that engage in true needs-based selling, followed by consistent quality customer service, will continue to grow and retain customers. Those that can not will continue to suffer from churn and attrition.

The financial services industry is enjoying consistent deposit and loan growth, and there is ample room for qualified competitors that can provide a quality customer experience. There are case studies from both sectors that deliver such an experience and receive corresponding balance and income growth. There are real issues facing any evolving industry that warrant trade group and legislative discussion. But at the grass roots level, continued focus on needs assessment and customer service will insure that an institution of any type will capture a profitable share of the still-expanding American wallet.

Though based on facts and supported by empirical observations, we acknowledge that the preceding article also presents opinions, and possibly controversial ones. At Bancography, we welcome discussion on the financial services industry and its future, and welcome any dialog on relevant issues. If you'd like to offer an 'op-ed' type commentary on any topical issue, please contact us at (205) 252-6671. We may publish viewpoints in Bancology, and are gauging interest in adding discussion forums to our web site. Let us hear from you – open discussion yields knowledge.

How to Launch a New Branch

Many of Bancography's projects involve identifying locations for new branches. However, when the land is purchased and construction completed, the branch opening process has just begun. Launching a new branch involves more than just identifying a target location. There are several steps financial institutions can take to improve the likelihood of quick new account growth at a new branch.

- **Hire staff ahead of time** – even before the branch opens, hire and deploy branch managers and business bankers in the community to begin networking and building awareness of the branch. The benefits in initial account growth will far outweigh the staff costs of this tactic.
- **Measure initial sales in smaller increments** - deficiencies in the initial sales and marketing tactics can be corrected more quickly if they are identified more quickly. Review sales on a weekly basis and campaign responses on a daily basis.
- **Continuously reinforce sales training** – especially in a new market, where the bank has hired entirely from outside the organization, support the branch staff with frequent sales coaching, joint sales calls, and performance reviews.
- **Follow up marketing campaigns for at least a year** – remember that the grand opening is not a static event that can be supported by a one-time campaign. Regular targeted mailings for at least a year will ensure that the majority of the surrounding residents learn of the new branch in their community.
- **Direct market to the business community** – while most branch opening campaigns include direct mail in the immediate neighborhood, don't forget small businesses, especially in target segments. List vendors such as InfoUSA and Dun & Bradstreet can provide quick online lists of businesses by geography, primary SIC code, and sales volume.
- **Don't forget low-tech tactics** – simple, time-tested activities such as door hangers and school sponsorships still prove surprisingly effective at driving initial traffic to a branch.
- **Find peer branch advisors** – identify one or two branches in comparable demographic environments and introduce the branch managers. Provide a forum for reciprocal branch visits and online idea exchanges between peer branch managers.
- **Promote at other branches and ATMs** – in an existing market, tout the new branch with merchandising at existing branches and ATMs. Banners, buttons, teller counter placards…all the same tools that support product promotions can also be employed to build awareness of a new branch, and give secondary customers of an existing branch a reason to open a primary relationship at the more convenient new branch.

The Seasons of Banking

As we enter the new year, remember that sales of nearly all products, including financial services, are cyclical. In planning 2006 marketing campaigns, note the following peak times for various products and services.

January – year end bonus recipients need investment counseling, while balance transfer offers can help consumers pay down holiday debt.

February – the slowest, shortest, coldest month of the sales cycle. Use the down time for sales training seminars…or warm weather conferences for your top sales performers.

March and April – over half of all IRAs are opened in the six weeks before tax day. Also, promote investment options for tax rebate checks, and car loans for those using their rebate for a down payment.

May – Memorial Day is the most popular weekend to move in America. Emphasize newcomer campaigns and mortgage products.

June – as new graduates enter the workforce, target this group with relationship based checking products and bank at work programs.

July – with so many vacations, a slow sales month…but a great month for branch openings as you can resolve any initial problems during a low volume month.

August – back to school for colleges, and for bankers too with student checking campaigns.

September – back to work as projects deferred over the summer reappear. Call on lapsed prospects. Target HELOCs to summer movers and loans to those coveting the latest from the new car model year.

October and November – annual budgeting time for many businesses. Let your clients know that your institution is ready to support their borrowing needs in the next year.

December – Increase staff so time-stressed consumers can quickly get through the bank and back to shopping. Advise wealth management clients on year end tax strategies.

The latest version of our ***Bancography Plan*** software is now available. This release updates all competitive **deposit statistics as of June, 2005.** It also includes branches opened in the third quarter of 2005, though deposit data are not available for those branches. As always, the release contains several enhancements requested by our software users:

- The competitor maps now allow users to plot **credit union networks** as well as bank networks.
- In a completely new feature, we've added an **Institution Profile**, which shows the address and five year deposit history of all branches of any selected institution.
- The demographic report now includes **annual household turnover**. In contrast to household growth, which measures the amount of new household formation in an area, turnover measures the proportion of existing residences that change occupants each year.
- Users may specify **a miscellaneous revenue statistic** and customize the name of this field. For example, one could use the field for wealth management revenue; rental income from an own/lease back configuration; or fees from loans sold forward, and label the item on the income statement accordingly.
- The **household plot** function now provides **six rows** so users can show the households of six different branches, each in a different color

Bancography Plan provides demographic and competitive information and produces complete pro forma financial projections to support new branch evaluations. For more information or to request a demonstration disk, visit our web site *(www.bancography.com)* or call (205) 252-6671.

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