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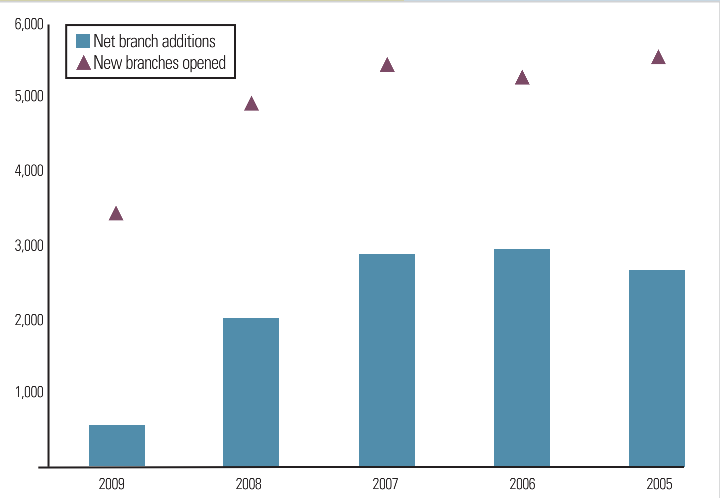
Findings from the 2009 FDIC Branch Deposit Statistics



In late October the FDIC released its annual summary of branch deposits and the data provide a wealth of insightful information about the competitive landscape of banking across the United States.

The 2009 summary deposit statistics represent the first branch-level data that impound a full year impact of the slowing economy. Not surprisingly, the data show a dramatic decline in the pace of branch growth. After five consecutive years in which the net change in the number of branches in the U.S. exceeded 2,000, in 2009 the nation added only 600 net new branches. (Note: throughout this article, the term 2009 refers to the June 2008 – June 2009 reporting period.) Still, the total U.S. bank and credit union branch inventory now approaches 118,000.

Although the net branch base changed by only 600 locations, 2009 still saw the opening of almost 3,500 branches; the small net change reflects a large number of offsetting branch closures, many of which were merger related. In comparison the gross number of branch opens approached 5,500 in 2005, 2006 and 2007 and fell to 4,800 in 2008.

Texas showed the greatest number of branch opens. Almost 400 branches opened in Texas in 2009, compared to around 275 in Florida and California, 225 in New York and 150 in Illinois. Pennsylvania, New Jersey, Virginia and (continued on page three)

It's the End of Advertising As We Know It. Do You Feel Fine?

The inspiration for this article's title comes from the great REM song of similar name. Somehow, that song always makes me feel good about "the end of the world as we know it." My question for you is, Are you aware of the unprecedented changes going on in the world of advertising and communication, and how does that make you feel? Nervous? It probably should.

The changes are coming from all directions. It's a tsunami of disruption and it makes life as a financial services marketer very challenging right now. If you have a super-strong brand, and you're on top of these changes, then you're probably feeling fine. If you've got a few chinks in your brand armor and you're not familiar with some of these trends, then you are susceptible to potential market share erosion. Let's examine two of the primary drivers of this change.

Avoidance. Avoiding advertising is not necessarily new, but it's certainly easier in today's environment. Consumers have always been able to mentally tune out advertising, but technology is the great enabler of consistent avoidance. It started with push button radios in cars, when you changed stations to dodge that annoying radio commercial. The ubiquitous television remote control allowed people to channel flip in order to bypass advertising. Now fast-forward to today with all our technology — DVR, satellite radio, MP3 player, smartphone, Sling-box and the like. Couple the technology advancements with our changing media habits, and it becomes extremely challenging for an institution to deliver its marketing.

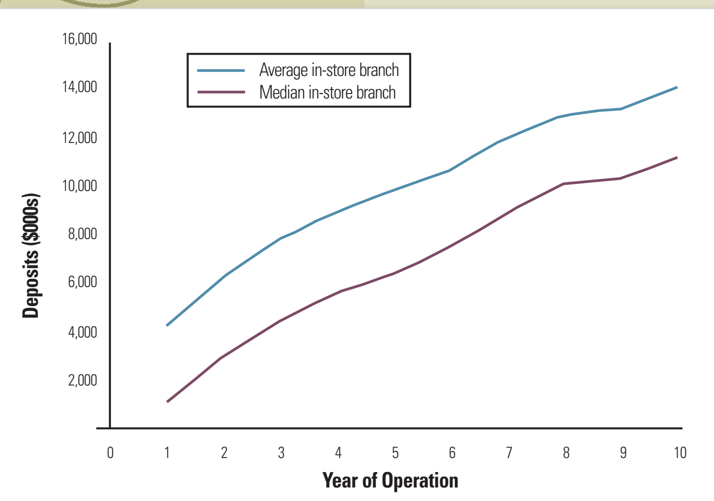
Rejection. If you're fortunate enough to relay a message to your intended target, there's a high probability that it's going to be ignored. We've been hearing for years now that consumers are in charge of brands and to a great degree control the content that they consume. This means that if your message is not relevant to them and they're not willing to "opt-in" to your communication, then you're probably not going to grab their attention. People are tired of being talked *to,* they want to talk *with.* If they're in the mood to chat, and your brand interests them, then you're on your way toward a meaningful dialogue. But if you interrupt them with traditional advertising that arrives unannounced and uninvited, then there's a strong likelihood you won't be heard.

With avoidance and rejection in play, what's a financial services marketer to do? Fortunately one of the earliest forms of advertising is making a strong resurgence. It just looks different dressed up in today's technology. (continued on page two)

In-store Branch Metrics: A Comparative View

In-store branches – branches located in grocery stores or discount retailers – have become widely used throughout the industry. Lured by low capital costs and a built-in base of potential customers, institutions of all sizes have tested the in-store model. Many large banks, including Wells Fargo, US Bank, RBS Citizens and Bank of America, operate hundreds of in-store branches, and several mid-sized banks use in-store as their primary distribution model (TCF, Woodforest, First National Bank of Texas). But numerous smaller institutions also use in-store branches to complement a traditional network for market entry or infill.

In-store banking emerged in 1984, when J. Alton Wingate, CEO of Community Bank and Trust (and one of Bancography's all-time favorite bankers), opened a branch in a grocery store in a small town in northeast Georgia. Mr. Wingate passed away in 2005, but 25 years after he first considered placing a branch where people shop, it seems an appropriate time to evaluate the performance of in-store branches from an industrywide perspective.



With in-store branches typically ranging from 200 to 1,000 square feet, balance expectations should remain below those of freestanding branches. But to what degree? And, most importantly, does the difference in costs offset the difference in deposit levels? Bancography compared deposit growth of in-store and traditional branches in submarkets across the U.S. in order to address these research questions.

The mature in-store branches in the U.S. (defined as those open at least five years) show median deposits of $13.2M and average deposits of $16.3M, with the middle half ranging from $6.7M to $22.3M in deposits. The $13.2M median equates to 34% of the comparable statistic for traditional branches. Thirteen percent of in-store branches report deposits of more than $30M. In 2009, when retail deposits overall grew by 5.4%, the median deposit change for mature in-store branches was 4.2%; the average was 7.1%.

The median size of in-store branches varies little based on the number of competitors in its trade area. Median in-store performance hovers near the $13M benchmark whether the branch faces one, two, three or more traditional competitors. This confirms that in-store performance is more a matter of store-level than market-level traffic. Regardless of external competition, the in-store branch will generally gain a reasonable proportion of store shoppers' balances. Interestingly, in submarkets with only one competing traditional branch, the in-store branches capture 81% of the balance level of traditional branches, indicating that in rural "one branch" towns, an in-store can prove almost as effective as a freestanding branch. That ratio declines as the number of competitors increases, since larger markets draw more competitors.

Some institutions with broad in-store programs deploy in-store branches in close proximity to traditional branches, believing that the branches will complement one another. The data show that nearby deployments benefit the traditional but not the in-store branch. The median four year deposit change for in-store branches within one mile of a traditional branch of the same institution was $2.3M, increasing with each successive mile to $3.0M for branches five miles from their bank's nearest traditional branch. This suggests that the overlap can slightly inhibit the in-store branch's growth. But the median change for the traditional branches within one mile of an in-store was $4.9M, compared to a median of $3.8M for all traditional branches. Traditional branches within one mile of an in-store branch showed almost 30% *(continued on page four)*

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It's the End of Advertising As We Know It *(continued from page one)*

Conversation. People want to buy; they just don't want to be sold. They want to reach their own conclusions based on their own process and timeline. And they trust the advice and opinion of their friends over advertisers. Word of mouth is the oldest form of advertising, and it's enjoying huge popularity thanks to social networking and social media. Conversations are taking place about brands, and technology has enabled these conversations to take place anywhere, anytime and with any number of people. Marketers can't control the conversations. In fact, only a few have figured out how to join them. Most are sitting on the sidelines wondering what to do. What's your brand doing? Chances are you're still trying to talk to your target, not talk with them. That's not going to work. You must be invited to join the conversation.

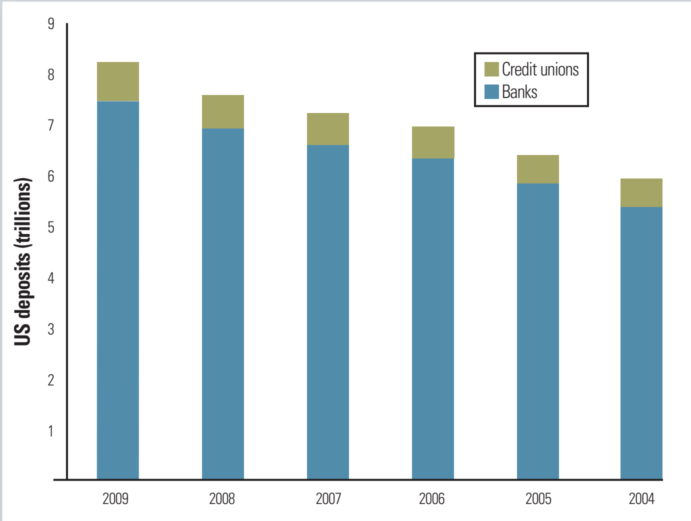
Listen first. If you enter a room where there are several clusters of people engaged in conversation, you're not going to be welcomed into those chats if you start interrupting and yelling. The conversations will grind to a halt until you are finished and then they will resume… without you! Your best opportunity for inclusion is to quietly listen to the conversations, and at the proper time, try to participate and contribute without appearing self-serving. Offer up a helpful piece of advice versus promoting your own agenda. Once you are part of the conversation, you can then slip in a solution that won't be avoided or rejected because people want to buy.

Findings from the 2009 FDIC Branch Deposit Statistics (continued from page one)

North Carolina also exceeded 100 opens. Although Texas posted the most opens, California showed the greatest net change, 84, followed by Texas at 72 and New York, Alabama, Florida, North Carolina and Tennessee (all with 40 – 55 net changes). The changes in Alabama, North Carolina and Tennessee were boosted by numerous in-store branches.

Woodforest Bank opened more than 110 branches in 2009, almost all in-store. US Bank added more than 80 locations, also with a large in-store component. Bank of America added a net 27 branches in 2009, Comerica 26 and International Bank of Commerce, TrustCo, and BB&T each grew by 15 – 20 branches.

Northeastern states ranked high in terms of percentage deposit growth. Retail and small business deposits in Connecticut and Massachusetts increased by more than 10% versus 2008, and six other Atlantic seaboard states between New Hampshire and Virginia ranked in the top 10 in terms of deposit growth rate. The only states beyond that region ranking in the top 10 are Alaska and North Dakota, two states enjoying strong economies due to the energy sector. Not surprisingly, areas hit by the housing implosion fared poorly. Nevada was the only state to lose deposits, and California and Georgia both fell near the bottom of the list. However, Florida, despite a raft of bank failures and foreclosures, ranked 11th in terms of deposit growth rate.



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Total deposits in U.S. banks and credit unions increased to $8.2 trillion, a gain of almost 8%, representing the largest percentage gain since 2006 and likely reflecting a flight to quality and away from volatile securities instruments. Excluding large corporate and public funds deposits, the total base increased by more than 5% to reach $5.5B.

After excluding home offices and large corporate deposits, the average branch holds $56M, though this statistic is skewed by a small proportion of larger branches. A better measure to compare the performance of your institution's branches is the median deposit base for mature, traditional branches (open at least five years, not in-store or limited service); in 2009, this statistic equals $38.6M.

Each year's FDIC statistics also offer an opportunity to examine new branch growth. The traditional (non in-store, full service) branches that passed their fifth birthday during the 2009 reporting year showed median deposits of $20.7M, up from the $18M median of the prior year's class – but still decidedly below the $40M benchmark on which many new branch decisions are predicated.

Finally, note that despite continued debate between banks and credit unions as to legislative advantages the proportion of deposits owned by banks versus credit unions has held steady at 91% since 2004. This confirms that neither sector is growing at the expense of the other and that growth is more a function of institution performance than charter type.

This article presents findings from a nationwide perspective; for information about your state or region, please contact Bancography.

Starters. To become engaged in meaningful dialogue, you need conversation starters. You may have read in the past (*Bancology* March 2009) about *brand bytes*, and they make perfect conversation starters. *Brand bytes* are snippets of copy designed to speak about your brand in relevant, non-traditional ways. If you have well-thought out *brand bytes*, you can deploy them in all the social networking conversations taking place on Facebook, Twitter, MySpace, LinkedIn, etc. without appearing that you are simply there to sell something. If your *brand bytes* are helpful, friendly and provide value, then you are going to be able to join the dialogue.

Balance. Despite everything mentioned before, a traditional advertising approach will still deliver more eyes and ears than alternative media options. Even though large audiences are supposedly obtained this way, fewer messages are actually being delivered. And the ones that make it through are mostly avoided. So a tremendous shift is taking place.

You need to be aware of this shift and start adjusting your approach accordingly. At the very least, monitor the conversations. Technology can be your friend, as there are dozens of services designed to capture every conversation taking place about your brand in cyberspace. The national brands do this well. Bank of America contacts every posting author they can through Twitter. If someone tweets about a negative experience regarding BofA, they respond that day with: "Hi, I'm from Bank of America and I want to help you with your problem." If Bank of America can be on top of these hundreds of conversations, you can be on top of the ones taking place about your brand.

Subscribe. Listen. Develop your *brand bytes* and be ready to be invited into the ongoing dialogue because you'll need to say the right thing. Stop interrupting and start conversing.

And then you'll be able to sing along with me: *It's the end of advertising as we know it. And I feel fine!*

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Coming soon: Bancography's Market and Brand Awareness Benchmarks white paper.

The study evaluates more than 15,000 Bancography-conducted interviews across 30 diverse markets over the past two years.

In-store Branch Metrics: A Comparative View (continued from page two)

greater deposit growth than other traditional branches, more than offsetting the slightly lower growth of the nearby in-store locations.

Because an in-store branch faces a mostly fixed audience, i.e. the store's shoppers, there is a belief that in-store branch deposits may reach a plateau after the branch captures a certain proportion of the store's regular visitors. The data show in-store branches realize about 50% of mature deposit volume within the first three years after opening. After the initial growth phase, balance growth slows to 10% - 15% per year in years four through seven and then falls into single digits. This pattern is only slightly different than traditional branches, which maintain growth rates of above 20% through year five, followed by slowing growth rates in years six through ten. The in-store branches reach the plateau stage earlier, but post-plateau growth rates remain comparable.

While in-store branches show lower deposit levels than traditional branches, their capital costs typically run only 15% - 20% of average freestanding branch costs. With deposit levels approaching 35% of freestanding levels, in-store branches can prove very effective on a deposits per capital-dollar basis; and they can also yield benefits to the bank's surrounding branches. However, for institutions pursuing in-store locations, it is also critical to insure that, if balances will trail those of traditional branches, that operating costs remain commensurately lower, too.

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