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On July 16, 2021, Bancography reached its 20th anniversary. We're proud to have served the financial services industry for these 20 years, and honored so many bankers have trusted Bancography to assist with their branch planning and marketing research over the past two decades.

Over these 20 years, we've occupied ***three*** *offices, worked with more than* ***150 employees,*** *served nearly* ***1,000 different banks and credit unions*** *(not all of which are still in existence), published* ***74 issues*** *of our Bancology research journal (or 75 counting this one),* ***survived*** *an office building fire; and, along with each of you,* ***endured a pandemic*** *event unprecedented in our lifetimes with all the associated work-at-home and client-contact challenges.*

We've encountered tremendous good fortune across the 20 years, and for that, many thanks to all of the bankers who have trusted our methods and findings, to all the employees who helped out whether briefly or for most of their careers, and to all our colleagues with whom we share this fun, rewarding, and intellectually challenging industry.

2001-2021

To commemorate Bancography's 20th anniversary, we offer 20 fun facts, observations and predictions for the banking industry. Some are brief, some more lengthy, and all are pertinent to the future of our industry.

The Branch Count Today

102,000

vs. 88,000 in 2001

1 In 2001, the year we founded Bancography, there were 88,000 bank and credit union branches across the U.S. Today that total sits at 102,000, a net gain of 14,000 branches over the past 20 years. However, the change was hardly linear; rather, branch counts increased steadily during our first decade – peaking at 113,000 in 2010 – before declining in each of the subsequent years. The U.S. population has grown steadily over the past two decades, such that per-household branch counts are nearly identical today as 20 years ago. In 2001, the U.S. hosted one branch for every 1,200 households; today, that ratio is 1,230 households per branch. But again, the trend was not constant, as at the peak branch levels of 2010, the national branch inventory equated to a saturating one office for every 1,030 households.

2 Even as online and other electronic channels continue to expand, the branch retains an important role to the majority of consumers. The FDIC's 2019 survey *How America Banks: Household Use of Banking and Financial Services* (www.fdic.gov/analysis/household-survey/2019report.pdf) found that 83% of households visited a branch at least once in 2019 down only modestly from 86% in the 2017 study). Branch visits were even more prevalent among older, lower-income and rural households (note there is significant co-membership within those segments). Mobile banking use increased significantly since 2017, mostly at the expense of online banking. But most mobile users still rely on the branch for some portion of their needs: of households citing mobile banking as their primary method, 80% still visited a branch at least once during 2019; and 19% conducted at least 10 branch visits during 2019.

83%

of households visted a branch at least one time in 2019

3 In the Federal Reserve Board's *2019 Survey of Consumer Finances* (https://www.federalreserve.gov/econres/scfindex.htm), 43% of respondents cited "location of branches" as the most important reason for selecting their primary checking provider, more than twice the level of the next-ranking reasons of "obtain multiple services in one place" (18%) and "fees / balance

FUN FACTS, OBSERVATIONS AND PREDICTIONS

requirements" (13%). The proportion of respondents citing "location of branches" as their primary determinant has barely budged over the past 20 years, bouncing between 43% - 46% in every iteration of the triennial survey since 1992. The *Fed's Survey of Consumer Finances* is a comprehensive assessment of how Americans save, borrow and invest, and confirms the enduring role of the branch in the selection of a checking provider, even if consumers use other channels for their servicing needs thereafter. The "locations" response does not necessarily mean the consumer established the account at the branch, only that branch presence was a determinative factor. But this underscores the importance of the convenient local branch in building awareness. The consumer can choose an institution only if they're aware of it; and the presence of a local branch helps place an institution in a consumer's choice set – even if they perceive that branch as mostly "for emergency use only."

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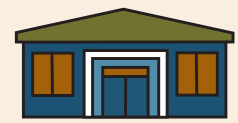
4 In 2003, Bancography conducted its first survey of new-branch construction plans, and found the average footprint for freestanding branches to be 3,900 square feet, with average costs approaching $2.0M. We've reprised that study several times over the years, and the 2019 iteration of the survey saw average footprint size for planned freestanding branches declining to 2,900 square feet, even as average costs increased to $2.3M. Not all branches are freestanding, and 36% of respondents cited plans to build inline or storefront branches, with an average size of 1,900 square feet at an average cost near $750m.

3,900 square feet in 2003



versus

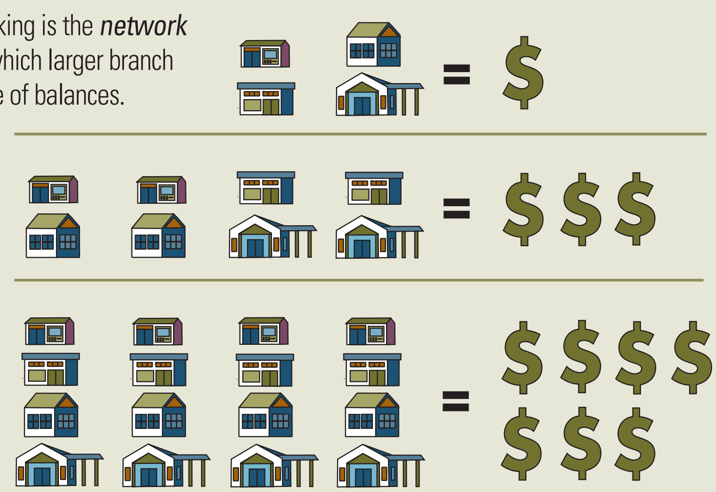
2,900 square feet in 2019

in 2001 there were 9,600 banks & 10,300 credit unions

Today there are about 5,000 banks & 5,100 credit unions

5 We've witnessed tremendous consolidation in the industry over the past two decades. In 2001, there were 9,600 banks and 10,300 credit unions in the U.S. Today, those counts have fallen roughly in half, to 5,000 banks and 5,100 credit unions. Consolidation has yielded larger financial institutions, not only in terms of balances (also a consequence of growth in the underlying economy and inflation), but also in terms of branch scope. In 2001, the average U.S. bank network contained 8.1 branches; today, that average has more than doubled to 16.5 branches per bank.

6 Our favorite concept in all of banking is the ***network effect***, the phenomenon under which larger branch networks capture a disproportionate share of balances. For example, an eight-branch network gains more than twice as much in deposits as a four-branch network, a 16-branch network more than twice as much as an eight-branch network. And so on, as each additional branch brings an incremental 'lift' to the existing branches, elevating the entire network's per-branch deposit level. This is because consumers reward institutions with



perceived ubiquitous presence in the places they live, work and shop. The network effect has proven to be steadfast, still proving as empirically demonstrable today as 20 years ago. The network effect holds as statistically significant at the .01 level in 41 of the 50-largest US metros, and at the .05 level in 47 of the 50-largest metros. The network effect abides not only in metro areas and counties, but even in individual corridors; and thus argues in favor of a concentrated branching strategy across specific markets and/or corridors. Framed another way, the network effect suggests 'get big or get out' in any given market. If your institution lacks the heft to deploy marketwide branches, it argues for concentrating limited resources in one corridor of a metro (e.g., Lincoln Park in Chicago, the Main Line in Philadelphia), versus scattering a few isolated branches across disparate parts of a metro. Absent the willingness to concentrate branches in that manner, the network effect suggests pursuing a specialty approach within a non-retail, less location-dependent business line (e.g., middle-market commercial banking, consumer mortgage, wealth management).

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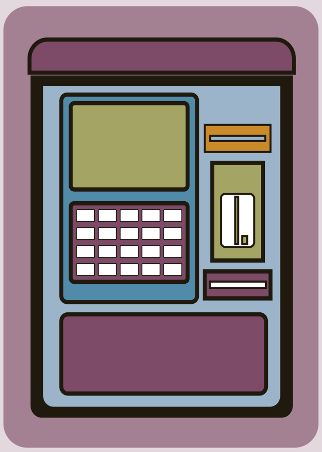
7 Some technologies emerged during the past 20 years to create great impact for institutions. Image-enabled ATMs allowed financial institutions to overcome a key barrier to consumers using the ATM for deposits: uncertainty as to whether the deposit actually "went through" absent tangible proof. Institutions that converted envelope depositories to image depositories saw deposit activity rise on average from 3% of transactions to more than 15%. Similarly, remote capture has proven an equalizer for institutions with smaller branch networks, allowing them to expand the reach of commercial deposit taking to the comfort of the client's office (for non-cash items). The teller cash recycler (TCR) has proven to be the most important tool in allowing reduced-staff branch operations, and correspondingly, smaller branch footprints. By creating a secure environment in replacement of the cash drawer, the TCR encouraged the introduction of open floorplans with dialog banking stations (also referred to as teller pods). In turn, with tellers no longer tethered behind a teller line and its security apparatus, branches could employ cross-trained universal bankers who migrate from teller to platform roles as needed, reducing staff counts. Finally, the interactive teller machine demonstrated its worth during the pandemic, allowing institutions to provide extended drive-in hours (and after-hours lobby access in some configurations), with a superior service interface to the raspy audio of traditional drive-ins, and the efficiencies (and COVID safety) of operation from a centralized call center. One technology that has yet to gain traction, despite seeming pretty cool: the contactless ATM. Readers, discuss among yourselves.



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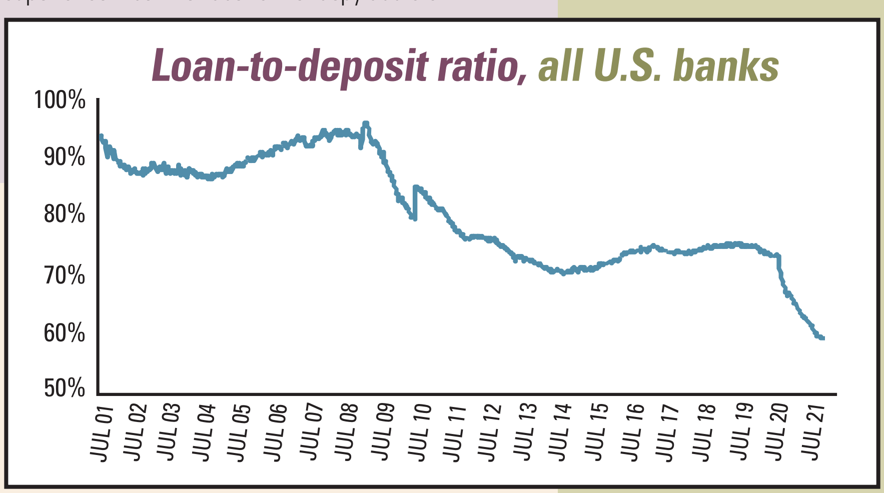
8 The COVID-driven liquidity boom pummeled loan-to-deposit ratios, impacting both sides of the equation. Consumer savings skyrocketed with so many typical spending venues closed, and stimulus payments further heightened the savings rate; while the economic slowdown impeded both consumer and business loan demand. The graph to the right tells the story of a primary challenge facing bankers today.



Home equity borrowing has now declined for 13 consecutive years since the onset of the 2008 financial crisis

9 At the end of 2007, U.S. consumers held a record $1.1 trillion in home equity loan and line balances. Since then, total checking deposits have increased more than five-fold, money market deposits nearly three-fold, and savings deposits four-fold. Consumer loan balances (including credit card, automobile and student loans) have increased by 65% in that period. Yet as nearly every product type saw gains in volume, home equity borrowing has plummeted, with aggregate nationwide line and loan balances falling to $420B (a 62% decline from peak levels). At one time the home equity product helped win the relationships of high-earning but illiquid emerging-affluent households. But home equity borrowing has now declined for 13 consecutive years since the onset of the 2008 financial crisis. Can financial institutions bolster sagging loan volumes by reintroducing consumers to this tax-advantaged borrowing option, especially now that soaring home values have given consumers sizable equity buffers?

10 Across Bancography's 20 years, we've seen massive investments in sales training, direct mail initiatives, next-most-likely-product models, and customer relationship management. Further, the reduction of in-branch transactions has freed countless staff hours for sales activities. The net result of all those investments and efforts: a gain in the median branch cross-sell ratio of two-tenths of a product per household, from 2.0 to 2.2 products per household (this includes products only, i.e., accounts that can carry balances, and not ancillary non-balance services such asdirect-deposit or online bill pay). And this underscores a key point: cross-sell ratios appear largely a zero-sum game; that is, for one bank's cross-sell ratio to improve, another needs to decline, as the pool of consumer needs remains relatively fixed (on a per-household basis). Even as the number of institutions has declined, consumers continue to fragment their relationships in an unchanged manner, parsing their financial holdings among multiple providers to the same extent today as 20 years ago.

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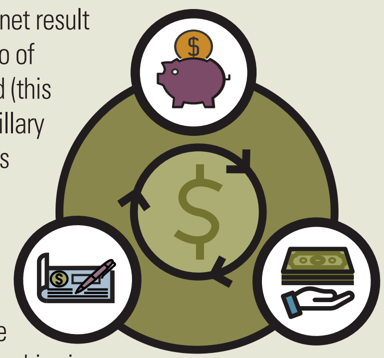
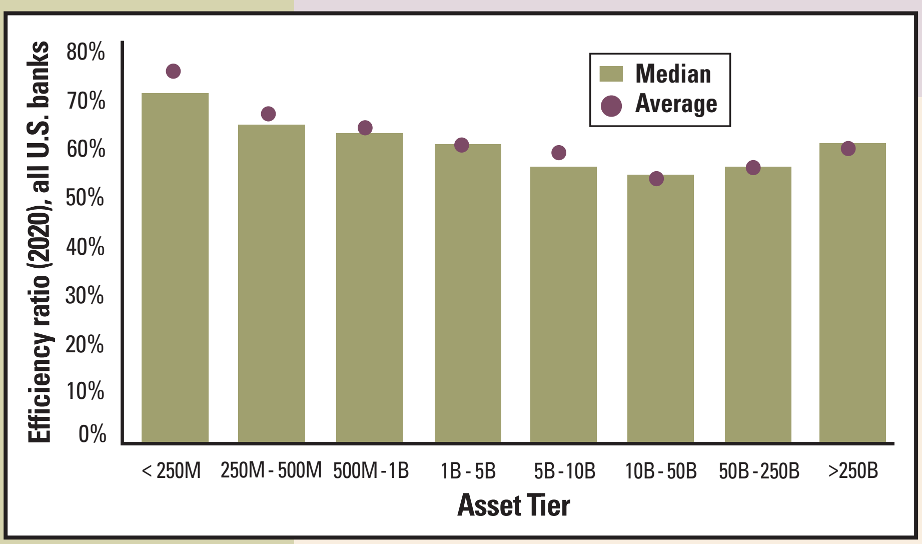


11 Despite endless investments in efficiency, we're not getting any more efficient. When Bancography started in the third quarter of 2001, the median efficiency ratio of all U.S. banks was 65%, the average 67%. Today, the median sits at 66% and the average at 68%. As for all those mergers predicated on scale driving efficiency, we may have reached a point of diminishing returns, as illustrated in the graph to the left.



12 For much of the period from 1995 - 2000, the Fed Funds rate hovered between 6% - 7%; but in Bancography's 20 years, the rate has never exceeded 5.25%. Since early 2008, the Fed Funds rate has never exceeded 2.5%. Although no one is clamoring for a return to the double-digit interest rates of the mid 1980s, and lower rates can fuel economic expansion, seniors relying on CD and money market interest to meet expenses in retirement have to wonder, will we ever see meaningful interest rates again? In the 50 years prior to the 2008 - 2009 financial crisis, the Fed Funds rate had never stayed below 2.5% for any period longer than three years; now, we're 13 years into that environment, with the Fed Funds rate in the past year below 0.10%. What are the impacts for an industry built around the concept of interest revenue in a perpetual low-rate environment? Hint: the best way to avoid margin compression is to have revenue streams not dependent on the margin! What are your institution's best sources of noninterest revenue, and how can you expand them?

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13 We believe Community Development Financial Institutions (CDFIs), Minority-Owned Depository Institutions (MDIs), and other mission-driven providers are essential to the banking industry, and applaud their efforts to bring and preserve banking options to underserved, lower-income communities, both urban and rural. And we're heartened by the numerous recent investments some of the nation's largest institutions have offered to CDFIs. However, you don't need the scope of the largest banks to support your local CDFIs. Consider partnerships such as loan participations, reciprocal fee-free ATM access (where their clients can use your bank's broader ATM network fee free), and shared expertise. Consider if your bank can lend an experienced executive for a six-month term to your local CDFI, to help implement that new cybersecurity or online banking platform. By providing reasonably priced credit to both consumers and businesses, CDFIs are key to elevating the financial security of lower-income communities; and in many urban neighborhoods and rural towns, the local branch remains the last barrier between vitality and decay. A bank or credit union's presence in such communities carries symbolic as well as practical value, confirming investors' belief in the market; and as an industry we should strive to maintain those branch presences. Two great resources to learn more: the Department of the Treasury's CDFI Fund (https://www.cdfifund.gov/); and the National Community Investment Fund (www.ncif.org), which not only invests in CDFIs and other mission-driven institutions, but also provides resources about the CDFI sector and the social impact CDFIs and MDIs create.

Mission-driven providers are essential to the banking industry

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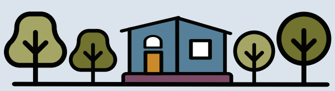

14 A shout-out to two groups of unsung heroes in the industry: the regulators and the educators.

REGULATORS With the profusion of threats brought by the COVID crisis, one true positive held in contrast to the 2008 - 2009 financial crisis: the industry entered well capitalized and much better prepared for adverse shocks. For all the grumbling about Basel, stress tests, Dodd-Frank, and other capital-adequacy discussions that pervaded the industry post-2009, bankers should be grateful for the capital cushions the industry now enjoys; and the preparations, stress tests and similar exercises provided for surviving the COVID crisis. Many thanks to our often criticized, always underappreciated colleagues on the regulatory side of the industry. Sometimes bankers' relationships with their regulators turn adversarial; but remember, they exist to help your institution survive safely, with sound custody of your clients' funds.

20 2001-2021 bancography

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EDUCATORS

And to the educators at the American Bankers Association, the Credit Union Executives Society, and myriad other national, regional and state advocacy groups, unending gratitude for preparing the industry for future challenges and developing the next generation of banking leaders. As well as to the bankers who volunteer to teach at banking schools and conferences, and our fellow vendors who contribute pathbreaking research. Whether through schools (we're partial to the ABA's *Stonier Graduate School of Banking*), newsletters and blogs (two of our faves: Cornerstone Advisors' *Gonzo Banker* at www.gonzobanker.com and *The Advantage Letter* advantage.bankmechanics.com), or traditional journalism (thank you for all the interviews over the years, American Banker and Credit Union Journal among others), our industry is smarter and more resilient thanks to your efforts.

15 In many regions, second-tier markets are enjoying rapid household growth, fueled by attractive middle-ground positioning: large enough to offer the amenities of large markets (e.g., cultural institutions, universities, airports, medical centers) and small enough to allow moderate home values and reduced commute times. In addition, many corporations find these mid-sized markets attractive for their lower wage bases and the lower cost of living for employees. Among markets outside the top-50 metro areas by population, nine added more than 20,000 households over the past five years. That group included retirement markets such as Fort Myers and Sarasota in Florida and Myrtle Beach in South Carolina; and more economically diversified markets such as Charleston and Greenville in South Carolina, Boise, Colorado Springs and Des Moines. Just below that tier, Grand Rapids, Omaha, Fayetteville (AR), Provo and Durham all added more than 15,000 households from 2015 - 2020. In markets such as Des Moines and Omaha, the household growth also reflects a rural-to-urban migration trend, where the few large markets in a flat-growth, mostly rural state gain households at the expense of the state's declining rural counties. For example, Des Moines' household gains occurred even as 61 of Iowa's 99 counties suffered household-base declines from 2015 - 2020; in neighboring Nebraska, Omaha's gains arose even as 55 of the state's 93 counties suffered household-base declines.

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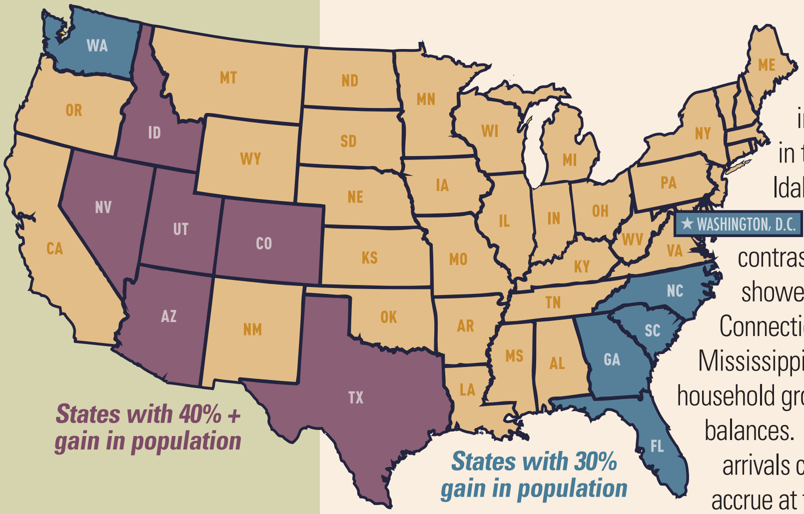

16 The past two decades saw a shift in population from states in the Northeast and Midwest regions to states in the Southeast and West. Six states showed gains of 40% or more in their household bases from 2000 - 2020: Nevada, Utah, Arizona, Idaho, Texas and Colorado. Six others posted gains of more than 30%, including Florida, South Carolina, North Carolina and Georgia. In contrast, West Virginia, Rhode Island, Michigan, Illinois and New York showed less than 5% household growth from 2000 - 2020, joined by Ohio, Connecticut, New Jersey, Pennsylvania, Vermont, and southern interlopers Mississippi and Louisiana in the 5% - 10% household growth tier. The limited household growth presents a challenge for banks and credit unions in growing balances. In growing markets, capturing a fair share of the balances of new arrivals can elevate all providers; but in a flat-growth market every gain must accrue at the expense of an incumbent provider, a more challenging proposition.

17 In 17 of the 50 largest U.S. metropolitan areas, the largest locally based financial institution in terms of deposit share is not a bank, but a credit union (including markets as widespread as Baltimore, Tampa, Phoenix and Seattle). In 37 of the top-50 metros, at least one credit union ranks among the three-largest locally based providers, allowing those institutions to use a marketing premise historically employed by community banks – the option for consumers to use a local, community-invested provider. At a time when much of the commercial banking side of the industry is bifurcating into divergent segments – the largest regional / national banks and boutique providers emphasizing business over consumer clients – credit unions can fulfill a vital role not only as banking providers, but also as employers, philanthropic contributors and municipal leaders in a manner historically performed by community banks. As mergers continue to absorb community banks, could the U.S. be moving toward an environment with a small cadre of nationwide (or at least broadly regional) banks, a tier of business banking specialists each operating in a select group of markets (e.g., Houston, Dallas, Austin), and credit unions as the primary local consumer and micro-business banking options? Look north to the banking landscape in Canada and you'll see a similar model in place today.

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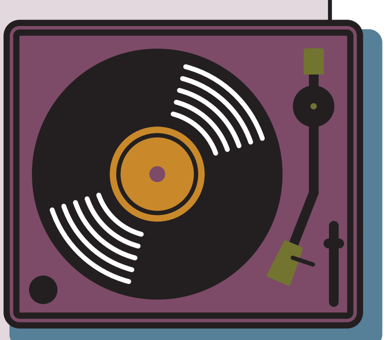
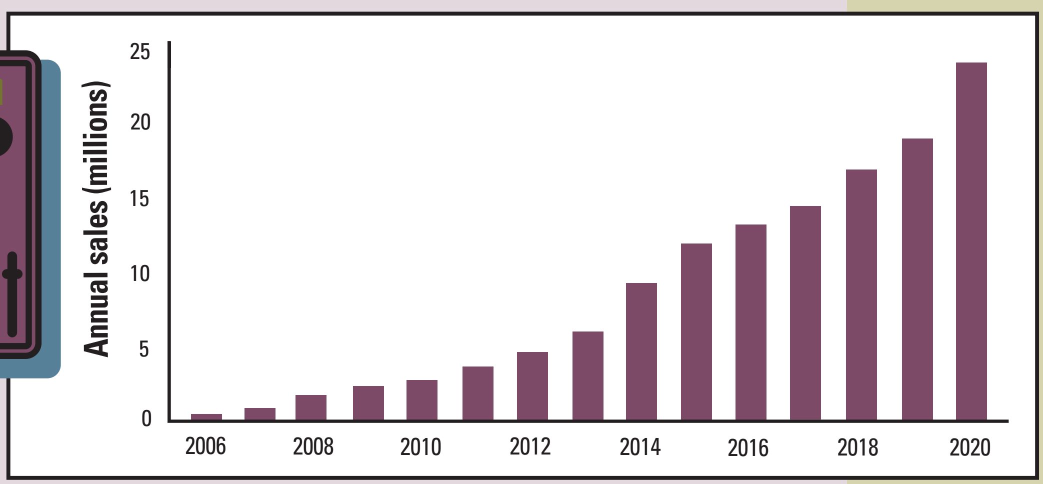
18 In-store branches will continue to offer distinct, differentiating value in an increasingly digital world. The retail apocalypse is real: in 2019 and 2020, more than 20,000 chain-retail stores closed in the U.S. (*Fortune Magazine*, January 7, 2021), but the grocery store remains a mammoth traffic draw. Long-time colleague and friend of Bancography Dave Martin (president of BankMechanics) offered the most succinct, compelling argument for any channel we've ever seen: "When your place of business is no longer a regular destination for most customers, being physically present at a place that is a regular stop becomes a sound strategy. In an increasingly online banking world, convenient and conspicuous physical presences stand out like few things can." (*American Banker,* June 30, 2021)

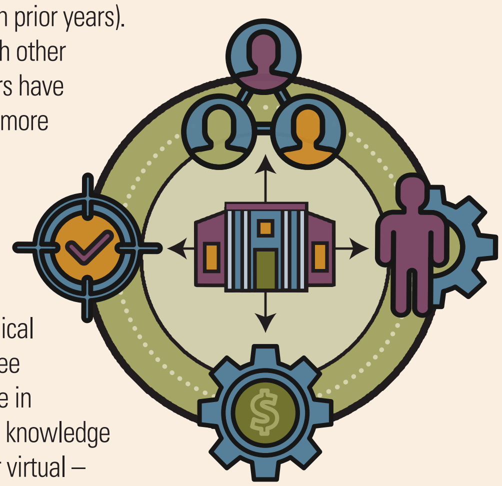
19 What product enjoyed stratospheric sales growth in the time since Bancography started – from less than 1 million units per year to nearly 25 million? Smartphones? Tablet computers?





No, that's the sales history for VINYL RECORDS! Yes, what's old is new again. As a new generation discovers the more authentic experience of a turntable and vinyl, what can we infer about prospects for an all-digital future? Consider other vendors that are thriving: artisan food and alcohol makers, custom handmade bicycle fabricators, farm-to-table restaurants. Consumers crave differentiation, demand local, reward authenticity, and seek counterweights to mass production, commoditization and overbearing technology. Which seems quite beneficial for your local community bank or credit union.

20 Although Bancography foresees the branch as maintaining an enduring role in the delivery networks of banks and credit unions, we also anticipate continued erosion of in-branch transaction demand (though perhaps at a slower pace than in prior years). The slowdown in channel migration would be consistent with other technological and process changes, as a raft of early adopters have already migrated to other channels. So those remaining are more entrenched in current habits and more resistant to change. Still, we should anticipate further migration; and to prepare for a less branch-centric world, we should remember the branch has always been more than four walls and a roof. At its core the branch is the knowledge, empathy, skills and relationships of the bankers therein. To that extent, the physical branch going forward may become more a venue for employee meetings and a domicile for paperwork and equipment; while in practice the branch evolves into the bankers themselves, the knowledge and relationships they carry, at whatever venue – physical or virtual – the client wishes to engage them.



FINALLY, as with any good birthday cake, one candle to grow on, a clarion call for the industry's most astute thinkers. If we ultimately see our own retail apocalypse in the banking industry, with widespread replacement of physical channels by digital channels, there will be societal impacts that bankers must address. If the smartphone supplants the branch, what does that imply for those on the low side of the digital divide? If the U.S. turns cashless with dollars stored on smartphones, does someone lose access to their bank to pay their monthly phone bill? It's easy to say "why have cash, everyone has a smartphone," but the reality is that some people lack access to water, electricity and phone service in any given month because economic circumstances leave them unable to pay their bills. Not to mention the homeless population and those in remote rural areas beyond the reach of broadband and cell phone networks. As banking evolves over the next 20 years, we must strive as industry leaders not to leave anyone behind, but rather to maintain the local access that has allowed bankers to provide both capital and safe, secure deposit accounts to their communities.

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Again, many thanks to all the clients *who have trusted Bancography over the years, and to all the colleagues who have shared their wisdom and collaboration! You've kept our jobs at Bancography fun, rewarding and intellectually challenging. We're eager and excited for the years ahead, continuing to learn what the industry holds, and continuing to provide you with the best research, analysis and advice possible.*

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