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Financial institutions can improve the financial health of low-income households today, but also help build stronger and more resilient neighborhoods for the future.

Banking Deserts: Lack of Convenient Branches Impairs Low-Income Communities

United States governmental agencies such as the Department of Agriculture and the Centers for Disease Control define "food deserts" as low-income urban neighborhoods that lack supermarkets or other venues providing convenient access to affordable, healthy foods. The agencies specifically demarcate such areas for study because residents therein, lacking accessible healthy food options, become more vulnerable to obesity, heart disease, diabetes, and an array of related maladies. And if the lack of nutritious grocery offerings in food deserts can threaten physical health, then it is plausible to presume a lack of convenient banking offerings may threaten families' financial health; and if those conditions are more prevalent in low-income neighborhoods, the lack of access is likely harming those most in need of financial counsel. Accordingly, this article summarizes findings from a study of "banking deserts," low-income urban neighborhoods with limited access to banks or credit unions.

Methods

The study examined branch distribution in four major metropolitan areas in different regions: Philadelphia, Atlanta, Minneapolis and Los Angeles. All four rank among the 20-largest metros in the U.S., with all but Minneapolis ranking in the top 10. The study sought to determine whether residents of low-income neighborhoods in those markets found fewer financial services alternatives than residents of more affluent communities.

The null hypothesis of the study can be summarized as "all neighborhoods, irrespective of income profile, enjoy similar access to bank and credit union branches." To investigate that hypothesis, the study examined the presence of convenient branch access in each census block group within the four markets, with two exceptions: the analysis omitted block groups where the trade-area population density was less than 2,000 residents per square mile to eliminate rural areas on the fringe of metros[1]; and the analysis omitted block groups where the trade area showed an employment-to-household ratio of greater than three-to-one, to eliminate downtown and similar districts.

The study defined convenience in terms of a specific trade-area radius around the center of each block group, with the extent of that radius an inverse function of the surrounding population density. See *[Branch Network Optimization: A Holistic View of the Branch Network (4/15) and Defining Branch Trade Areas (11/03)]* for more detail on trade-area definition. In summary, empirical data show branches in areas of greater population density display tighter drawing areas, because consumers define convenience not by distance but by time; and transit times in high-density areas with numerous traffic lights, etc., tend longer. The study then tallied the number of branches (bank and credit union) within each block group's relevant radius, and compared those counts against the median-income level within that same radius.

Median Household Income	Average Number of Branches in Trade Area			
	Philadelphia	Atlanta	Minneapolis	Los Angeles
< $35,000	1.9	1.9	2.7	2.5
$35,000 - $50,000	2.2	2.5	2.8	2.6
$50,000 - $75,000	3.9	2.7	3.0	3.8
$75,000- $100,000	4.8	3.8	2.9	4.9
> $100,000	5.2	3.7	2.4	5.3

Findings

Three of the four markets show strong evidence that less affluent neighborhoods suffer from lesser access to convenient branches. For example, in Philadelphia, residents of block groups with median income of less than $50,000 find (on average) half as many convenient branches as residents of more affluent block groups. Atlanta and Los Angeles show similar trends, though with slightly less disparities across the tiers. Notably, branch levels in Minneapolis remain similar irrespective of income profile. (continued on page 2)

[1] *Though rural banking deserts are a separate issue also worthy of study.*

Banking Deserts: Lack of Convenient Branches Impairs Low-Income Communities (continued from page 1)

More alarming than the average counts is the proportion of block groups that lack any convenient branches nearby. In each of the markets except for Minneapolis, 30% - 40% of the block groups with median income of less than $35,000 lack any convenient nearby financial services provider[2]; and in Philadelphia and Atlanta, a similar proportion of block groups in the $35,000 - $50,000 income tier lack any convenient branch.

Median Household Income	% of Block Groups with No Convenient Branches			
	Philadelphia	Atlanta	Minneapolis	Los Angeles
< $35,000	31%	40%	12%	38%
$35,000 - $50,000	32%	33%	16%	17%
$50,000 - $75,000	17%	31%	19%	11%
$75,000- $100,000	7%	24%	17%	5%
> $100,000	7%	26%	27%	2%
Total block groups	3,422	1,536	1,720	6,170

Further, in Philadelphia, Atlanta and Los Angeles, another 15% - 25% of block groups in the two lowest-income tiers have convenient access to only a single branch in their primary trade areas. And while one branch option remains superior to none, that still leaves the consumers in those single-branch trade areas lacking any significant leverage in choosing providers; and leaves less pressure on the sole provider to accommodate special customer needs or deliver differential service.

In another interesting finding, credit unions remain slightly more prevalent in low-competition markets. For example, in Philadelphia, 27% of the branches in single-branch trade areas belong to credit unions; compared to 23% of branches in two-branch trade areas and only 16% in trade areas with three or more total branches. Los Angeles and Minneapolis show a similar trend of greater credit union prevalence in single-branch trade areas, but the Atlanta market presents no discernible similar pattern.

[2] Keep in mind, this says more than the block group itself lacks a branch. Rather, the count of branches is defined within a trade area around the center of the block group; and thus, in almost all cases, spans into additional nearby block groups.

[3] Though beyond the scope of this study, the correlation between the phenomenon known as the 'digital divide' and banking deserts likely merits further research.

Implications

In the Philadelphia metro area, 100,000 households live in block groups with no convenient branches within their primary trade areas, and another 70,000 households live in block groups with only one nearby convenient branch. Combined, these banking deserts impound about 10% of the household base of the metro overall, excluding the rural and employment-center block groups described in the methodology summary. In Atlanta, 115,000 households live in banking deserts; as do 285,000 households in Los Angeles; but in Minneapolis, only 30,000 households live in banking-desert environments.

Even in an era of online banking options, the lack of financial services options in many low-income neighborhoods likely creates adverse impacts in terms of forcing consumers into harmful offerings such as payday lenders, check-cashing services and pawn shops; reducing pricing and service leverage with bank and credit union providers; and limiting opportunities for consumers to gain financial literacy and/or initial introductions to the mainstream banking system. And while electronic channels can provide an alternative to branch-based delivery for some financial transactions, keep in mind many lower-income households suffer from a lack of online access, too[3]; and the physical branch remains uniquely positioned to advance financial literacy, foster community engagement and philanthropy, and support the formation and maintenance of local small businesses.

Although the data illustrate a stark disparity in banking availability in three of the four markets, the Minneapolis statistics suggest it is possible for institutions to provide consistent branch options across an entire metro area. This may be a legacy of the three large banks with headquarters ties to the market (Wells Fargo via the former Northwest, US Bank and TCF), it may be a function of the Minneapolis metro's more compact urban geography, or it may reflect a more affluent overall market (as evidenced by the highest median income among the four markets studied). Still, the sizable count of households in banking deserts in the other three metros dictates a need for banks and credit unions in those markets to reevaluate their Community Reinvestment Act and service-mission efforts (respectively) to ensure they address their entire markets. In doing so, not only can financial institutions improve the financial health of low-income households today, but also help build stronger and more resilient neighborhoods for the future.

The Total Customer Experience

The customer journey spans three phases: onboarding (the beginning of the relationship), ongoing (the routine maintenance), and outgoing (the end). The individual interactions and transactions throughout the customer relationship define the entire customer experience.

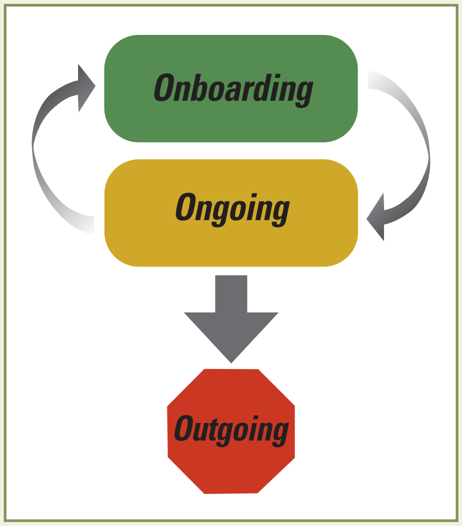
The customer experience constantly evolves throughout the customer's life. Customer needs change and expand with age, family, income, investments, businesses and retirement. Maintaining and cultivating the relationship is a never-ending exercise, with account openings and their supporting transactions occurring in perpetuity. As illustrated in the graphic to the right, the customer life cycle is fluid. Consider the following:

> Slightly more than 50% of businesses maintain personal accounts at the same institution.

> One-quarter of new consumer and business account openings were already existing clients.

> Approximately 50% of new mortgage customers chose the institution due to their existing relationship.

The role of the branch is changing as in-branch transaction volume erodes. Even as routine transaction demand migrates to the digital channels, the physical branch remains the primary channel for the account-opening event. Bancography has conducted various types of research over the past two decades, uncovering a slow but steady rise in dissatisfaction that begins with the new-account or mortgage process. Almost 18% of consumer household and business attrition resulted from a problem or error associated with an inadequate onboarding experience. Considering how intertwined a banking relationship is, one poor onboarding or routine transaction experience could result in an entire relationship relocating elsewhere.



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Initial Findings from the 2019 FDIC and NCUA Branch Deposit Statistics

In October, the FDIC published its annual branch deposit statistics, with data as of June 30. In concert with the NCUA's institution-level deposit statistics of the same period, the data provide a snapshot of the deposit and branching environment in the U.S. In the past year, retail and small business deposits grew at a 3.0% pace (down from 3.3% in the prior years), the slowest level since 2014 and second-lowest level since 2011. Total deposits, including corporate and municipal balances, grew by 4.3% from 2018 - 2019, also among the lowest levels in the past ten years.

Notably, credit unions enjoyed greater proportionate growth than banks in the past year, growing deposits by 6.0% versus 2.4% for banks. Credit unions' share of total U.S. deposits has inched upward in recent years, rising from 8.6% in 2015 to 9.2% in 2019.

Branch counts continue to erode, but at a modest pace. The industry shed a net 1,600 branches over the past year, leaving the U.S. overall with 105,000 branches, a 6% decline from 2015 levels. U.S. banks now maintain about 86,000 branches and credit unions 19,000 branches.

Deposit growth and branch growth (or loss) varied by region. Examining a four-year trend, the Orlando metro posted the top deposit-growth level among all large U.S. metros (defined as those with at least one million residents). Retail and small business deposits in the Orlando metro grew at a 7.1% compound annual rate over the past four years, edging past the next-ranking Raleigh and Washington, DC metros, which each showed 6.3% CAGRs from 2015 - 2019. Notably, the Raleigh and Orlando metros ranked second and third, respectively, in the large-metro peer group in terms of household growth rate in that period.

Four other large metros showed four-year deposit CAGRs in the 6.0% range: Phoenix, Seattle, Las Vegas and Grand Rapids. Phoenix, Seattle and Las Vegas all ranked between 10th and 15th in household growth among the 53 metros with one million or more residents, again showing a correlation between household and deposit growth.

At the opposite end of the spectrum, deposits in the New Orleans metro remained essentially unchanged over the past four years, while the Pittsburgh, PA, Houston, TX, New York, NY, Birmingham, AL and St. Louis, MO metros eked out annual deposit growth in only the 1.5% - 2.5% range. Each of those markets also ranked in the bottom-quartile of household growth within the large-metro peer group, with the exception of Houston, where tepid deposit growth belied top-tier household growth.

Within the large-metro peer group, all but six markets experienced declines in branch counts over the past year. The six markets that showed net branch gains included high-growth metros such as San Antonio, Austin and San Jose, as well as moderate-growth markets Kansas City, Grand Rapids and St. Louis. Still, even the top-ranking markets in this group posted net additions of only four branches, essentially flat relative to their starting inventories of 400 - 1,100 branches. In contrast, seven metros showed net declines of at least 30 branches over the past year: New York, Chicago, Washington DC, Los Angeles, Miami, Atlanta and Detroit. However, in proportionate terms, the Jacksonville, New York, Richmond, Tampa, Washington DC and Charlotte metros displayed the greatest level of branch contraction, each shedding about 3% of their 2018 branch inventories in the past year.

These statistics provide a high-level overview of deposit and branching activity in the past year. Look for more detail in Bancography's *2020 Outlook*, publishing early next year.

The dramatic fall in volume of the routine in-branch transaction has shifted to the multitude of unstaffed channels such as ATMs, online and mobile. The popularity of the digital channels is growing significantly each year, which has increased and expanded the banking experience. These touchpoints are vital in the customer experience; yet, their technological evolution seems to have outpaced their primary support channel - the call center. When the consumer or business experiences difficulty with one of the digital channels, they contact the call center. Therefore, the call center agents have transformed from remote tellers to universal bankers, and they must provide technological expertise and guidance. In support of the branch and remote channels, the call center touchpoint is rapidly gaining importance in the customer experience.

Measuring only in-branch transactions ignores the other remote and digital channels, which could aid in cross-sell and referrals, and prevent attrition. For these reasons, understanding the total customer experience involves onboarding events and routine transactions across all delivery channels, including the call center.

For more information about Bancography's Customer Experience programs, please contact us at (205) 251-6227 or research@bancography.com.

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