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S&P Global
Market Intelligence

Amid 'unstoppable' shift to digital, banks further trim branch counts in '16

By Kevin Dobbs and Zuhaib Gull **January 12, 2017**

For the seventh consecutive year, U.S. banks in 2016 collectively shuttered more branches than they opened, extending what analysts say is an enduring trend that reflects customer behavior.

Fewer financial transactions occur in physical locations as customers increasingly do more of their banking business online, providing banks reason to pare down branch networks and reinvest the savings into their digital offerings, analysts say.

There were 91,033 U.S. branches at the close of the 2016, down 2,130 from the end of 2015, according to an S&P Global Market Intelligence analysis. Total annual branch counts have not increased since 2009.

Banks for years have reported that foot traffic at branches has steadily declined in a digital era in which Americans handle ever more of their daily tasks online and via mobile applications, including routine banking activity.

"I think it absolutely continues to be about declining traffic in the branches and the shift of that traffic to online," James Bradshaw, a bank analyst at Bridge City Capital LLC, said in an interview. "It's an unstoppable force. ... Anyone who takes their eye off of that ball is making a big mistake from a long-term perspective."

At the same time, Bradshaw added, banks have grappled with a protracted cycle of ultra-low interest rates, providing them extra incentive to contain costs by closing branches. A steady level of M&A activity has further contributed to the overall reduction in branches. When one bank acquires another, it typically reduces the combined company's expense base by closing overlapping branches, generating savings and boosting the deal's profitability.

JPMorgan Chase & Co. downsized its branch network by a net 164 locations in 2016, more than any other U.S. bank. Summing up the driving force behind the changes, Chairman, President and CEO Jamie Dimon put it this way at a conference last month: "It is more and more digital."

Others notably active on the branch reduction front last year: Bank of America Corp., Capital One Financial Corp., KeyCorp, PNC Financial Services Group Inc. and Regions Financial Corp. The largest banks typically lead the charge simply because they have the greatest number of branches and therefore generate larger numbers of cuts. But many smaller banks, too, are continually trimming their branch counts.

Analysts noted that the interest rate environment is changing, with Federal Reserve policymakers raising their benchmark rate by 25 basis points in December 2016. Fed officials have indicated in their projections that they could lift rates three more times in 2017.

The national unemployment rate has been at or below 5% for the past year. Demand for workers has resulted in higher wages. Average hourly earnings in December increased by 10 cents, to $26.00, and for all of last year earnings were up 2.9% from the previous year.

If that positive job and wage momentum continues, and if policymakers followed through with three rate hikes this year and tacked on more in 2018, analysts said, it would at some point prove enough for depositors to start shopping for better rates. When that happens, banks will find themselves competing for core deposits, and the role that branches can still play in banks' sales and marketing efforts could motivate some lenders to at least slow down their branch consolidation efforts.

Bankers such as Dimon have long maintained that the industry is not abandoning branches altogether. Locations in high-traffic areas, in particular, still function as important billboards and destinations for customers to open new accounts or apply for substantial loans.

Analyst Timothy Coffey of FIG Partners said in an interview that, in an "extreme" case of heated deposit competition, enough banks might consider reversing course on branches to alter the long-running trend.

"But we are a long way from that," he added. "My gut tells me banks continue to recognize the benefits of being more efficient and continue to downsize branches."

Bradshaw agreed. He noted that bank stocks have rallied over the past couple months in part because of investor optimism that President-elect Donald Trump's pro-business agenda will provide additional fuel for rate increases. But Bradshaw said changes in Washington usually take several months, if not years, to materialize and significant uncertainty enshrouds any new White House.

"I understand the bull case," he said. "But we seem to have things set up for unrealistically high expectations." As such, Bradshaw said, bankers are likely to remain focused on lowering costs in the near term, including expenses tied to physical locations.

"We have not shifted from defense to offense yet" when it comes to branches, Bradshaw said. "Not even close."

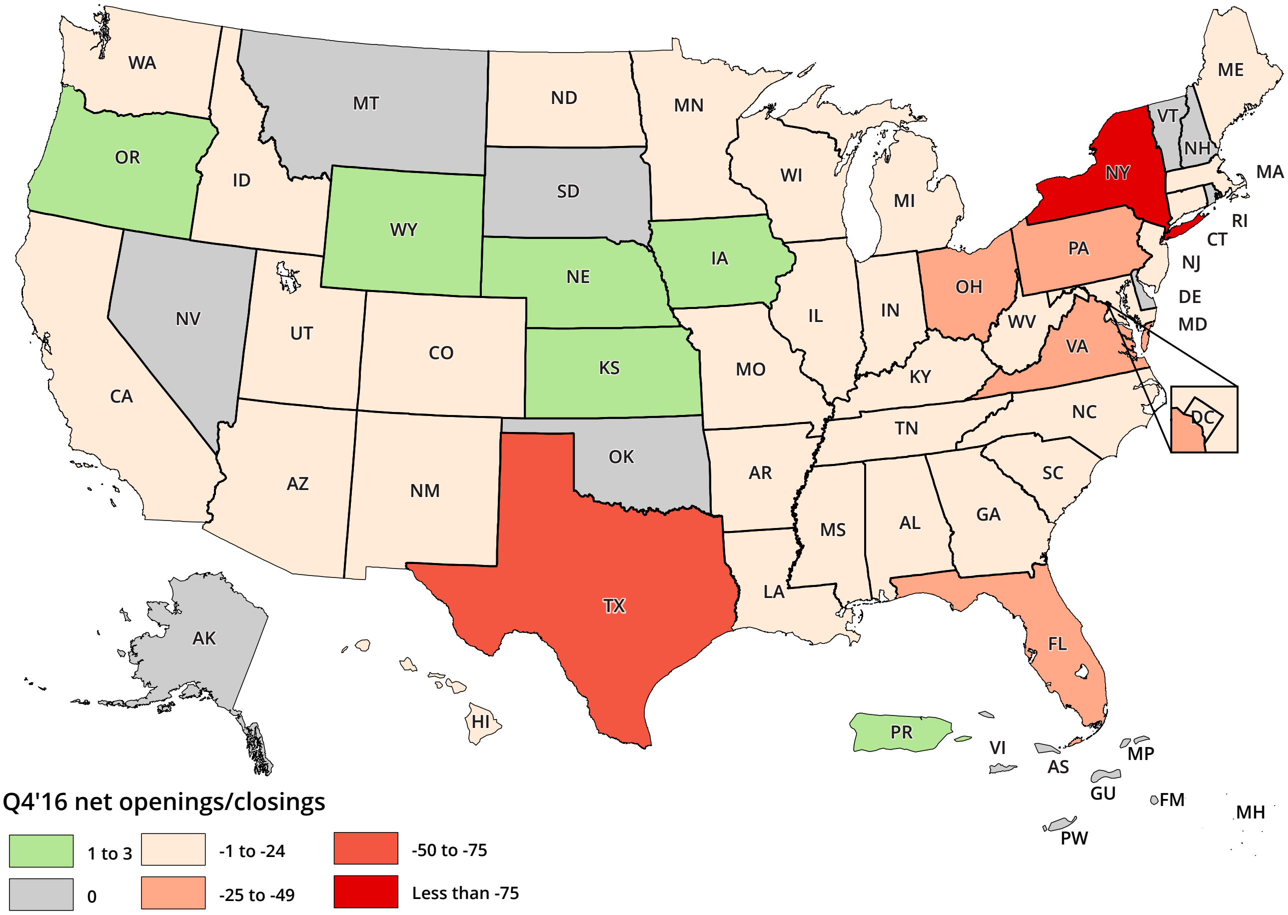
Most branch openers and closers in Q4'16

Company (top-level ticker)	Total active branches^	Net openings/closings Q4'16	Q3'16	Q2'16	Q1'16	Total
Net increase						
Banc3 Holdings Inc.	4	3	0	0	0	3
Cullen/Frost Bankers Inc. (CFR)	148	3	5	1	0	9
Investors Bancorp Inc. (ISBC)	165	3	1	2	3	9
Net decrease						
KeyCorp (KEY)	1,243	-103	-1	-12	-5	-121
PNC Financial Services Group Inc. (PNC)	2,602	-84	-3	-30	-3	-120
Regions Financial Corp. (RF)	1,526	-69	-5	-11	-22	-107
Capital One Financial Corp. (COF)	700	-58	-63	-3	0	-124
Bank of America Corp. (BAC)	4,641	-54	-63	-9	-9	-135
JPMorgan Chase & Co. (JPM)	5,306	-49	-66	-17	-32	-164
BB&T Corp. (BBT)	2,195	-25	-35	-20	-2	-82
Wells Fargo & Co. (WFC)	6,197	-22	-43	-11	-9	-85
Comerica Inc. (CMA)	458	-15	0	-4	0	-19
U.S. Bancorp (USB)	3,187	-11	-30	0	-1	-42
International Bancshares Corp. (IBOC)	200	-10	-8	0	-1	-19
Citigroup Inc. (C)	747	-7	-6	-2	-52	-67
F.N.B. Corp. (FNB)	422	-6	-3	-16	-4	-29
First Citizens BancShares Inc. (FCNCA)	550	-6	-2	-11	-5	-24
Nicolet Bankshares Inc. (NCBS)	41	-6	0	-2	0	-8
Total U.S.	**91,033**	**-555**	**-768**	**-472**	**-335**	**-2,130**

Data compiled Jan. 9, 2017.
Ranking based on net openings/closings for the fourth quarter of 2016. Limited to companies with three or more net openings or six or more net closings for the quarter ended Dec. 31, 2016.
In the event of a merger or an acquisition, SNL retroactively adjusts current-year openings/closings to the single, highest-level holding company.
^ Total active branches based on the FDIC's June 30, 2016, Summary of Deposits filing and is adjusted for completed and announced M&A and any branch openings or closings as of Dec. 31, 2016.
Openings and closings data limited to branches with opening/closing date available.
Excludes credit unions.
Top-level ticker based on home country stock exchange of the highest traded entity within the corporate structure.
Source: SNL Financial, an offering of S&P Global Market Intelligence

Net openings and closings across US and territories

Oct. 1, 2016, to Dec. 31, 2016



Data compiled Jan. 9, 2017.
Openings and closings data limited to branches with opening/closing dates between Oct. 1, 2016, and Dec. 31, 2016.
Branch openings and closings are limited to cases where opening and closing dates are available.
Excludes credit unions.
Source: SNL Financial, an offering of S&P Global Market Intelligence
Map credit: Elizabeth Thomas

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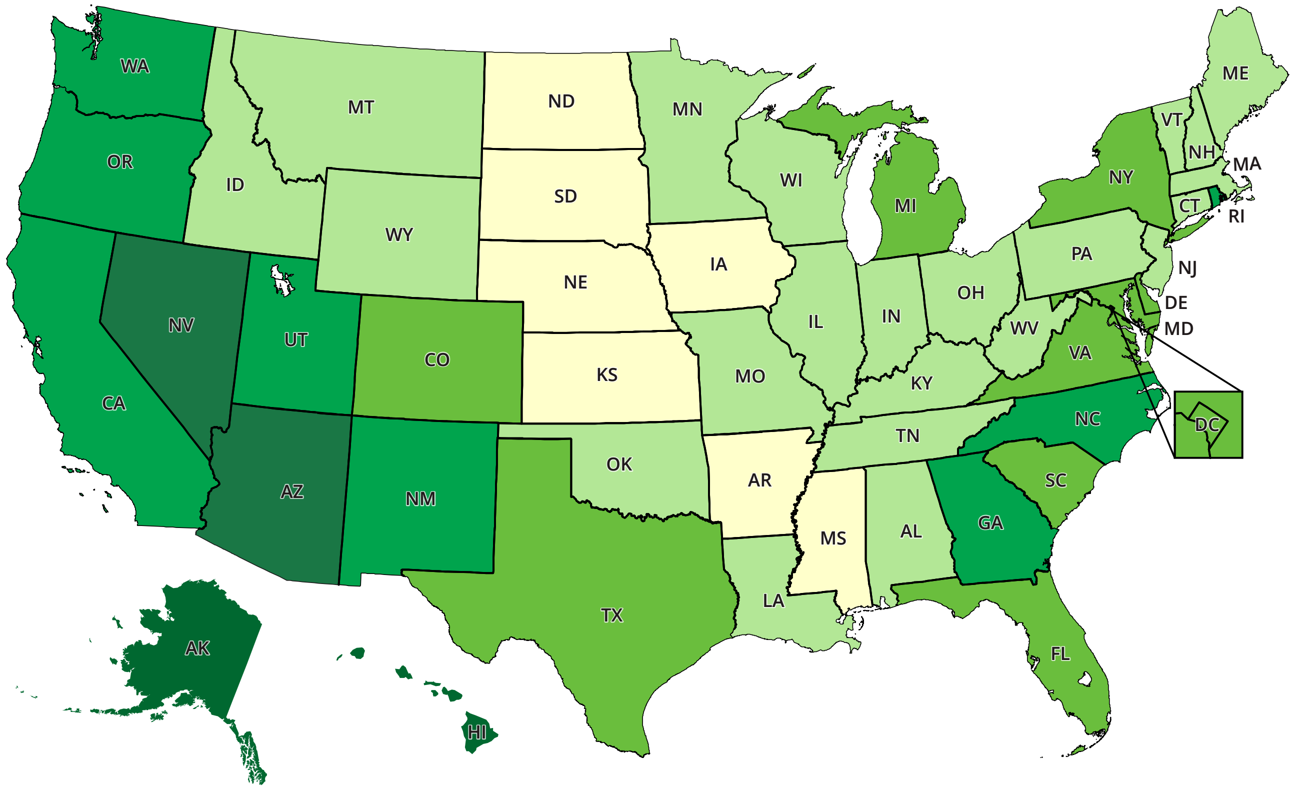
Households per branch



Households per bank branch*

Less than 1,000	1,000 to 1,300	1,301 to 1,600	1,601 to 2,000	Greater than 2,000

Data compiled Jan. 9, 2017.
Total branch data based on the FDIC's June 30, 2016, Summary of Deposits filing and is adjusted for completed and announced mergers and acquisitions and any branch openings or closings as of Dec. 31, 2016.
* Represents households per branch. Households data is based on 2017 data provided by Nielsen.
Excludes credit unions.
Sources: SNL Financial, an offering of S&P Global Market Intelligence; Nielsen Pop-Facts 2017
Map credit: Elizabeth Thomas

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