

Accounting for the Decline in the Number of Community Banks since the Great Recession*

Roisin McCord (University of Virginia)

Ned Prescott** (Federal Reserve Bank of Cleveland)

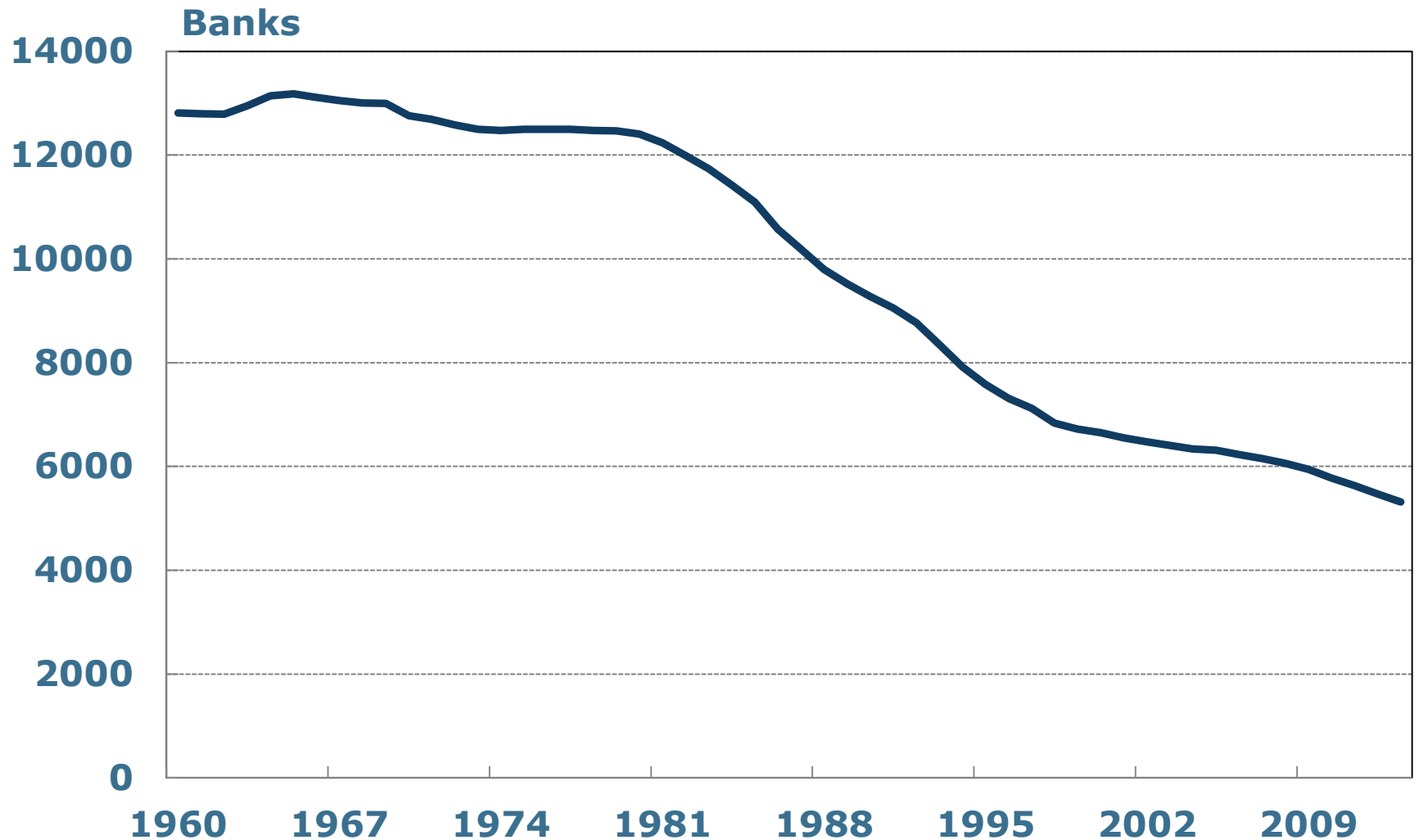
Third Annual Community Banking and Policy
Conference

October 1, 2015

* This talk is based on McCord and Prescott, "The Financial Crisis, the Collapse of Bank Entry, and Changes in the Size Distribution of Banks." FRB Richmond *Economic Quarterly*, First Quarter 2014.

** The views expressed in this talk are those of the authors and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

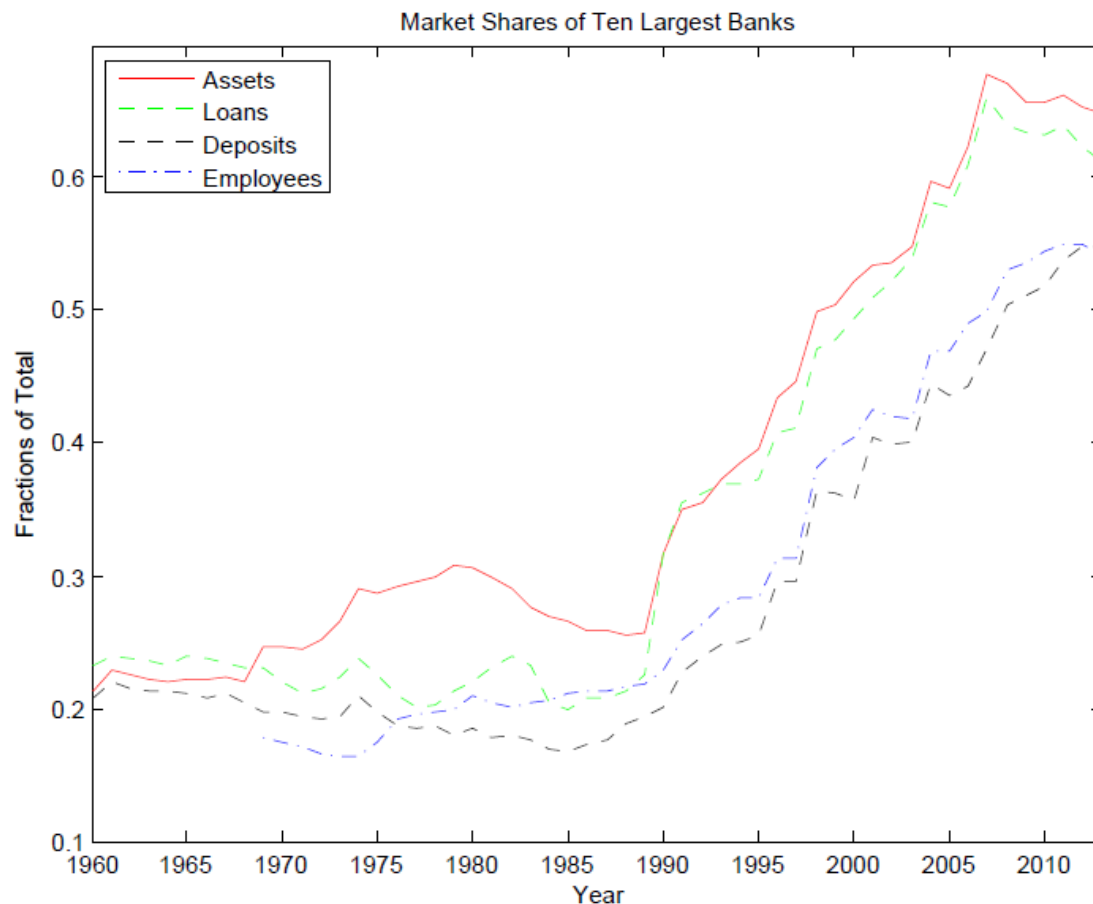
Number of Independent Banks in the U.S.



Source: Author's calculations/Federal Reserve National Information Center

FEDERAL RESERVE BANK
of CLEVELAND

Increase in Concentration



Authors' calculations. National Information
Center/Call Report

Biggest Decline Since Crisis is Among Smallest Banks

Asset Size (millions)	2007	2013
< 100	2538	1771
100 – 1,000	3161	3087
1,000 – 10,000	386	383
10,000 – 50,000	39	44
>50,000	29	32
Total	6153	5317

Note: Assets normalized to 2010 dollars.

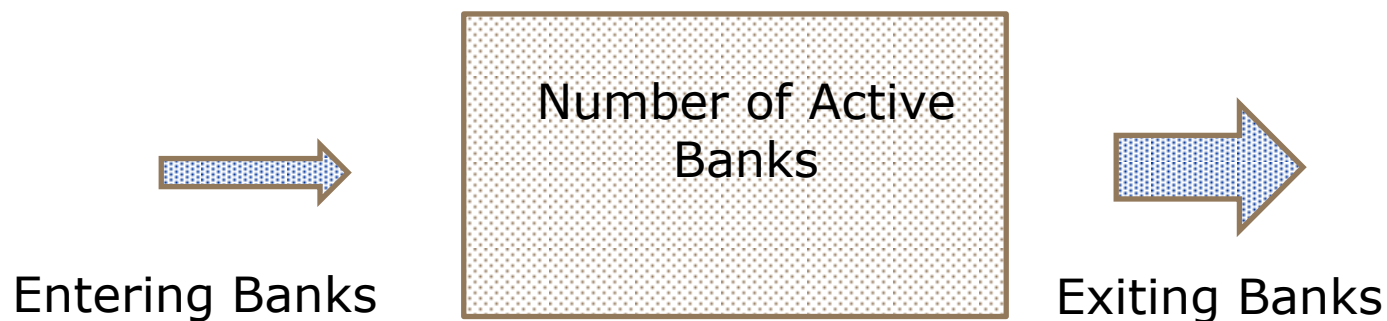
Data

- Definition of a bank
 - Combine all commercial bank charters under top BHC
 - No credit unions, S&Ls, savings banks, credit card banks, foreign bank branches
- Assets
 - Converted off-balance sheet activities into balance sheet equivalents
 - Important for larger banks starting in the 90s (\$3.5 trillion in 2012)
 - E.g., derivatives, securities lending, loan commitments

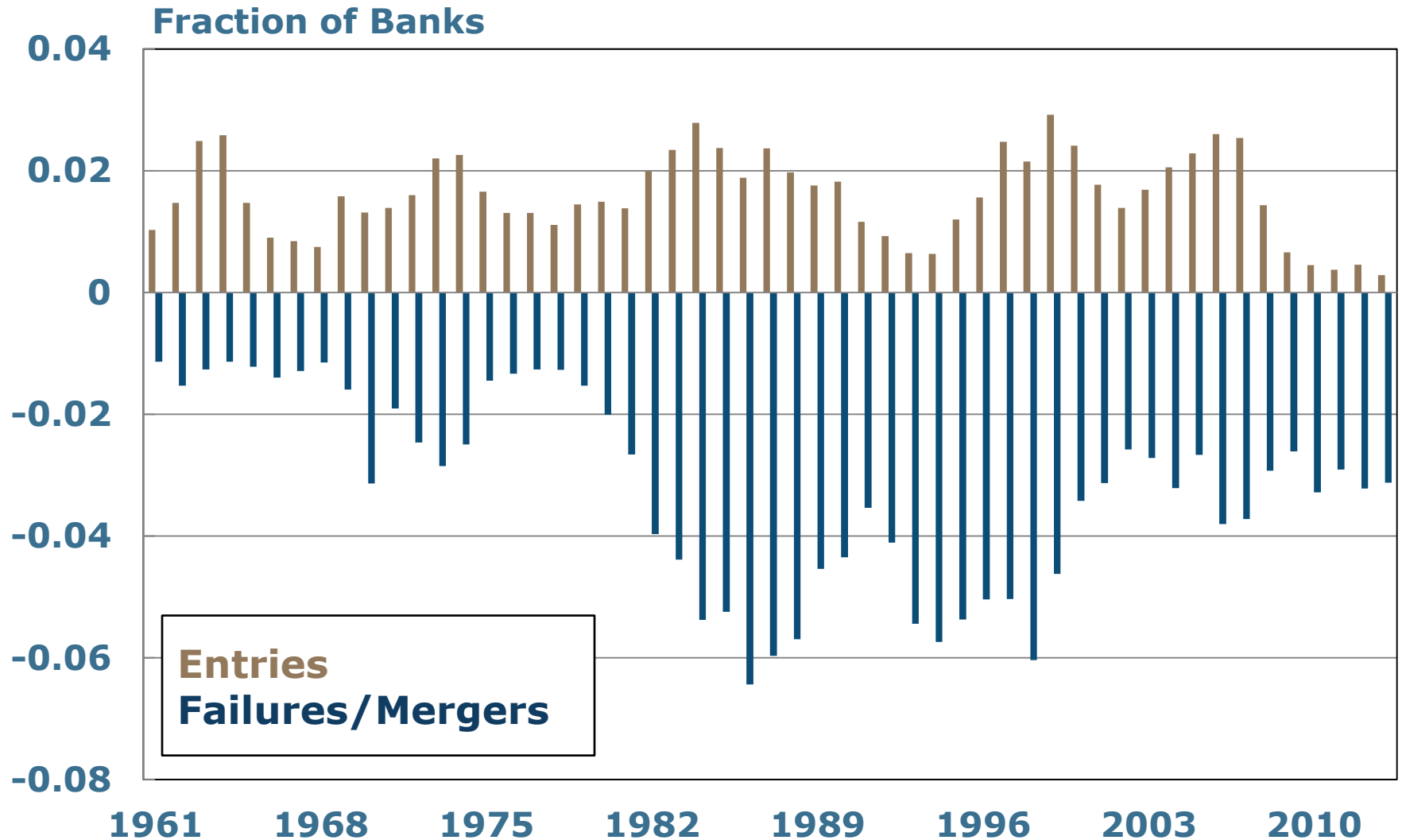
Goal of This Talk

- Account for decline in number of community banks
- Due to collapse of entry
- Not increase in exit

Number of Banks: Role of Entry and Exit



Bank Entry and Exit as Fraction of Total Banks



Source: Author's calculations/Federal Reserve National Information Center

FEDERAL RESERVE BANK
of CLEVELAND

Before and After the Financial Crisis

- Exit rates stay the same

- Entry rates collapse

A Counterfactual Calculation

- Estimated annual transition rates of banks between size classes for 2008-2013
- Estimated annual exit rates by size class over 2008-2013
- Used **historical** annual entry rates
- Simulated number of banks in 2013

If Entry Rates Had Stayed at Historic Average

- 2007 - 2013
 - Data - drop of 836 banks
 - Counterfactual - drop of only 269 banks
- Drop
 - 2/3 is lack of entry
 - 1/3 is long-term trend

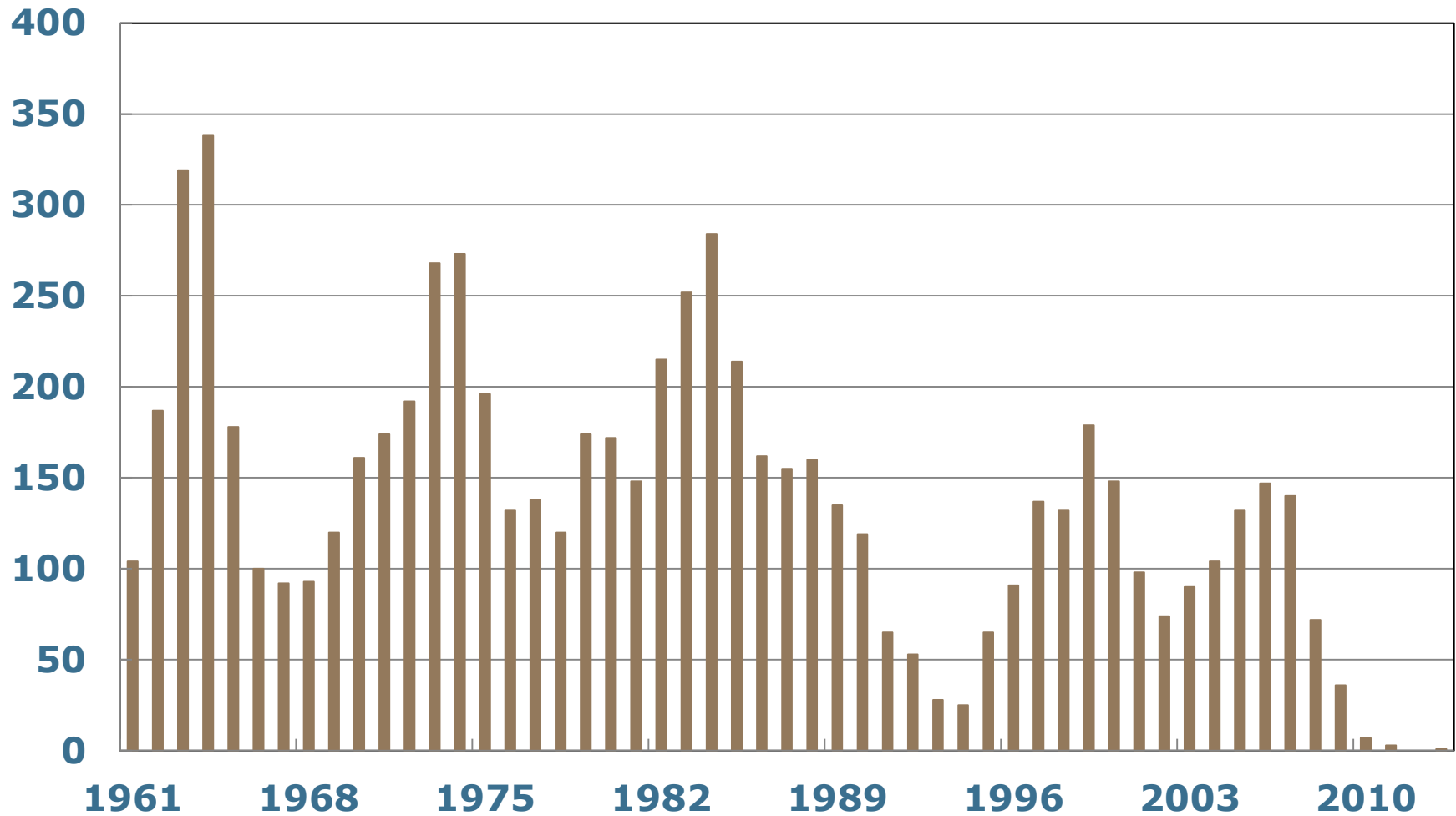
Drop in Number of Community Banks

- Most new banks start small
- New banks add to stock of community banks
- Stock not being replenished now

Types of Entry

- Charter conversions
 - 2012 – 20
- Spinoffs
 - 2012 – 5
 - Capital Bancorp bankruptcy – spins off banks
- *De Novo* banks ...

Number of *De Novo* Banks by Year (1961-2013)



Source: Author's calculations/Federal Reserve National Information Center

FEDERAL RESERVE BANK
of CLEVELAND

Recent *De Novo* Banks

- 2011 – 3
 - New charters to buy failed banks by private equity
 - Alostar, Cadence, Certusbank
- 2012 – 0
- 2013 – 1
- 2014 – 0

The 2013 *De Novo* Bank!

The screenshot shows the homepage of the Bank of Bird-in-Hand. At the top, the bank's logo features a stylized bird icon next to the text "BANK OF Bird-in-Hand" and the tagline "a full service community bank". To the right, the customer service number "717-768-8811" is displayed. A navigation menu includes links for Home, About Us, Personal Banking, Business Banking, Investor Relations, and Contact. The main visual is a photograph of a horse-drawn carriage on a rural road. Below the photo is a "Welcome to Bank of Bird-In-Hand!" message. A central text block provides a warm welcome and contact information. To the right is an "Online Banking Login" form with a password field, a "Login" button, and a "Sign Up" link. A yellow callout box with a bird icon says "Welcome! We look forward to serving you!". The footer contains a testimonial from Mark and Melissa K., the FDIC logo, and the bank's address and contact details.

BANK OF Bird-in-Hand
a full service community bank

Customer Service: 717-768-8811

[Home](#) [About Us](#) [Personal Banking](#) [Business Banking](#) [Investor Relations](#) [Contact](#)

Welcome to Bank of Bird-In-Hand!

Welcome to Bank of Bird-in-Hand. We hope you enjoy your online banking experience with us. If you need further assistance please contact us at 717-768-8811. We look forward to having the opportunity to serve you soon at the bank located at 309 N. Ronks Road, located in Bird-In-Hand, Pennsylvania.

Online Banking Login

Forgot Password?

Login


Online Banking Sign Up

Welcome!

We look forward to serving you!

Our Satisfied Customers

"We love this bank, the customer service is top notch."
- Mark And Melissa K.

Member **FDIC** 
Equal Housing Lender

309 North Ronks Road, Bird-in-Hand, PA 17505 © 2013 Bank of Bird-in-Hand Member FDIC Equal Housing Lender

Stories for the Lack of Entry

- Weak economy
 - Net interest margins correlated with entry
 - Now lower - Adams and Gramlich (2015)
- Increased barriers to entry
 - De Novo entry harder - FDIC (FIL-50-2009)
 - De novo supervision period extended to seven years
 - Material changes in business plans require FDIC approval
 - Note: a 2014 Q&A publication relaxed this a bit
- Increase in scale needed to operate efficiently
 - Changes in regulations – what bankers say

Summary

- Decline in number of community banks
- Mainly due to collapse of entry