The Changing Landscape of In-person Banking

May 7, 2024

3:00 to 4:00 PM ET

Connecting Communities

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Views expressed during this session are those of the speakers and are intended for informational purposes.

They do not necessarily represent the views of Fed Communities or the Federal Reserve System.

Background

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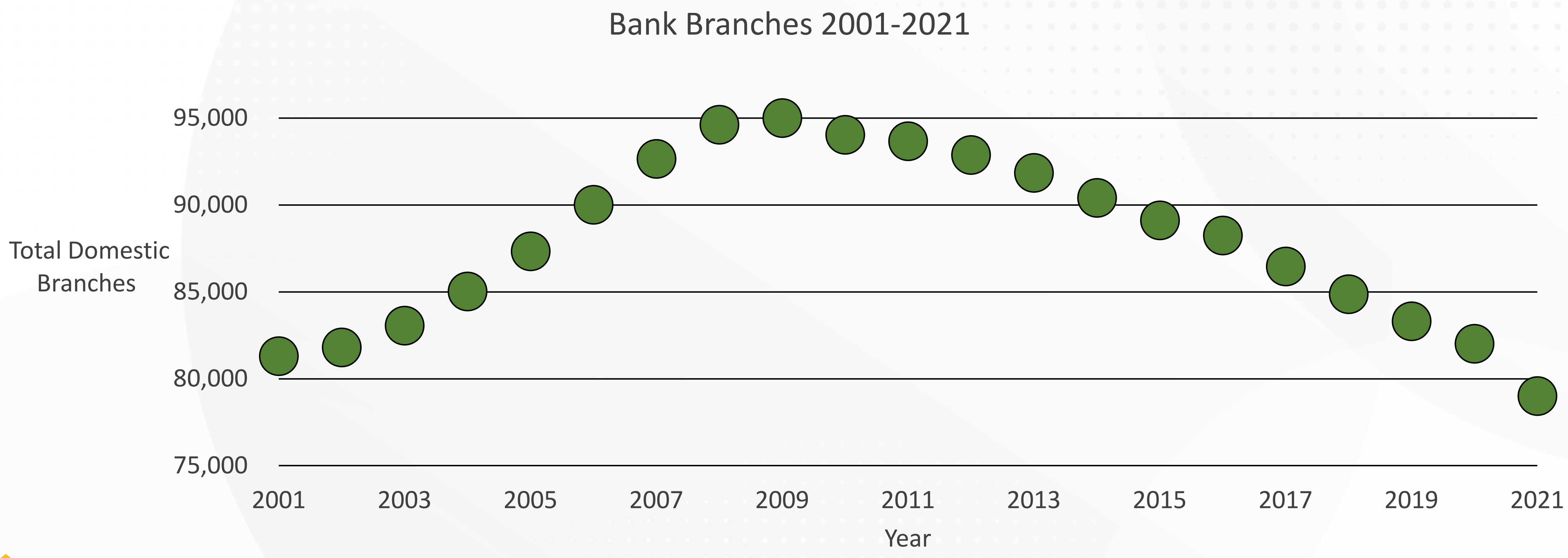
The U.S. branch network is shrinking



Notes: Counts are total number of active customer-facing branch locations in the U.S. as of June 30 of each year.
Source: Calculations from NCRC using FDIC data, reported in www.ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america.

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Defining banking deserts

- **Banking desert**: Census tract without a physical bank branch within a certain geographic radius from its population center or within the tract itself

- Radius is based on type of community:
  - 2 miles for urban communities
  - 5 miles for suburban communities
  - 10 miles for rural communities

- **Potential banking desert**: Census tract with *one* branch within it or its radius

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Notes: Definitions of banking deserts and potential banking deserts are based on "areas with very low branch access" and "areas with low branch access," respectively, in the Interagency CRA NPR, available at www.federalreserve.gov/consumerscommunities/files/cra-npr-fr-notice-20220505.pdf.

Trends in bank branches and banking deserts

- Since the onset of the pandemic (2019-2023):
  - Total U.S. bank branches declined by **5.6%**
  - The number of banking deserts increased by **217**, up to **3,618 tracts**
  - The population living in banking deserts increased by over **760,000**, up to **12.3 million people**

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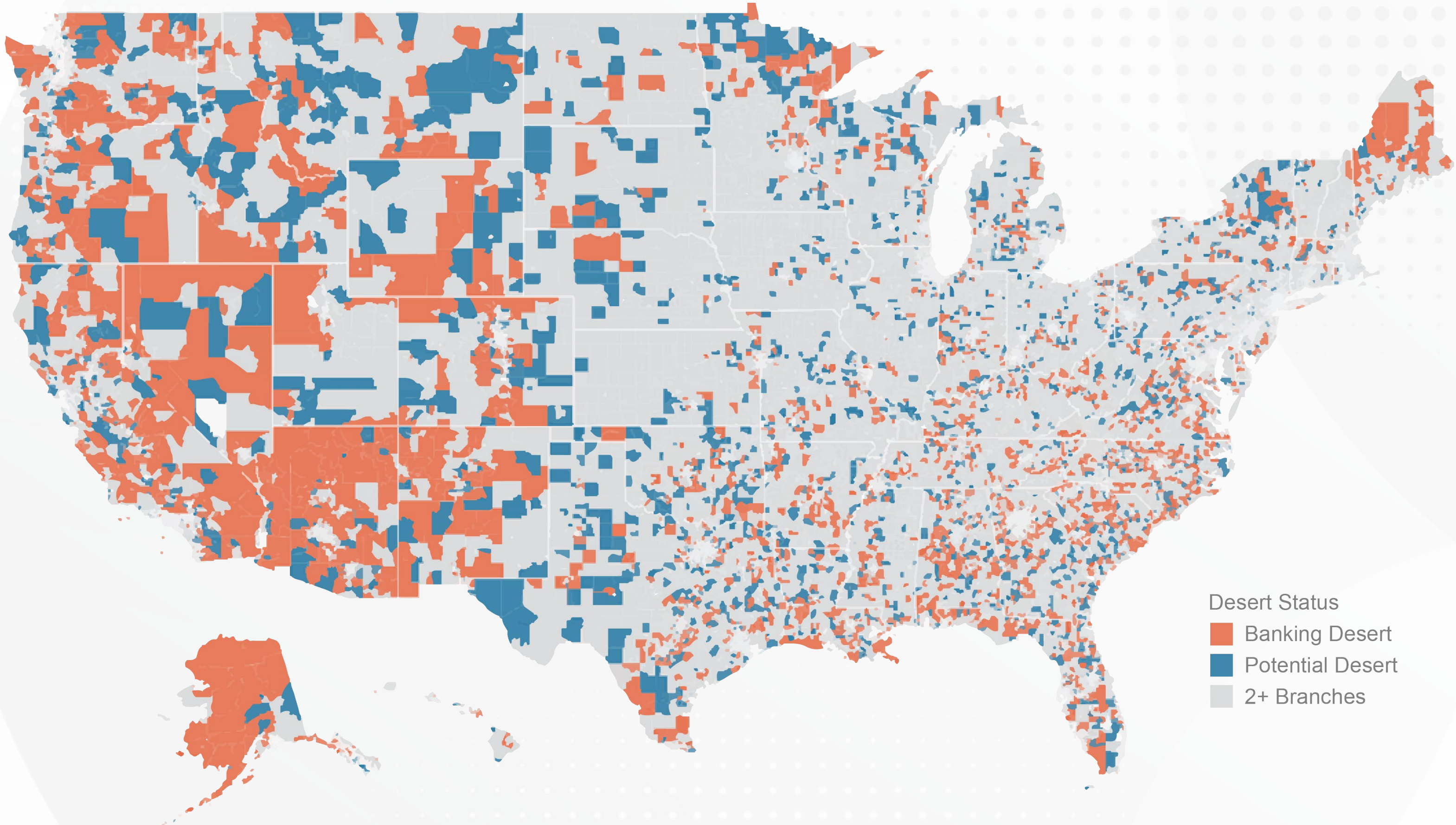
Source: Federal Reserve Bank of Philadelphia, U.S. Bank Branch Closures and Banking Deserts, available at www.philadelphiafed.org/-/media/frbp/assets/community-development/reports/banking-deserts-report-feb-2024.pdf.

Where are banking deserts and potential banking deserts?



Source: Banking Deserts Dashboard, Fed Communities, available at www.fedcommunities.org/data/banking-deserts-dashboard.

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Research Scan: In-person & Place-based Banking

Caleb Bobo | PhD Student, Public & Social Policy
Saint Louis University

A Quick Story

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Literature Scan – Proximity to Branches

- Being in proximity to, or utilizing a, bank branch has measurable benefits on consumers and customers:
  - Increases probability of bank account ownership (Goodstein and Rhine, 2017; Celerier and Matray, 2019)
  - Produces more loyal and more dynamic customers (Zhang, Han 2021)
  - Decreases the likelihood of alternative financial service provider use, especially for low-income and minority households (Goodstein and Rhine, 2017)
  - Communities have more access to local mortgage lending (Ergungr, 2019)
  - Small business credit is cheaper and available over a longer period of time (Zhang, Han 2021)
  - Distance from (Brevoort and Hannan, 2006) and the closing of branches (Nguyen, 2019) has negative effect on extension of commercial credit

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Literature Scan – Digital Banking/AFSPs

- Some have suggested digital banks/financial technology can fill the gap left by branchless communities (Jagtiani and Lemieux, 2018), but there are challenges with the hypothesis:
  - Younger, more affluent, and those who are formally educated are the most likely to use fintech (Krivkovich et al. 2020; Chaudhary, 2020; Krupa and Buszko, 2023); less affluent individuals and those without formal education may struggle to have their personal financial needs met due to technology (Friedline and Chen, 2021)
  - Perception of risk, trust, and safety/privacy are instrumental in determining comfort with financial technology (Yousafzai and Pallister, 2007; Smith 2009)
- When bank branches close in underserved communities, they often are replaced by alternative financial services providers (AFSPs); the existence of AFSPs correlate with Black/Hispanic households (Dunham et al. 2018) and negative social/economic outcomes (Lee et al. 2014; Goodstein and Rhine, 2017; Dunham et al. 2018)

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Why Research Matters

"*Research, data, and analysis are essential to thoughtful bank regulatory reform*. *These tools can be used to identify issues that must be addressed or remediated; they can help us evaluate which elements of the current bank regulatory framework may be effective or ineffective, and they can help us craft reforms with a clearer understanding of the intended and unintended consequences.*" ~Governor Michelle Bowman, 2023 Community Bank Research Conference (October 4, 2022)

"*We…conduct qualitative research because we need a complex, detailed understanding of the issue. **This detail can only be established by talking directly with people**…We conduct qualitative research to follow up quantitative research and help explain the mechanisms or linkages in casual theories or models. These theories provide a general picture of trends, associations, and relations **but they do not tell us about why people responded as they did, the context in which they responded, and their deeper thoughts and behaviors that governed their responses.***" ~John W. Creswell, Qualitative Inquiry & Research Design (2007)

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Why the Topic Matters

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BANK BRANCHES: NAVIGATING THE POST-DIGITAL LANDSCAPE

John McWilliams • 12/11/2023

The local bank branch is changing dramatically—but it's not going away. Despite a decline in the number of bank branches across the U.S., physical bank branch locations remain critical to banking operations, as they help to create and foster relationships with consumers. Today, bank branches are closing—with some strategically reopening—to meet demanding consumer needs and adapt to a post-digital era.

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26 Feb, 2024

US banks' branch closure pace further slows in 2023

Author Rica Dela Cruz, Zuhaib Gull
Theme Healthcare & Pharmaceuticals, Real Estate, Banking, Fintech, Insurance

THE WALL STREET JOURNAL.

JPMorgan Chase is expected to announce plans to build 500 new branches in the next three years.

By David Benoit | Photographs by José A. Alvarado Jr. for The Wall Street Journal
Updated Feb. 6, 2024 10:42 am ET

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Trends 2024: Is Record-Breaking Pace of Bank Branch Closures Easing?

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The once-critical role of the bank branch in deposit generation and customer service may be in its final days, superseded by consumers' preference for digital channels. But the multi-year tide of branch closures may be ebbing, as many banks hit their practical limit.

By The Financial Brand Staff

THE WALL STREET JOURNAL.

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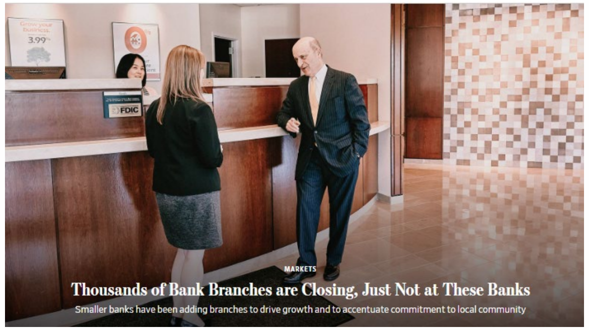

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FEBRUARY 2024

U.S. Bank Branch Closures and Banking Deserts

AMERICAN BANKER.

BANKING POLICY PAYMENTS TECH CREDIT UNIONS WORKPLACE OPINION

BRANCH BANKING

Why the torrid pace of branch closings has cooled

By Jim Dobbs February 27, 2024, 2:25 p.m. EST 4 Min Read

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Today’s panelists

Mike Anderson
Senior Vice President
BankOnBuffalo

Wes Burns
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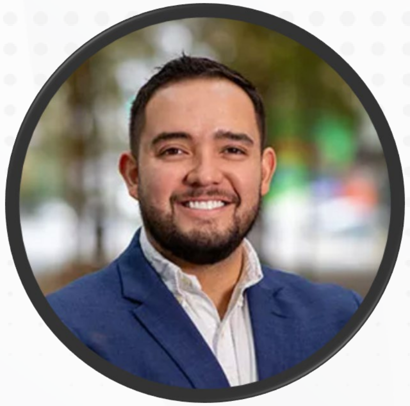

Miguel Lopez
Marketing Strategy Executive
Southern Bancorp

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Closing remarks and requests

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- Register for the Connecting Communities event on June 20, *The Economic Well-Being of U.S. Households in 2023,* which will feature results from the Board of Governors' annual SHED survey.

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Thank you for joining us

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