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Brick-and-mortar branches 'dead'; de novo branch structure to transform

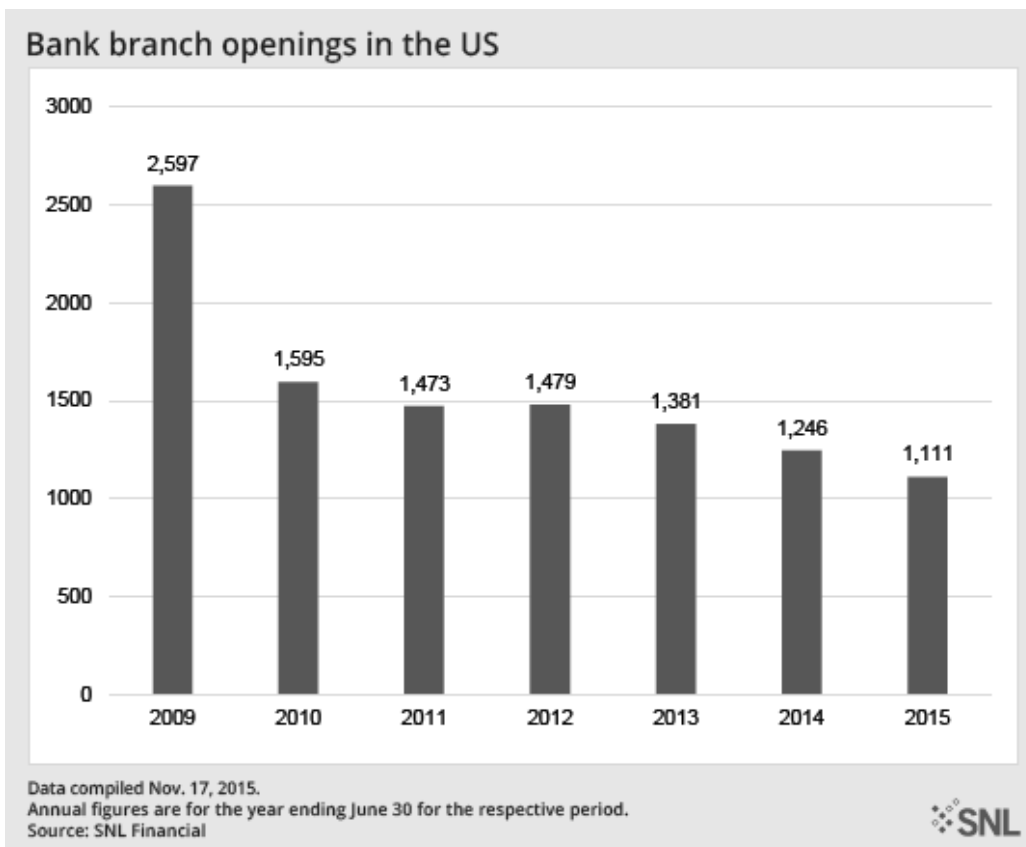
By Rabia Arif and Salman Aleem Khan

Banks are trimming their distribution networks and refining their branch strategies, but experts say there will always be opportunities for de novo locations.

"The traditional community bank model is dead," said FinPro Inc. President and CEO Donald Musso. "The biggest piece of that is the traditional brick-and-mortar branch. It does not mean that we are not going to have any brick-and-mortar branches. It just means that we are going to have less of them, and their structure and look will be different."

Banks are opening far fewer de novo branches now than in years past. SNL Financial's analysis found less than 1,250 openings in the year ending June 30, 2014, down from almost 2,600 in the year ending June 30, 2009. In the 12 months leading up to June 30, 2015, banks opened just over 1,100 branches.

Musso expects the number of traditional branches to decrease by around 25% over time, as banks focus more on digital transactions and customer relations. "Customer not product, relationship not transaction, are going to drive the banking business for at least the next five years," he said.



Even as banks close and consolidate branches, they are still weighing where to expand into new markets, said David Kerstein, president of Peak Performance Consulting Group. He said this is especially true for larger banks like JPMorgan Chase & Co. and Wells Fargo & Co. that cannot grow through acquisitions.

Community banks, too, continue selectively opening de novo branches. SNL conducted an analysis of branches opened between July 1, 2013, and June 30, 2014, for banks or bank holding companies with less than \$10 billion in assets. Banks in this group opened more than 650 de novo branches during the period in question. These de novo branches reported deposit growth of nearly 64% in the year ended June 30, 2015. Meanwhile, deposit growth at all branches of banks with less than \$10 billion in assets — SNL counts 11,338, including de novo and more established branches — was less than 12% over the same period.

A bank headquartered in Texas, First National Bank Texas, and another based in California, Opus Bank, opened the most de novo branches

during the period of SNL's analysis.

Janet Miller, president of bank branch consultancy The Lancaster Group, noted that location plays a vital part in a branch's ability to grow deposits, especially at de novos. "[D]epending on where you are located, it could grow \$2 million in deposits the first year or \$50 million the first year and it all depends on where you are located," she said.

Miller said customers still want the personal touch that physical branches offer; face-to-face contact also gives bankers a chance to cross-sell. Miller said banks and especially credit unions continue looking for opportunities to expand through branches. "[Branches] might change shape, they might be a smaller footprint, but they are not going away right at the moment," she told SNL. "I don't know how long they will be around but right at the moment, it's a hotbed."

Banks with most denovo branch openings during year ending June 30, 2014*

Limited to banks with assets of less than \$10 billion

Company (top-level ticker)	Headquarter state	Denovo			Aggregate		
		Branches	2015 deposits (\$M)	YOY growth (%)	Branches	2015 deposits (\$M)	YOY growth (%)
First National Bank Texas	TX	18	13.0	112.71	321	1,180.9	7.37
Opus Bank (OPB)	CA	7	247.5	28.03	60	4,595.3	45.51
FSNB NA	OK	6	1.2	140.73	82	293.5	2.71
Bank of North Carolina (BNCN)	NC	5	53.4	36.83	48	3,516.7	12.48
Banner Bank (BANR)	WA	4	78.8	63.24	101	4,129.0	9.91
Fidelity Bank (LION)	GA	4	37.6	348.62	47	2,645.8	18.35
FirstBank	TN	4	214.1	-1.10	47	2,040.6	10.67
Somerset Trust Co. (SOME)	PA	4	25.8	103.97	29	769.8	6.60
CoBiz Bank (COBZ)	CO	3	101.7	119.47	19	2,711.9	16.98
Extraco Banks NA	TX	3	1.3	231.41	21	1,040.1	6.91
First Merchants Bank NA (FRME)	IN	3	56.7	132.54	115	4,845.2	11.18
First Security Bank	AR	3	12.2	12.44	78	3,618.3	6.28
Great Southern Bank (GSBC)	MO	3	5.4	94.47	121	3,275.8	0.52
Great Western Bank (GWB)	SD	3	54.0	133.97	162	7,385.3	4.44
HomeStreet Bank (HMST)	WA	3	20.5	121.07	42	3,337.3	37.85
JD Bank (JDVB)	LA	3	14.4	26.47	23	688.3	3.01
Origin Bank	LA	3	168.5	446.20	44	3,213.6	14.12
Spirit of Texas Bank SSB	TX	3	45.2	135.53	14	615.0	21.34
TowneBank (TOWN)	VA	3	99.9	149.79	38	4,712.7	23.44
TrustCo Bank (TRST)	NY	3	10.4	35.23	147	4,137.5	3.56
U.S. total		656	18,302.2	63.98	11,338	579,036.6	11.92

Data compiled Nov. 17, 2015.

* Ranking based on number of branches opened between July 1, 2013, and June 30, 2014, that were currently operating as of Nov. 17, 2015.

All banks that opened at least three branches were included in the chart.

Excludes institutions with assets greater than \$10 billion, or that have parents with assets greater than \$10 billion.

Excludes credit union branches and branches that had zero deposits as of June 30, 2015.

Source: SNL Financial



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