

Banking Trends & Branch Predictive Modeling

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We keep seeing media commentary that the economy is improving, and that banks are getting healthier. So, one of the most frequent questions we hear is... **“What’s happening with US Banks?”**

Strategic Business Solutions, Inc. has extensive experience working with financial institutions and so we thought we'd take a quick look to help you see what's going on in this category and how we use information to identify opportunities.

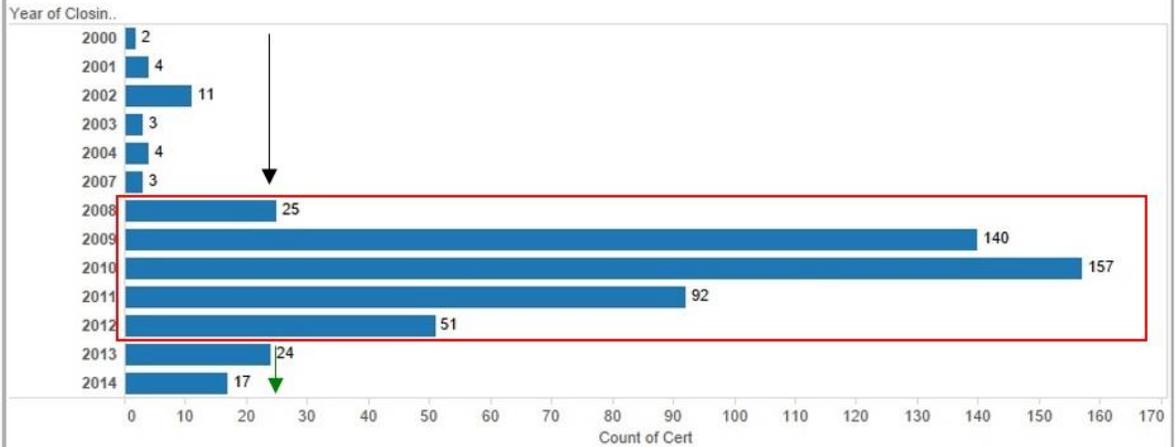
I. Bank Failures in the US – Things are Looking Better

According to the FDIC, there have been 533 bank failures since 2000. From 2000-2007 the number of banks failures totaled less than five per year with the exception of 2002 when there were eleven reported failures. However, the trend for failures appears to be trending below the 25 per year threshold – which may be an early indicator that the economy is potentially (or has the core capability) to grow once again.

Closed by Year

Year of Closing..	Count
2000	2
2001	4
2002	11
2003	3
2004	4
2007	3
2008	25
2009	140
2010	157
2011	92
2012	51
2013	24
2014	17
Grand Total	533

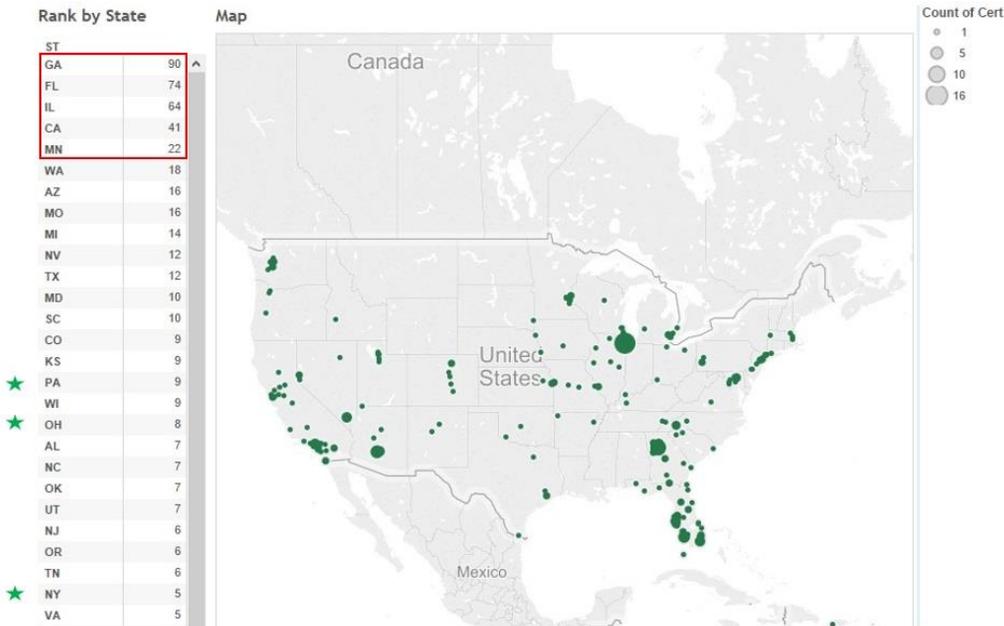
CBY Map



Note: The data source was June 2014 Data, therefore 2014 totals are YTD.

II. Failures by State = Disproportional Distribution

Interestingly, it also appears that states have been impacted disproportionaltely. Five states GA, FL, IL, CA and MN are reported to have had more than 20 failures since 2000. Other states, including some of the largest in the country, (NY, OH, PA) recorded far fewer bank failures (less than 10).



III. Acquiring Banks = Benefiting Financial Institutions

We can also look to see which banks are experiencing growth from the redistribution of closed bank assets. Clearly, there are banks more active in acquiring failed financial institutions than others and in several instances – involved in multiple transactions.

Below are four examples of more active Acquirers of failed banks.

Acquiring Institution	Bank Name	City	ST	
State Bank and Trust Company	Community Capital Bank	Jonesboro	GA	Home State (GA)
	First Security National Bank	Norcross	GA	
	Northwest Bank & Trust	Acworth	GA	
	Piedmont Community Bank	Gray	GA	
	Security Bank of Bibb County	Macon	GA	
	Security Bank of Gwinnett Co..	Suwanee	GA	
	Security Bank of Houston Cou..	Perry	GA	
	Security Bank of Jones County	Gray	GA	
	Security Bank of North Fulton	Alpharetta	GA	
	Security Bank of North Metro	Woodstock	GA	
	The Buckhead Community Ba..	Atlanta	GA	
	United Americas Bank, N.A.	Atlanta	GA	
	Ameris Bank	American United Bank	Lawrenceville	
Central Bank of Georgia		Ellaville	GA	
Darby Bank & Trust Co.		Vidalia	GA	
First Bank of Jacksonville		Jacksonville	FL	
High Trust Bank		Stockbridge	GA	
Montgomery Bank & Trust		Ailey	GA	
One Georgia Bank		Atlanta	GA	
Satilla Community Bank		Saint Marys	GA	
Tifton Banking Company		Tifton	GA	
United Security Bank		Sparta	GA	
U.S. Bank N.A.	Bank USA, N.A.	Phoenix	AZ	Multiple Markets (AZ, CA, IL, TX,)
	California National Bank	Los Angeles	CA	
	Citizens National Bank	Teague	TX	
	Community Bank of Lemont	Lemont	IL	
	Madisonville State Bank	Madisonville	TX	
	North Houston Bank	Houston	TX	
	Pacific National Bank	San Francisco	CA	
	Park National Bank	Chicago	IL	
	San Diego National Bank	San Diego	CA	
	Community & Southern Bank	Appalachian Community Bank	Ellijay	
Bank of Ellijay		Ellijay	GA	
Eastside Commercial Bank		Conyers	GA	
First Cherokee State Bank		Woodstock	GA	
First Commerce Community B..		Douglasville	GA	
First National Bank of Georgia		Carrollton	GA	
Georgia Trust Bank		Buford	GA	
The Peoples Bank		Winder	GA	

IV. Top Line Observations

- The banking crisis appears to be winding down as the number of bank failures has declined to near pre-recession levels.
- Bank failures had a disproportionate impact in specific markets.
- Failed banks have largely been absorbed by national and regional holding companies in core markets. However, there are scenarios where financial institutions have been able to enter new markets through the acquisition of failed banks.

- Bank failures have also provided growth opportunities for several stronger National and Regional holding companies.

So Brian that's interesting, what has been going on with new branches and what should we be doing?

V. Branch Growth & New Housing Starts

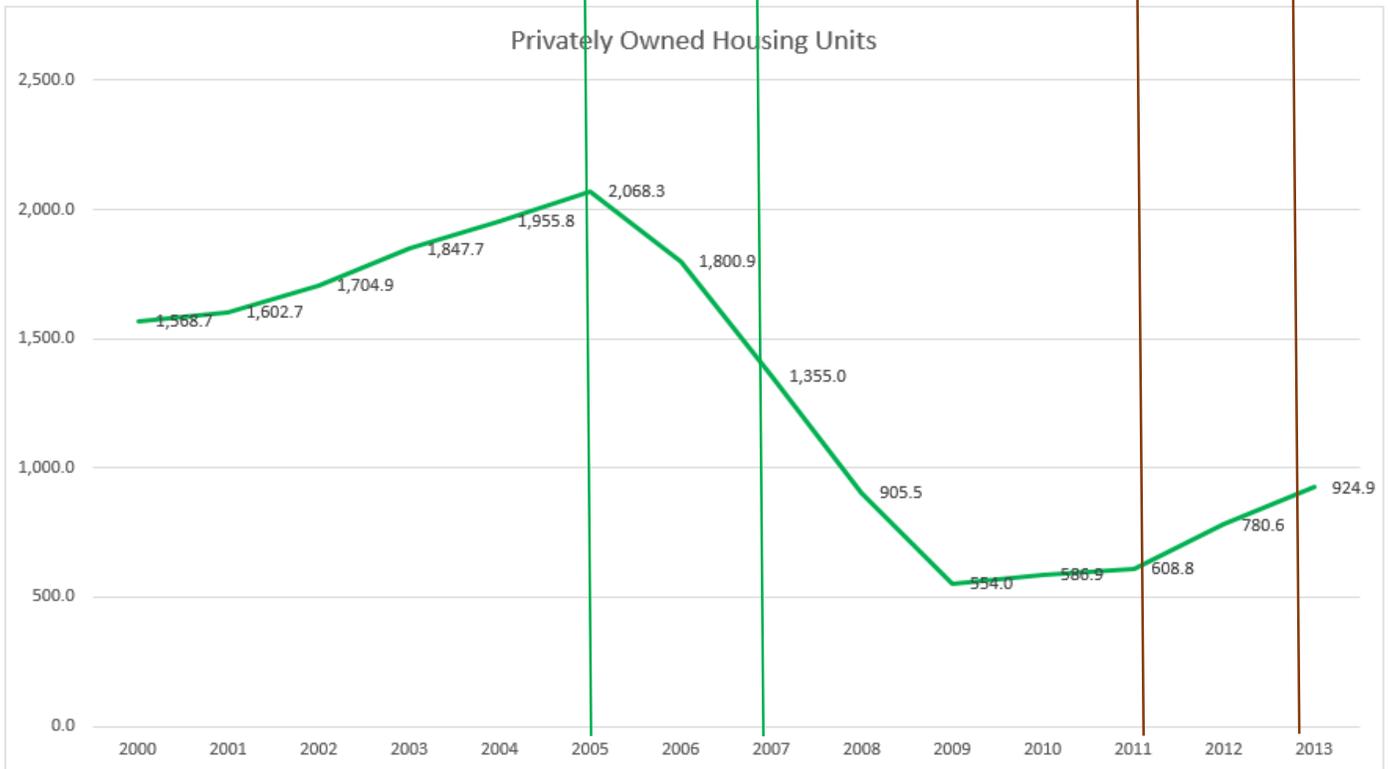
Without getting into the details, we explored multiple options to find predictive variables that appear to be highly correlated with new branch growth. We started with the history (2000-14) of new US bank branches since 2000 to gain perspective on the history and the Pre-Post recession dynamics.

After looking at multiple factors, found that **New Housing Starts of Privately Owned Housing Units** appears to hold a strong relationship with New Bank Branches. It also appears this statistic may be a useful tool for predicting where and when an acceleration in building new branches is more likely to occur.

A. New Bank Branches Source: (FDIC)



B. New Housing – Privately Owned



VI. Observations

A. Strong Relationship + 2 Yr Lead - Lag

While the relationship between housing starts and new branches appears highly correlated, the data also suggests there may be a Lead-Lag aspect when comparing the two variables. Trend data suggests that branch growth continued approximately two years longer than the relative growth of new housing starts.

B. Inverse Relationship – Recent Years

Interestingly, the trend for New Housing has increased (2011-13) while the number of New Branches has continued to decline.

C. Unsustainable Divergence

The data suggests that the divergent trends are likely unsustainable – and new branches will return to their historical alignment with new housing.

That makes sense Brian. So, is it time to reintroduce “New Branches” into our planning?

Possibly, but only in specific markets.

VII. Wisconsin Example – Deep Dive Analysis

Since we are headquartered in Wisconsin, we often feature deep dive analysis here in our home state. However, in most cases the analytics can be applied to other geographic markets. If our hypothesis that new housing starts are possible predictors of new bank branches proves true, then where (in Wisconsin) should banks be looking to grow?

A. Segmentation & Ranking - County

To make our task easy to understand and simple to use, we segmented and ranked the raw data by Wisconsin County. Using 500 as a threshold, we can project that there are more likely bank branch growth opportunities in the following Counties:

WI Counties with 500 Plus Housing Starts

- **Dane**
- **Waukesha**
- **Brown**
- **Outagamie**

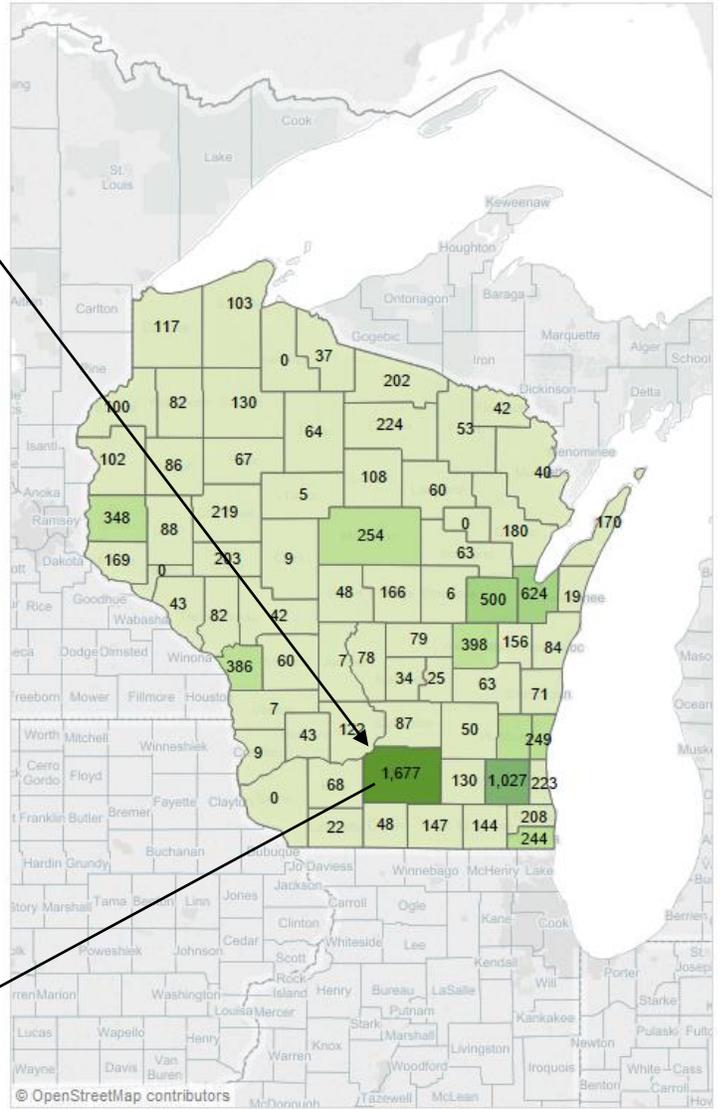
Segment Data

Segment	
1 1000-1667	2,704
2 500-999	1,124
3 250-499	1,839
4 200-249	1,772
5 100-199	2,044
6 50-99	1,285
7 0-49	486
Grand Total	11,254

County Ranking

County	Count
Dane	1,677
Waukesha	1,027
Brown	624
Outagamie	500
Washington	453
Winnebago	398
LaCrosse	386
St. Croix	348
Marathon	254
Ozaukee	249
Kenosha	244
Oneida	224
Milwaukee	223
Chippewa	219
Racine	208
Eau Claire	203
Vilas	202
Oconto	180
Door	170
Pierce	169
Portage	166
Calumet	156
Rock	147
Walworth	144
Jefferson	130
Sawyer	130
Sauk	122
Douglas	117
Lincoln	108
Bayfield	103
Polk	102
Burnett	100
Dunn	88
Columbia	87
Barron	86

Map

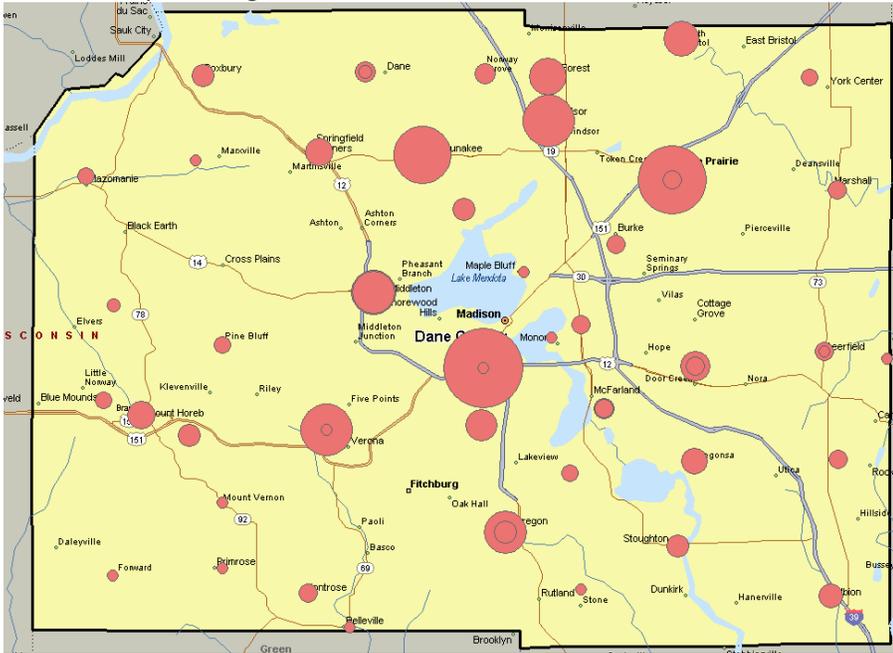


B. County by Municipality

Looking even further, we were able to find a data source that collects housing data by municipality – MTD Marketing Services of Wisconsin. Their data helped us further rank the Dane County communities.

#	City	T	County	St	2014 Starts	2014 Total
1	<u>Madison</u>		Dane	WI	216	\$53,652,000
2	Sun Prairie		Dane	WI	141	\$33,508,000
3	Waunakee		Dane	WI	86	\$31,894,000
4	Verona		Dane	WI	70	\$18,877,000
5	Windsor	(T)	Dane	WI	69	\$18,253,000
6	Middleton	(T)	Dane	WI	44	\$18,947,000
7	Oregon		Dane	WI	40	\$10,960,000

Dane County Housing Starts - YTD 2014



Housing Starts Data Source:

Dominic Collar



MTD Marketing Services of Wisconsin Inc.
2889 Sunset Point Lane
Oshkosh, WI 54904

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We hope you have enjoyed our “newsletter level” analysis of the U.S. Banking Market and can see how **Strategic Business Solutions, Inc.** might help you better understand your *Industry*, explore *Strategic Issues* and deliver *Local Insights*.

So, now that (in less than 5 minutes) we’ve likely answered some of your most frequent questions about banking and branch planning... why don’t you save yourself both time and money and contact **Strategic Business Solutions, Inc.** where we focus on *Information for Decision Makers*.