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On Focus and In Depth

A Debate Reopens as More Branches Close

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By Matt Monks

Branches are poised to contract this year for the first time in nearly two decades, rekindling the debate about whether banks will remain anchored in bricks and mortar.

At least 925 more branches closed than opened in the first half, putting 2010 on pace to become just the third year since 1934 with a decline in the number of U.S. branches at commercial banks, according to data from the Federal Deposit Insurance Corp. The others were 1992 and 1982, which also involved recessions.

The debate about the fate of branches heats up now and then, most recently in the mid-1990s, when some skeptics said the Internet and automated teller machines would displace branches. They were wrong; relaxed interstate banking rules and other factors led to a surge in branching.

Today's critics argue that things are different this time around. Big branch networks are becoming unfeasible thanks to the latest technology and slow economy. Branches are expensive, relying on heavy traffic to make money, they say. Now that people can deposit checks from their cellphones, experts say branches are becoming outdated. .

"We went through a huge [period] of branch opening after branch opening. Things have cooled off," said Terry J. McEvoy, a managing director with Oppenheimer & Co. Inc. "Look at that success banks have had in bringing in deposits. Do you really need more branches?"

Others counter that the dip will be temporary, akin to the lulls of the early '90s and '80s. They predict that branch numbers — around 90,000 — will rise again after the economy rebounds. Technology always changes banking, they say. There's one constant: customers love having lots of places to do business face to face. So do many bankers.

"If branches were passe and no longer relevant, you would see the industry cutting branch or [office] head counts by 10% or 15%. That's not happening," said Bill Bradway, the head of Bradway Research LLC, a banking industry research provider outside Boston. "I think what we're likely to see, if history is a guide here, is what we experienced" before.

Most of the closings are coming from megabanks shutting down redundant locations after acquisitions, not some mass retreat from branching, experts say.

Bradway estimates that the five largest retail banks control 25% of the country's branches. When they change strategy, it skews the aggregate numbers.

The Federal Reserve Bank of St. Louis collects regulatory data on branch activity. It reported on its website that Wells Fargo & Co. had closed 153 branches and opened 15 through mid-July. Wells, which says it has "more than 10,000 banking stores," is busy integrating Wachovia Corp. Another giant, PNC Financial Services Group Inc., collected 1,300 branches when it bought National City Corp. in 2008. PNC closed 81 locations through mid-May and opened 14, according to the St. Louis Fed.

Market watchers predict a big consolidation wave in coming years as banks merge to stay viable in a slow-growth economy. But that doesn't necessarily mean there will be fewer branches from now on, they say.

Branch closings almost always occur when banks with overlapping locations merge. But studies have shown that closures are less frequent when banks that operate in different markets pair up.

Jamie Eads, senior project manager with Bancography in Birmingham, Ala., said mergers at the big-bank level also tend to create openings for smaller players.

It is cheaper to move into a vacated property than to build a new one, she said. Newly built branches cost several million dollars to construct and tend to take at least three years to become profitable. Remodeled locations make money faster, she said.

Though closings are picking up, she said, banks are still opening new branches. There were 307 branch openings in the second

quarter, 36 more than the first quarter, according to the FDIC. JPMorgan Chase & Co., for one, is opening branches in wealthy markets like Atlanta after a spate of closures in 2009.

Eads said skeptics were wrong about branches before and will be again. In 1995, Deloitte & Touche LLP released a report that said the "rise of digital money" would wipe out the "old order of retail banking." It projected that half the country's branches would be gone by 2005.

"The No. 1 reason a person chooses to bank with a specific institution is convenience of branches," Eads said. "The opening of accounts still occurs face to face in the branch. Financial institutions are not going to be able to acquire new customers without their branch networks."

Robert Meara, a senior analyst with Celent in Atlanta, said banks may not have a choice. Industry leaders like Bank of America Corp. and JPMorgan Chase may actually be helping to eliminate the need for branches by pioneering digital banking, he said. JPMorgan Chase customers can now deposit checks by snapping pictures of them on cellphones.

"We think those trends are going to continue," Meara said. "The unstated intent is to migrate people out of the branches, because branches are costly."

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