

THE FUTURE OF BANK CONSOLIDATION



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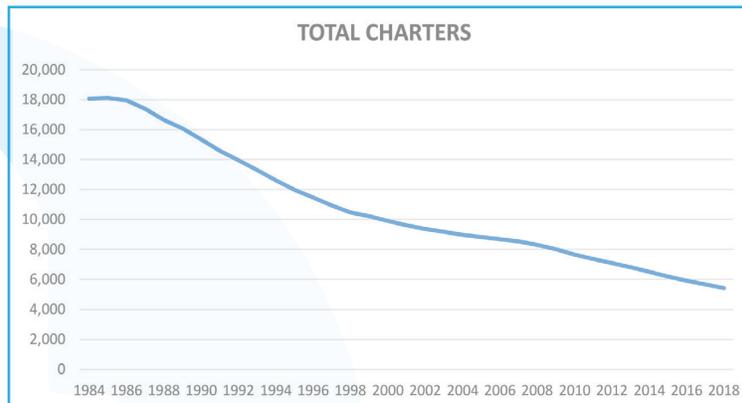
WHAT IT MEANS FOR THE MIDWEST MARKET

There have been 2,204 bank mergers over the past 10 years which does not include the 503 banks that failed during the same period. Combined, the total number of banks that have disappeared in the past 10 years is 2,707 which averages 270 per year. Source: S&P Global Global Marketing Intelligence

During this time period 34 de novo banks have opened, but 20 of those were in 2009. While the FDIC has stated that they are open for business, new de novo applications are still just a handful and not expected to get anywhere near the level of activity of the early 2000s.

Industry experts expect that this trend will continue and, on average, approximately 5% of the bank charters will continue to be consolidated each year. With the level of de novos expected to be low it is inevitable that the number of banks will continue to decrease.

Consolidation is not new. The FDIC reported that as of December 31, 1984, there were 18,062 commercial bank and savings institution charters. At the end of 2018, it was 5,415. This is a drop of over 12,500 charters in 35 years. An overall average loss of 362 per year.



THE MIDWEST WHEN COMPARED TO OTHER STATES

You are probably aware that many of the Midwest states have more charters than most other states. The table to the right shows what we would consider to be Midwest states and the number of bank charters in those states. All charter totals are as of year-end 2018 and information is provided by the FDIC.

State	# of Charters
Arkansas	93
Illinois	436
Iowa	286
Kansas	235
Minnesota	293
Missouri	256
Nebraska	169
North Dakota	75
Oklahoma	201
South Dakota	62
Wisconsin	201
	2,307

On December 31, 2018, the FDIC reported a total of 5,415 insured institutions. That means that the Midwest states above account for just over 42% of the total banks in the United States.

If you are curious – the ten (10) states with the least amount of charters:

State	# of Charters
Alaska	5
Hawaii	8
Rhode Island	8
Vermont	11
Idaho	13
Arizona	15
New Hampshire	17
Oregon	17
Nevada	19
Delaware	22

While the low number of charters in these states jumps out, with the exception of Arizona, Oregon and Nevada, these states also are some of the least populated states, so the low number of charters is not too surprising.

We won't list every state, but below is a chart with the ten (10) largest states listed by population in the United States, excluding Illinois which we have included as part of the Midwest numbers above.

State	# of Charters
California	155
Texas	438
Florida	116
New York	144
Pennsylvania	149
Ohio	182
Georgia	168
North Carolina	47
Michigan	93
New Jersey	75

One of the first things that we notice is that almost all of the Midwest states have more charters than California, the most populated state. For example, Kansas has 80 more charters than California. Missouri has 101 more charters.

Drilling down in the numbers a little further, looking at a smaller sample size of the Midwest states and the largest states by population, we can see the number of charters is not the only difference between the Midwest and other states.

Quick sidebar – the United States banking market is fundamentally different than many other countries which, on average, have fewer but larger banks. As of March 31, 2019, the United States only had 12 of the largest 100 banks in the world. China leads the list at 19, including the top four. The EU has a total of 32 spread among 10 countries.

Since the Great Recession there has been a lot of talk of “Too Big To Fail” in the United States, but the US only has two of the 10 largest banks in the world. The anticipated merger of BB&T and SunTrust will place the combined bank at only the 62nd largest bank in the world.

We anticipate that the largest banks in the United States will continue to pursue asset growth to remain competitive in the world’s banking environment. Since that likely will not occur by acquisition, we expect these large banks to use technology as well as de novo branches into new markets. This is evidenced by JPMorgan Chase and PNC branching into the Kansas City metro market.

NUMBER OF CHARTERS BY POPULATION

Comparing the number of charters to the populations in these states shows the huge disparity between of many of the Midwest states. *Population totals are estimates as of July 1, 2018 and provided by the United States Census Bureau.*

State	# of Charters 2018	July 1, 2018 Est. Population	Persons / Charter
Select Midwest States:			
Iowa	286	3,156,145	11,035
Kansas	235	2,911,505	12,389
Minnesota	293	5,611,179	19,151
Missouri	256	6,126,452	23,931
Nebraska	169	1,929,268	11,416
Oklahoma	201	3,943,079	19,617
		Average:	16,257
		Median:	15,770
Select Large Population States:			
Arizona	15	7,171,646	478,110
California	155	39,557,045	255,207
Florida	116	21,299,325	183,615
New York	144	19,542,209	135,710
North Carolina	47	10,519,475	223,819
Texas	438	28,701,845	65,529
		Average:	223,665
		Median:	203,717

We could continue to break this down in further detail, but you get the idea - the Midwest has a lot more charters in both total numbers and based on the states’ population.

WHAT DOES THIS MEAN FOR THE MIDWEST BANKING MARKET?

As the tables show, due to its large number of charters, we expect the Midwest to see a disproportionate amount of the industry consolidation. Using the anticipated 5% consolidation average the chart below shows what could happen in the next 5 and 10 years in the Midwest.

State	# of Charters			Projected # Banks Lost
	2018	2023	2028	
Arkansas	93	72	56	37
Illinois	436	337	261	175
Iowa	286	221	171	115
Kansas	235	182	141	94
Minnesota	293	227	175	118
Missouri	256	198	153	103
Nebraska	169	131	101	68
North Dakota	75	58	45	30
Oklahoma	201	156	120	81
South Dakota	62	48	37	25
Wisconsin	201	156	120	81
Total Midwest	2,307	1,785	1,381	926

We don't believe that this level of mergers is good for Midwest communities, but we do believe that significant consolidation will continue to occur and its impact on the Midwest will change the banking landscape. So whether we like it or not, we believe that you should be aware of it as you develop and execute on your strategic plan moving forward.

As always, the only thing that we are advocating is that you think strategically and have a plan. We believe, particularly as the banking industry is changing, that your strategic thinking should go beyond your bank, shareholders and community and include those items along with the industry as a whole.

If you have any questions or comments, please feel free to give us a call. We would be happy to discuss any of these issues with you.

Bob Wray
816-627-4139
bob@thecapitalcorporation.com

Dean Johnson
816-627-4140
dean@thecapitalcorporation.com

George Thompson
816-627-4141
george@thecapitalcorporation.com

Paul Bures
816-627-4153
paul@thecapitalcorporation.com



The Capital Corporation

9400 Mission Road | Leawood, KS 66206

www.thecapitalcorporation.com

Country Club Financial Services, Inc. d/b/a The Capital Corporation Member FINRA, SIPC