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The branch-closing conundrum: Our 2018 ranking of midtier banks

By Andy Peters

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The challenge with retail strategies today is that closing branches is great for cost control but keeping them open is still key to attracting deposits.

As the banks in our annual midtier ranking illustrate, some are doing better than others at figuring out how to balance these competing goals.

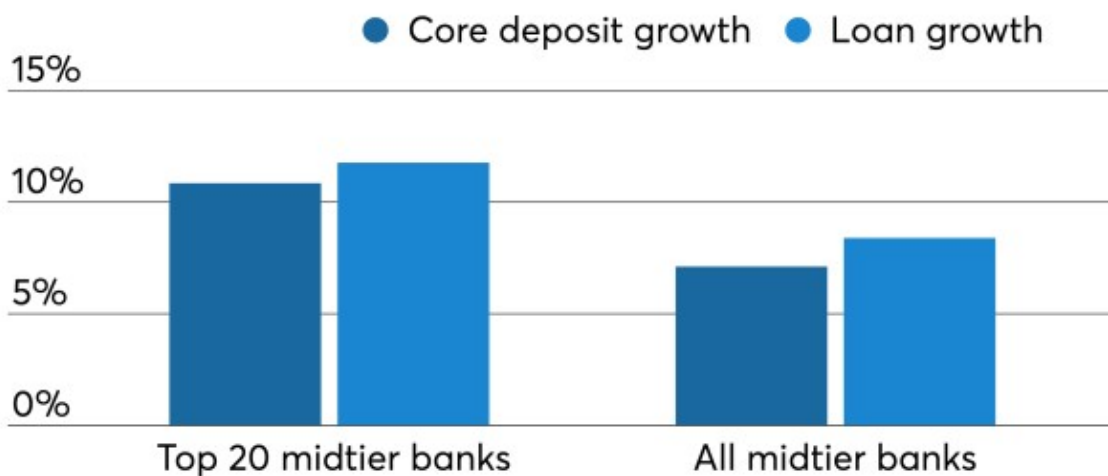
For those in the \$2 billion-to-\$10 billion asset class, the positive trends last year included improved efficiency ratios, as some banks focused on core lines of business and rationalized their branch networks. The overall group of 237 banks that qualified for this ranking had a median efficiency ratio of 59.6%, an improvement of 211 basis points from a year earlier, according to an analysis by Capital Performance Group.

Nonetheless, trouble is looming. Their ratio of net loans to total deposits rose 150 basis points to a median of 93.2% in the same time period.

"It shows that these banks are running out of capacity to lend," said Kevin Halsey, a consultant at CPG who compiled the data for this annual ranking. (Click on "view table" at the end of this article to see the ranking for this year and click on the links below to go to midtier rankings from past years.)

Less capacity to lend

Core deposits did not grow as quickly in 2017 as in previous years, and did not keep up with the growth in loan demand. Shown are the medians for each group in 2017



Source: Capital Performance Group

In other words, midtier banks aren't growing core deposits fast enough to keep up with rebounding

loan demand. Loan growth for the peer group was 8.4% in 2017, compared with core deposit growth of 7.1%.

The ability to keep adding loans is especially important to profitability dynamics in a rising rate environment, Halsey said. And core deposits offer the cheapest, most-stable source of funding for bank loans.

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While there are many factors behind deposit trends, a slowdown in core deposit growth can be tied at least in part to banks' having fewer branches. And the midtier banks have accelerated the closure of larger branches, in terms of square feet. According to data from CPG, banks in this asset size range had 1,202 fewer branches at year-end than they did three years earlier, a 10% drop.

See rankings from past years:

- [Hey, big spenders, way to go: Our 2017 ranking of the midtiers](#)

- [Why midsize banks rule right now: Our 2016 ranking of the midtiers](#)
- [More double-digit goodness: Our 2015 ranking of the midtiers](#)

Several top performers actually posted ratios of total loans to deposits exceeding 100%, meaning that they don't have enough deposits to fund all of their loans. The \$2 billion-asset Stearns Financial Services in St. Cloud, Minn. — which retained its No. 1 spot in the ranking — had a loan-to-deposit ratio of 117%. The \$3 billion-asset Sterling Bancorp in Southfield, Mich., had an even higher ratio, at 121%.

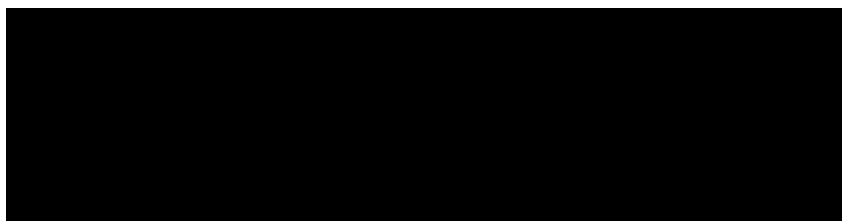
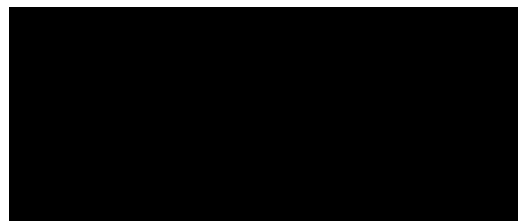
Nevertheless, banks will continue to close branches as customers go digital, Halsey said. They have to because efficiency is so important.

But to keep deposits from dropping, high performers will distinguish themselves by reallocating resources from low-growth to high-growth markets, deepening the relationships of existing customers, and developing strong digital offerings, said Halsey, who also wrote [this BankThink](#) on how banks can avoid pitfalls that undermine performance.

Click on "view table" below to see the latest ranking.

For American Banker subscribers: If you have a paid subscription to American Banker, you can request an Excel chart of this ranking that includes additional data and analysis by Capital Performance Group, for a limited time only. To receive a reply, the request for this subscriber bonus must be received by

bonnie.mcgeer@sourcemediacom no later than June 15 and sent from the email address tied to the subscription. Include the name of the subscriber and the name of the institution in the body of the email. Please put "midtier bank ranking request" in the subject line. Subscriptions will be verified and replies will follow within two weeks.



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Andy Peters writes about regional banks, consumer finance and debt collections for American Banker.



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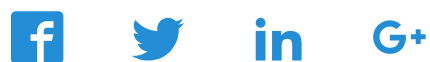
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