Economic Review

Did Local Factors Contribute to the Decline in Bank Branches?

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The number of bank branches has declined since the financial crisis, driven partly by changes in local market and competitive factors.

Although the total number of bank branches in the United States increased from the mid-1990s to 2007, this number has declined since the 2007–08 financial crisis. A loss in bank branches is potentially problematic because it may reduce customers' access to financial services as well as small businesses' access to credit. Changes in local conditions may partly explain this loss: the number of branches varies significantly across geographic areas, and local conditions have been shown to influence past trends in bank branching.

Rajdeep Sengupta and Jacob Dice examine the relationship between bank branching and local conditions over the last two decades to assess which factors contributed to the decline in bank branches. They find a strong association between the number of branches in a county and that county's population, income, and employment. In addition, they find that the relative influence of local market and competitive factors on branch openings and closings strengthened after the financial crisis, while the influence of local demographic and economic factors weakened.

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