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The Branch is Dead … is Dead
Have We Reached National Branch Equilibrium?

For years, numerous banking industry pundits have predicted the demise of the traditional branch – that the evolution of electronic channels would render branches obsolete. Worse, countless articles, columns and conference presentations chastised bank leaders who maintained a goal of robust branch networks as metaphoric dinosaurs, inviting extinction for their organizations.

But a funny thing happened on the road to branch obsolescence. The branch fought back. Well, not the buildings, but the people working in the branches, and managing the branches. They refused to accept irrelevance. They adopted, retrenched and emerged with a revised purpose.

And now, there is no more debate over the relevance of the branch, and the benefit of branches to financial institutions. The debate is over. The branch won.

This doesn't mean electronic channels are irrelevant – strong electronic offerings remain critical to successful banking institutions, too. But if you predicted the demise of the branch by 2020, admit it: you're not just too early with your prediction, you're flat out wrong.

> *The pundits presumed declining in-branch transaction volumes – which have become a reality – would eliminate the need for a branch, blatantly missing that the primary role of the branch has never been to cash your check, but rather to sell financial products*

We addressed this in our Spring 2025 issue (see *"Why the Largest Banks are Re-Embracing Branch Expansion"*). And now, with the release of the FDIC's latest branch-level statistics and similar data from the NCUA, we see empirical proof that branches remain a paramount part of the U.S. banking system.

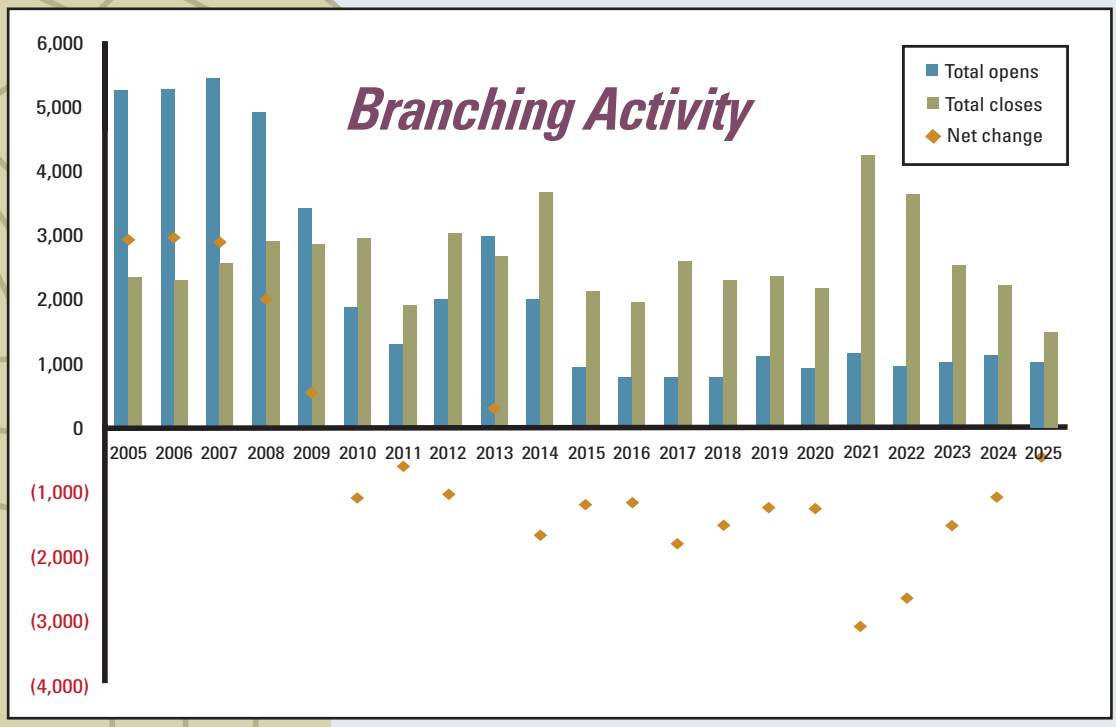
A trend is a trend, until it isn't. And years of declines in branch counts following the financial crisis of 2008 - 2009 may have given the illusion that the end of the branch network was an inexorable reality. In the decade following the financial crisis, most years experienced net declines of more than 1,000 branches in aggregate U.S. branch counts; and the net decline of nearly 6,000 branches in 2021 and 2022, at the peak of the COVID pandemic, may have appeared to herald the last gasp of branch banking in the U.S.

Instead, that point marked the apex of branch consolidation, at which U.S. banks collectively exhausted the easy, low-risk consolidation opportunities: the stock of geographic overlaps (for example, the merger of SunTrust and BB&T brought numerous closures where the two banks each had branches within one mile of the other); declining rural markets; and misplaced unprofitable locations.

In 2023, the industry saw a net decline of 1,500 branches, and in 2024, the decline abated to 1,100 branches. Looking at the latest FDIC and NCUA statistics, 2025 shows a net decline of only 400 branches from the prior

year, a composite of about 1,400 branch closures offset by more than 1,000 new branch openings.

Interestingly, the pace of new branch openings has remained relatively steady in recent years, hovering between 1,000 and 1,100 newly constructed outlets each year over the past seven years. But keep in mind, most of the expansion initiatives announced by large banks will not result in ribbon cuttings until 2026 or 2027. If the announced plans of Chase, Wells Fargo, Bank of America, Truist, Fifth Third and other large banks are fully realized, the count of new branches will tick upward by a substantial increment.



The industry's overall branch count is the net of the pace of opens and closes. And to the latter, branch closures reached their lowest level in more than 10 years, with only 1,400 closings nationwide. The pace of closures continues to drop, with 2025 marking the fourth consecutive year with fewer branch closings than the prior year; and the level of branch openings almost offsets the level of closures. Both trends suggest the industry may be approaching an equilibrium in branch counts: an appropriate level given consumer preferences and the competitive landscape.

Even if the industry has reached an equilibrium branch level, it does not preclude gains in branch operating efficiency, as measured by the average household base a branch may service. The U.S. household base continues to grow at a pace of about 3% every five years. And even as branch counts remained essentially unchanged from last year, the nation's ratio of households per branch ticked upward: from one branch for every 1,340 households in 2024 to one branch for every 1,365 households in 2025. In short, as an industry we can continue gaining efficiency in branch networks without closing branches, by maintaining a constant branch count even as the nation's population grows.

For years, Bancography has discussed the reasons why branches continue to endure, even as digital channels have taken hold. Part of the answer is that many people like branches and the personal interaction they provide; and the people who operate businesses really like branches. We see this not only in the revealed preference of consumers and business owners continuing to walk into branches, but also in customer satisfaction surveys, where consumers award higher service-quality scores to the branch and its staff than to other channels.

That noted, the key mistake of the branch-is-dead punditry was a fundamental misunderstanding of the role of the branch. The pundits presumed declining in-branch transaction volumes – which have become a reality – would eliminate the need for a branch, blatantly missing that the primary role of the branch has never been to cash your check, but rather to sell financial products.

Cashing checks and taking deposits is a necessary burden banks need to incur to support their clients, but that has never been a revenue-generating activity, or anything beneficial to branch income statements. The branch's primary purpose has always been the more complex task of providing a forum where consumers and business owners

can discuss their financial challenges with knowledgeable advisors, who can provide specific products and services to address those challenges. And in this context, the one-on-one, in-person guidance branch officers can deliver remains invaluable, and irreplaceable.

Finally, branches carry significant value in building awareness for an institution, which can lead directly to sales. Consider, for example, a bank with no current branch presence in North Carolina, and an executive of the bank declares, "We plan to enter the Charlotte market."

What does that even mean? In an age of digital channels, if a bank has a website where consumers can open accounts, isn't it already in the Charlotte market? Part of the answer lies in what markets call the evoked set – the group of competitors that come to mind when a need arises. If you're driving in your neighborhood and see the light warning the fuel gage is near "E", where do you turn; what service stations come to mind?

If your bank or credit union does not reach a consumer's evoked set, it cannot be selected; and the awareness branches provide helps ensure an institution at least reaches that stage of the decision process (i.e., the list of options under consideration).

Further, even as electronic channels can fulfill many needs, they cannot fulfill all needs, most notably the key cash-handling functions many small businesses require. Thus, for many institutions, branch presence may remain more for the highly profitable segment of small business clients than for consumers, many of whom can fulfill most needs via the institution's remote channels.

That branches are beneficial in gaining share is evidenced in a more detailed look at the patterns of branch opens and closes. More than a decade past the earliest proclamations of the demise of the branch, many of the fastest-growing and/or largest markets in the U.S. experienced increases in their branch counts in the past year, including Atlanta, Austin, Jacksonville, Charlotte, Minneapolis, Denver and Indianapolis. While some of the more established larger markets in the nation continued to see declining branch counts (e.g., New York, Los Angeles, Philadelphia, Chicago, Boston and Detroit all suffered net decreases of 20 or more branches in the past year), nationwide, opens in growth markets are now roughly offsetting closures in other markets.

And as banks continue to exhaust the roster of easy closing decisions, the current equilibrium state should persist, with consumers and business continuing to demand widespread branch availability, and financial institutions happy to deliver such.

The article notes that some regions of the nation gained branches in the past year, while others suffered continued declines. For market-level details and other information on demographic and branch trends, look for Bancography's annual Outlook, to be published in March at bancography.com.

The Impact of Rising Branch Construction Costs on Profitability

Late last year, Bancography was working with a client on an entry strategy for a new market, and as we built the financial models, the CEO of the institution asked about forecasting branch construction costs. We replied that we were in the process of compiling our latest survey of branch costs and technology, but in the interim we'd use the most recent industry norms we had available (dating from our 2022 survey).

However, as you can see from the survey in our last issue of *Bancology* new-branch costs have increased drastically in the past few years, especially for freestanding models. When we shared the article with the CEO, he posed a key question: "How will that affect my time to breakeven?"

It's an important question, so let's explore the mathematics. The initial answer to the CEO's question may be, surprisingly, "not that much," due to the miracle of depreciation. Bancography's survey found the median construction cost (not including land) of a new freestanding branch at $2.5M, a $600m increase from the $1.9M tally of the 2022 survey.

Surely an additional $600m in costs – an increase of nearly one-third – would have to dramatically impact profitability and breakeven horizons? But in a typical branch, the median $2.5M cost might consist of $2.2M in construction costs and $300m in furniture and equipment. Applying the same proportionate divide to the $600m increase suggests $528m of the increase in construction and $72m in FF&E[1] ;

	Incremental Cost	Depreciation Term	Incremental Noninterest Expense
Construction	528,000	30	17,600
Furniture / Equipment	72,000	6	12,000
TOTAL	600,000		29,600

[1]The increase in median costs for freestanding branches between the 2022 and 2025 surveys appeared entirely in construction and FF&E; median land costs remained unchanged at $1M. Thus, the entire increase adds depreciation, unlike an increase in land costs, which would not depreciate and not add to NIE (though would still carry an opportunity cost of capital use).

and depreciating the former over 30 years and the latter over a weighted average six years gives an annual increase in noninterest expense of only $30m, or a scant $2,500 per month.

For a typical branch on a path to $40M in deposits and $20M in loans over a five-year horizon, the branch is generating sufficient revenue by its typical point of first positive operating earnings of 36 months (without the additional capital) that the incremental expense delays the positive earning point by only a month. In terms of true breakeven – i.e., cumulative positive profitability, including payback of startup losses, versus just first month of positive operations – the typical horizon of 42 months would extend to 45 months.

Thus, while writing a check $600m larger than you may have three years ago might be unsettling from the viewpoint of the branch income statement, because that increase is diluting earnings by only $30m annually, it is deferring positive earnings and full breakeven modestly, by a few months.

However, accounting is not the only measure of a capital investment's success, and cash flow measures are important, too. Even if depreciated, ***six hundred thousand dollars*** is still ***six hundred thousand dollars***! That capital carries an opportunity cost, and plenty of other bank departments would claim they could put it to better use. One way to quantify capital projects against one another is via the cash-flow measure of internal rate of return.

In our same generic branch pro forma example, internal rate of return at 2022 median-branch costs would reach 18%, well into "go" territory for most bank's financial-decision processes. Adding $600m in upfront capital costs, again allocated as in the above example, reduces the project IRR to 14%, leaning in on the cusp of the "go / no go" decision threshold under most bankers' financial-performance standards. And of course, because the incremental costs are all expended in 'year 0' of the project, the cost causes a one-for-one $600m decline in the project's net present value.

Regardless, heightened branch construction costs are a reality, and one that bankers may need to confront via offsetting cost reductions, either in branch size or staffing. Still, from an accounting viewpoint, even significant increases in branch construction costs should not greatly impact the decision calculus; as the long-term nature of branch projects allows the branch to disperse those impacts over time, minimizing the impact to net income and breakeven horizon. But from a cash-flow standpoint – not to mention the "angst the CFO feels when signing that check" standpoint – the increased capital costs are real, significant, and carry the potential to lower a branch project's position in the institution's overall rankings and prioritization of potential capital projects.

Announcing the Newest Release of Bancography Plan

We recently updated *Bancography Plan* with full 2025 branch and deposit statistics and 2025 demographics.

Bancography Plan offers demographic and competitive reports, customer and competitor maps, as well as full pro-forma financial projections for any proposed branch location. *Bancography Plan* also provides trade area profiles for each branch in an institution's network and estimates of current performance versus the fair-share market potential to support decisions concerning keeping, closing, reconfiguring or otherwise repositioning each branch to yield the optimal network configuration.

Visit our website to learn more about *Bancography Plan*, request sample reports and schedule a live demonstration.

Branch Profitability: The Spread-to-Pooled-Rate Method of Calculating Net Interest Margin

This is an updated version of a Bancology article from 2007, nearly 20 years ago. We rarely reprint articles in Bancology, preferring to share new research; especially as all of our previous issues remain available at bancography.com/bancology (you can search by topic, e.g., branch design or sales goals). However, the calculation of net interest margin represents a critical topic in forecasting and measuring branch profitability, and a topic that often generates questions from clients in the course of our branch-planning projects. Further, 19 years is a LONG time! Therefore, we revisit the spread-to-pooled-rate method for calculating branch net interest margin, with an updated version of the original 2007 article.

In building a model to forecast the profitability of new branches or to estimate the profitability of current branches, the calculation of ***net interest margin*** represents one of the more challenging tasks. Since interest margin reflects the interest earned from loans and the interest paid on deposits, it forms the most significant line item on the projected branch's income statement. Yet because it can require inputs and assumptions about current and future rates, the margin calculation can prove difficult.

Two of the common questions regarding margin calculations are:

- If margin represents the difference between interest earned and interest paid, what rates should we apply to our forecasted balances in each product category, especially since rates could vary widely over the next five years (or whatever planning horizon we apply to our branch capital decisions)?
- And since in most branches deposits greatly exceed loans, how do we reconcile the fact that net interest margin will be negative, likely rendering the branch unprofitable even before we factor in expenses?

To address these issues, Bancography recommends using a ***spread-to-pooled-rate*** approach to calculate net interest margin. This approach presumes that the institution maintains a central treasury, which will buy or sell funds at a fixed benchmark rate. The difference between the rate paid on deposits, or the rate earned on loans, and the pooled rate – the spread between those rates – represents the margin revenue from a given product.

> *The benchmark-pooled rate can be any number between the institution's weighted average cost of funds and its weighted average loan yield, but is typically some published benchmark rate (e.g., a Federal Reserve, Federal Home Loan Bank or Treasury index)*

There are two primary benefits of the pooled-rate approach. First, it rewards every product with a positive contribution to earnings, reinforcing the branch's incentive to sell all products that meet the consumers' needs, while placing the responsibility for re-deploying excess deposits with the corporate treasurer. Second, because product rates tend to move in correlation with benchmark rates, ***spreads*** tend to remain stable over time even as specific ***rates*** vary. The following example explains the pooled-rate approach.

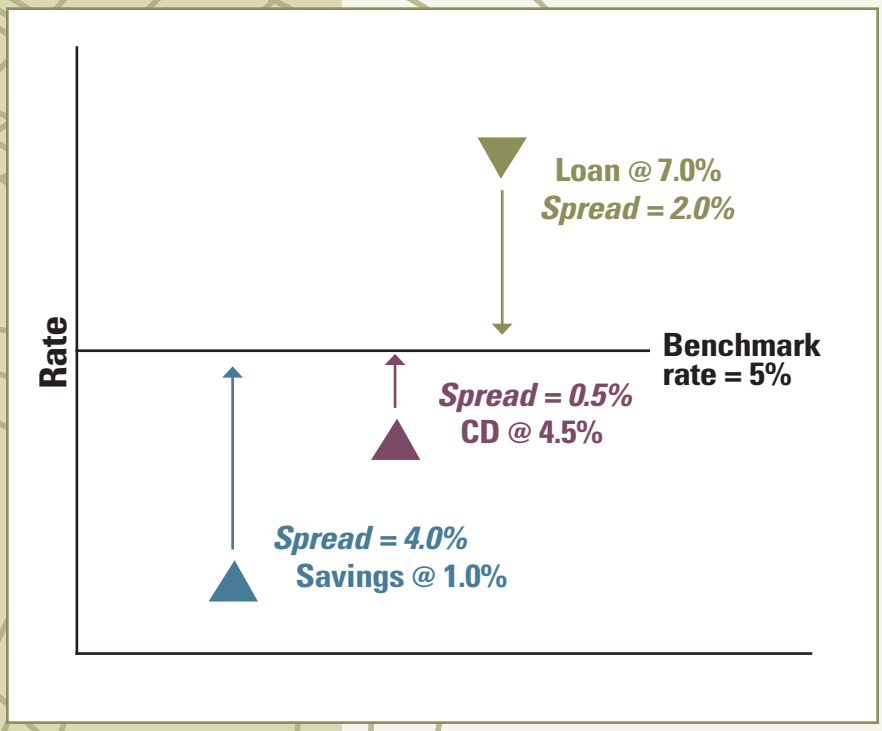
The model presumes a central treasurer who allows the branch to monetize its sales by buying deposits or selling funds for loans at a fixed benchmark rate, say, 5%. In effect, the treasurer is a clearinghouse; and the branch "redeems" its sales via this treasurer. If a customer opens a savings account paying 1% and places $1,000 into the account, the only way the branch can monetize it (i.e., convert it to revenue) is to call the treasurer, who says "I'll give you 5% for that $1,000." That is, the treasurer will offer to 'buy' the deposit from the branch at the benchmark rate of 5%. So the branch says "SOLD," takes the 5%, pays the account-holder 1%, and earns 4% (or $40) on the account. This leaves the branch with a spread of 5% - 1% = 4%.

If the next customer opens a $5,000 CD at 4.5%, the spread would be only 5.0% - 4.5% = 0.5%, yielding the branch $25 in revenue.

Then someone requests a $10,000 car loan under our 7% special. The branch has no funds to lend, it can obtain those funds only from the treasurer. So the branch calls the treasurer, who says "I'll sell you those funds for the same benchmark rate of 5%." The branch says "DEAL," takes the $10,000 from the treasurer and pays the 5%,

and then lends to the customer at 7%. Thus, the branch earns 2% (i.e., 7% - 5%) or $200.

The spread value, when multiplied by projected balances for the corresponding product type, yields the net interest margin for each product portfolio.



The benchmark-pooled rate can be any number between the institution's weighted average cost of funds and its weighted average loan yield, but is typically some published benchmark rate (e.g., a Federal Reserve, Federal Home Loan Bank or Treasury index). By choosing a value between the cost of funds and the loan yield, the institution equitably allocates its margin between deposit and loan products, with all products receiving a positive spread. Raising or lowering the pooled rate will reward either deposit or loan products, respectively, so manipulating the rate allows the institution to determine which product types will carry more weight in the branch financial projections.

For example, if the institution's cost of funds is 100 basis points (bps) and its weighted average yield on loans is 500 bps, there is only 400 bps of margin to go around; and we have to apportion that between the two sides. Where we set the pooled treasury rate determines how much flows to each side.

Bankers sometimes fall into a trap where loans are credited with the difference between their funding cost and their yield; and deposits are credited with the difference between their cost and the rate at which they're invested. But this approach will double count all revenues and yield a net interest margin twice the correct value, or 800 bps in the above example (which the CEO would love to have!). By using a pooled rate, splitting the total margin between deposit and loan products, we avoid the double-counting trap.

In the simple example prior, a treasury rate of 200 bps would allocate 100 bps of the margin to deposits and 300 bps to the loans (assuming a simple world of only those two generic product types); but a treasury buy/sell rate of 350 bps would allocate 250 bps to deposits and only 150 bps to loans. Regardless, the values must sum to 400 bps, as that is all the margin we have to allocate among the two sides of the balance sheet.

The spreads are designed to reflect long-term norms and not vary too severely with the specifics of today's rate environment, which may change tomorrow or three years from now. We strive to reflect long-term norms, rather than to predict the direction of interest rates in the future. Because product rates correlate closely with standard industry benchmark rates, spreads remain stable, allowing us to gage current-branch performance or forecast new-branch performance in the context of, for example "how much is $10M of checking balances worth to us in a *typical* environment?" As such, this method yields plausible, accurate inputs for the revenue side of branch-profitability calculations.