Community Bank Consolidation in Ninth District States

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Disclaimer

- My Views

- Not Necessarily the Views of Others in the Federal Reserve

Main Points

- Generally Steady Decline of Banks in District States Since the Peak of Expansion
  - Decline in Both Good Times and Bad
  - Smaller Banks Consolidating Faster

- Within BHC Consolidation Is Important
  - Distressed Consolidations Ebb/Flow
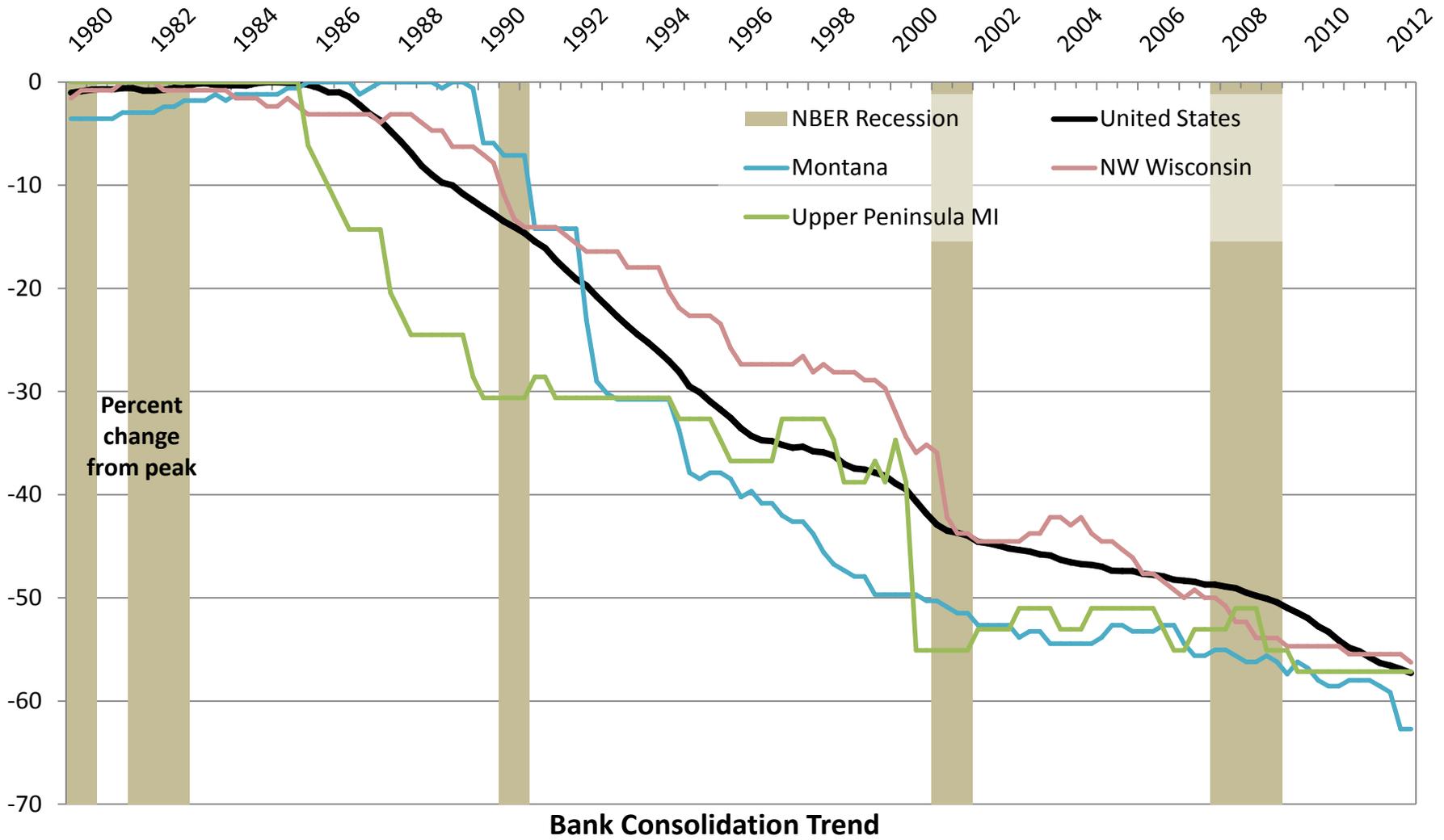
- History Suggests Continued Consolidation

Community Banks
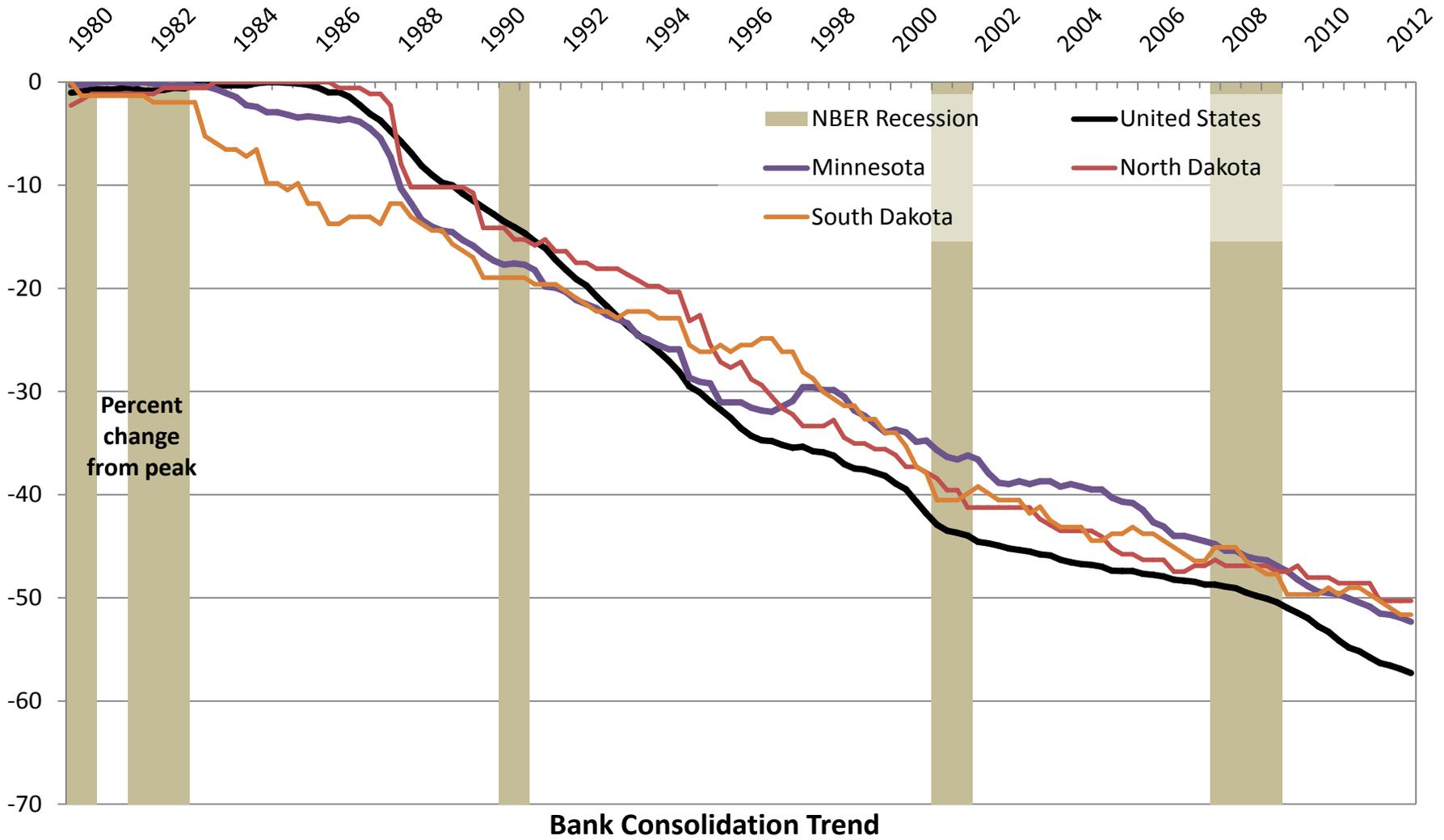# in 9th District States Decline at Steady Rate
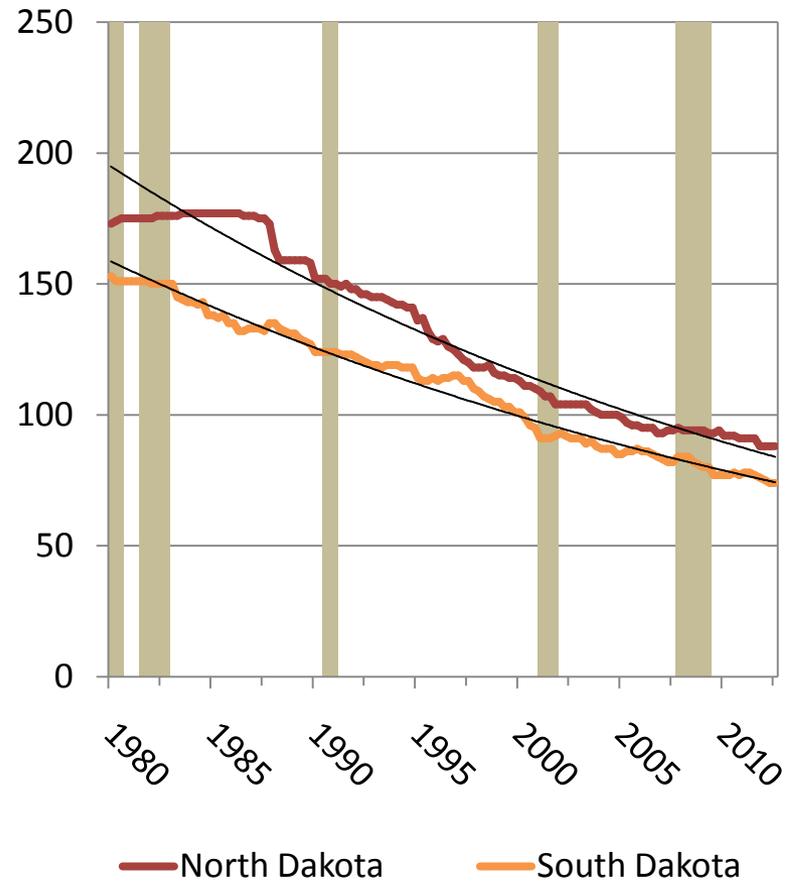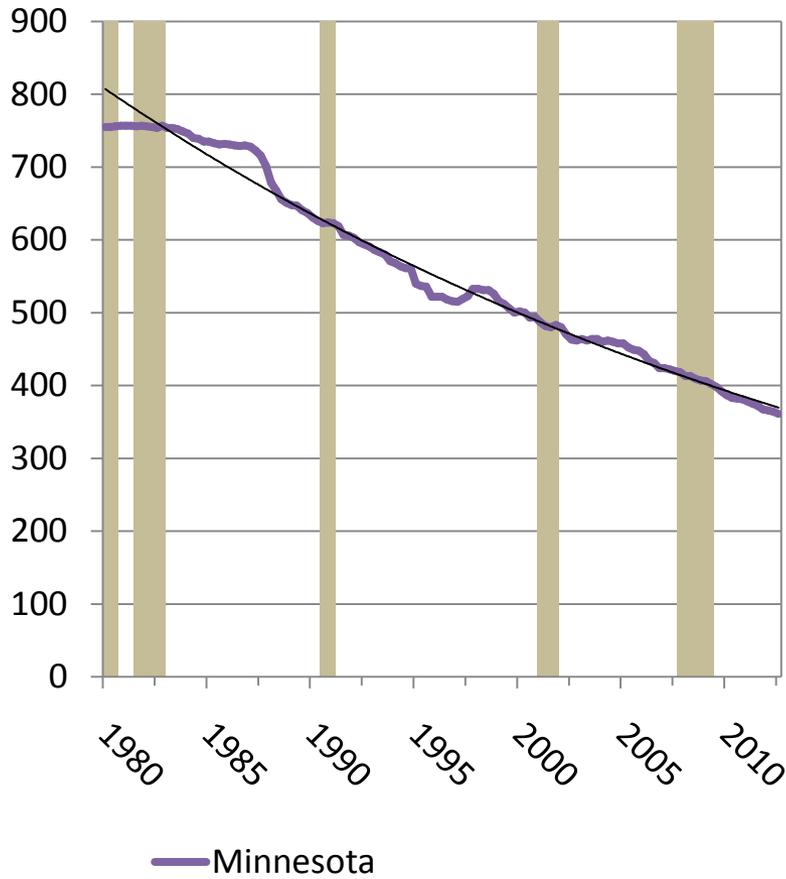
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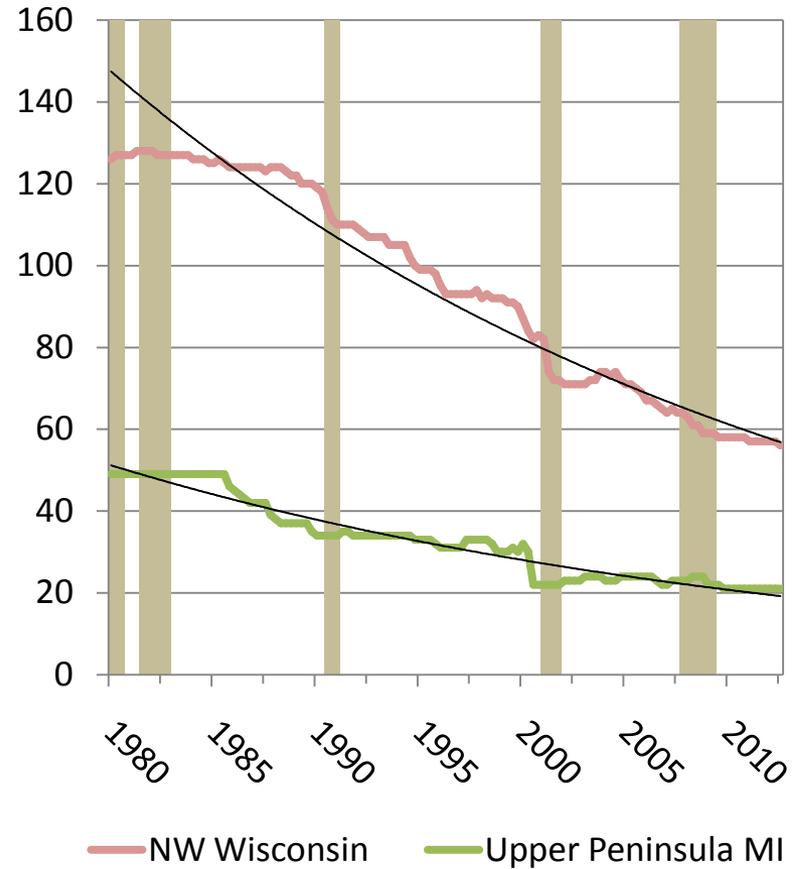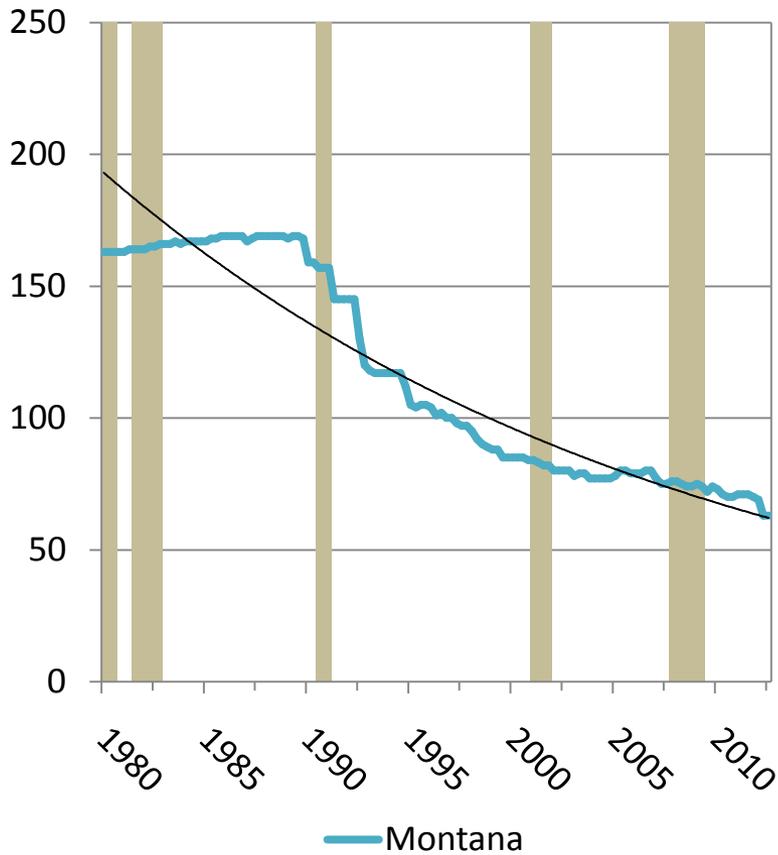
Steady Rate of Decline Reduces Number of Banks By 55% Since Peak

Bank Consolidation Trend

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Relative Steady Rate of Decline: the Numbers for 30 Years

Quarterly Change in the Number of Banks		
	United States	9th District
Average	-.77%	-.66%
Median	-.75%	-.55%
25th-75th Percentile Range	-.4% to -1.12%	-.31% to -.93%

Relative Steady Rate of Decline Across Economic Conditions
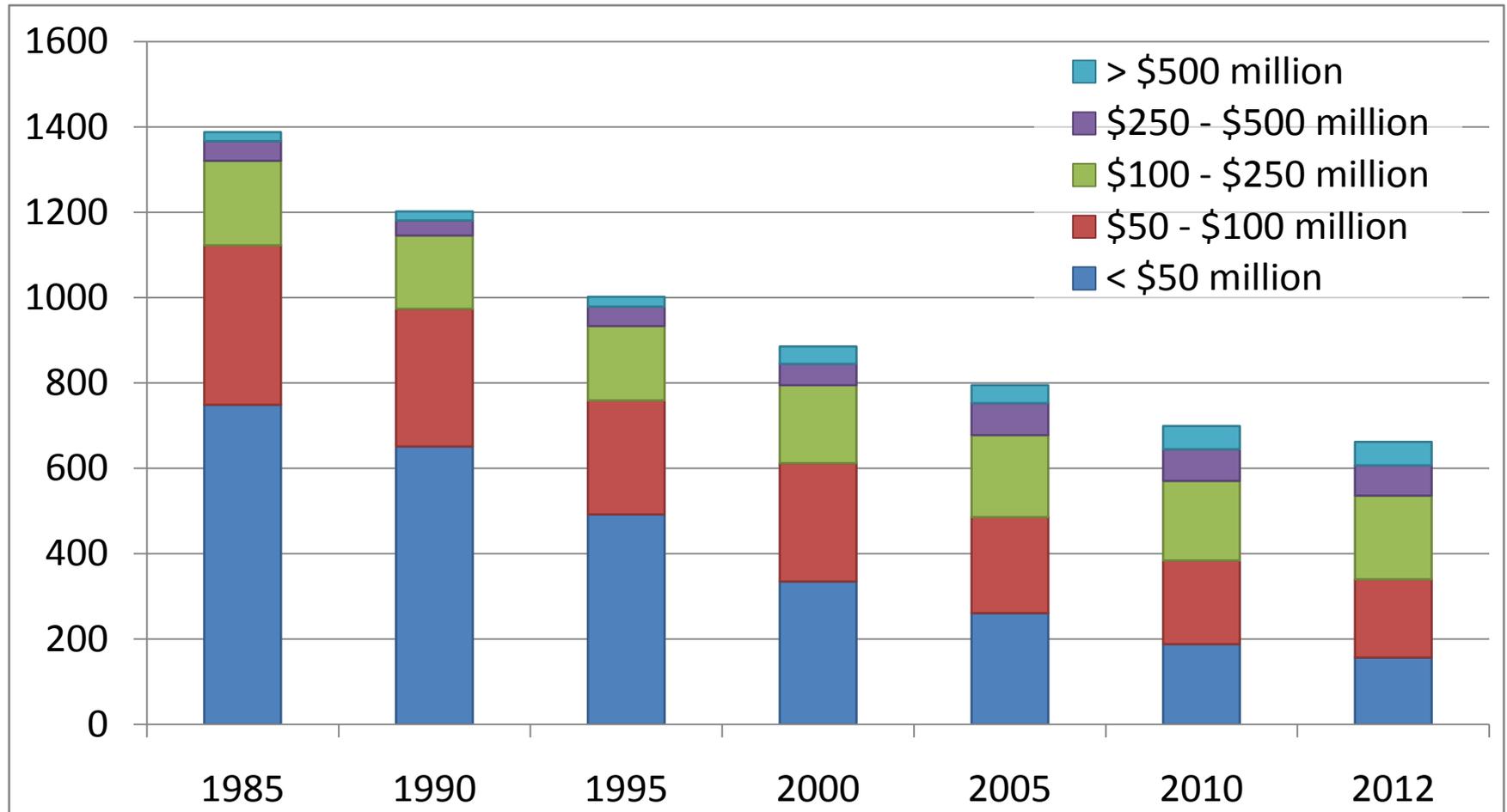
Quarterly Change in the Number of Banks		
	United States	9th District
Recessions	-.69%	-.72%
Growth Periods	-.78%	-.65%

Relative Steady Rate of Decline Across Regulatory Climates

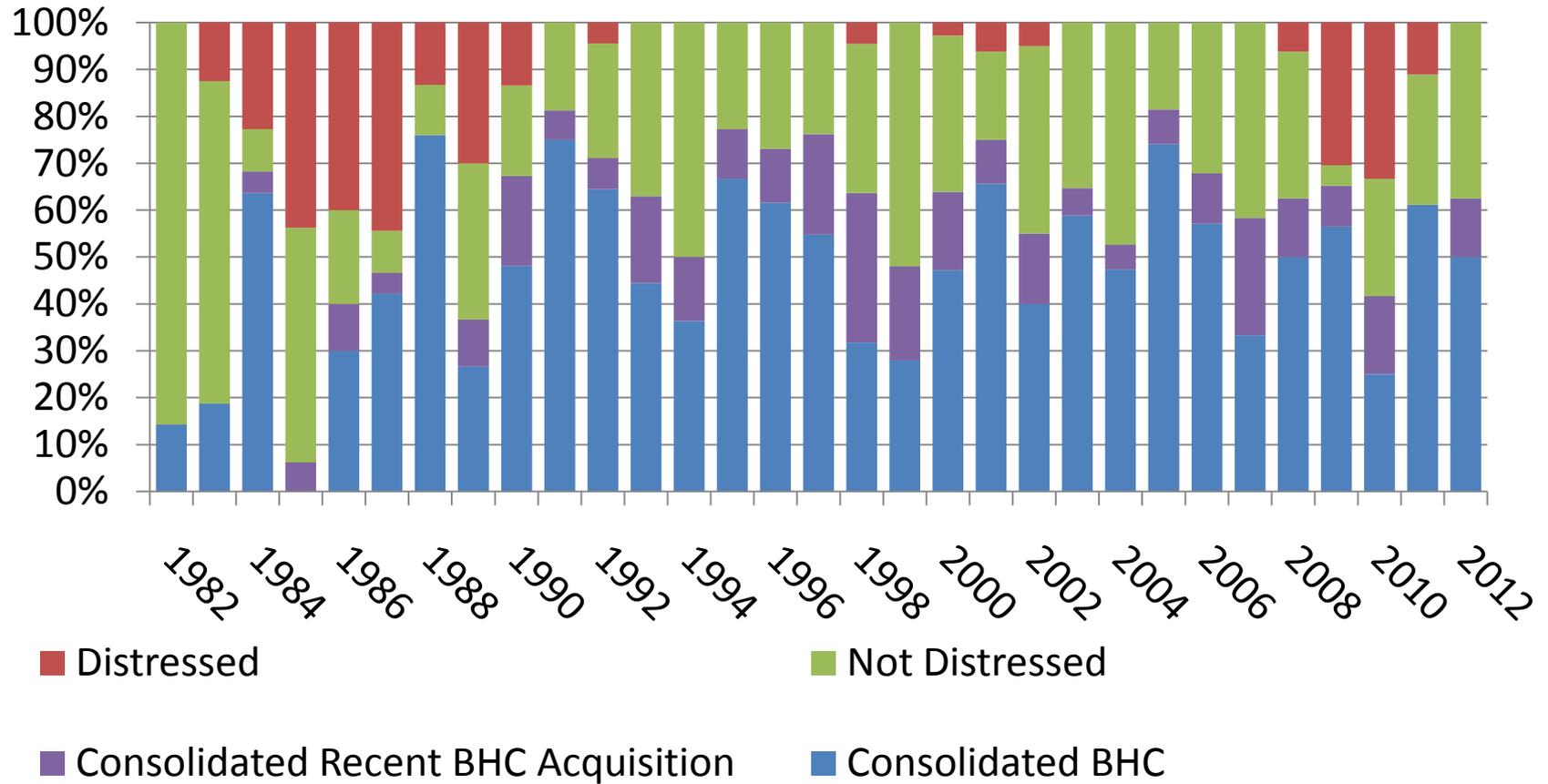| Quarterly Change in the Number of Banks		
	United States	9th District
Post Major Legislation*	-1.14%	-0.81%
Other	-0.64%	-0.61%
*FDICIA and DFA		

Rate of Decline Is Faster for Smaller 9th District Banks

Inter-BHC Consolidation Is Important Driver

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Legend:
- Distressed (red)
- Not Distressed (green)
- Consolidated Recent BHC Acquisition (purple)
- Consolidated BHC (blue)
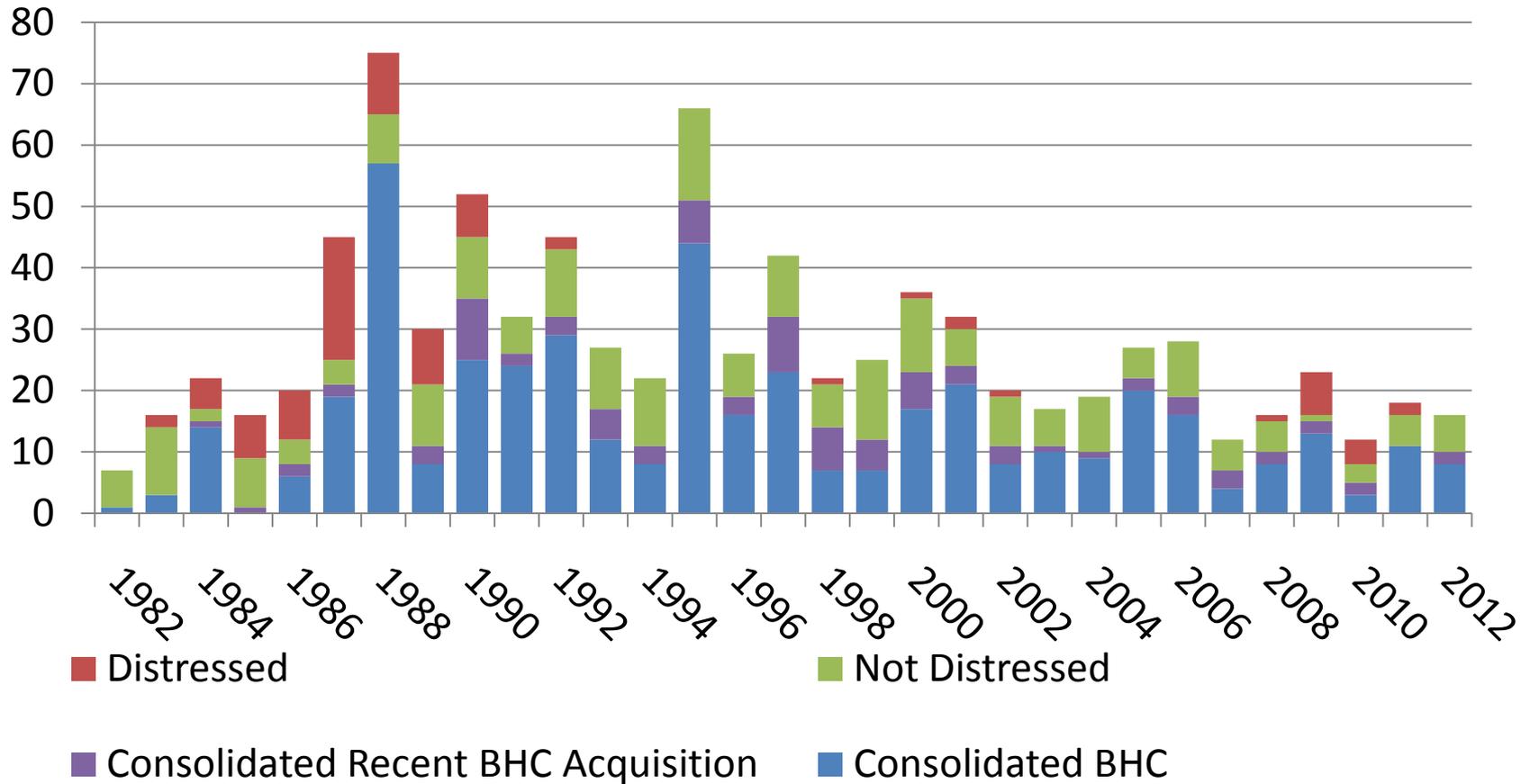
Forecasting Future Bank Consolidation

- Provide a Baseline to Evaluate Future Trends
  - Help Identify Regulatory Effect on Consolidation

- Modeling Approach
  - Three "Time Series" Models, One "Cross-Sectional" Model
  - Commercial Banks
  - Forecast One Year Out
  - Four 9th District States
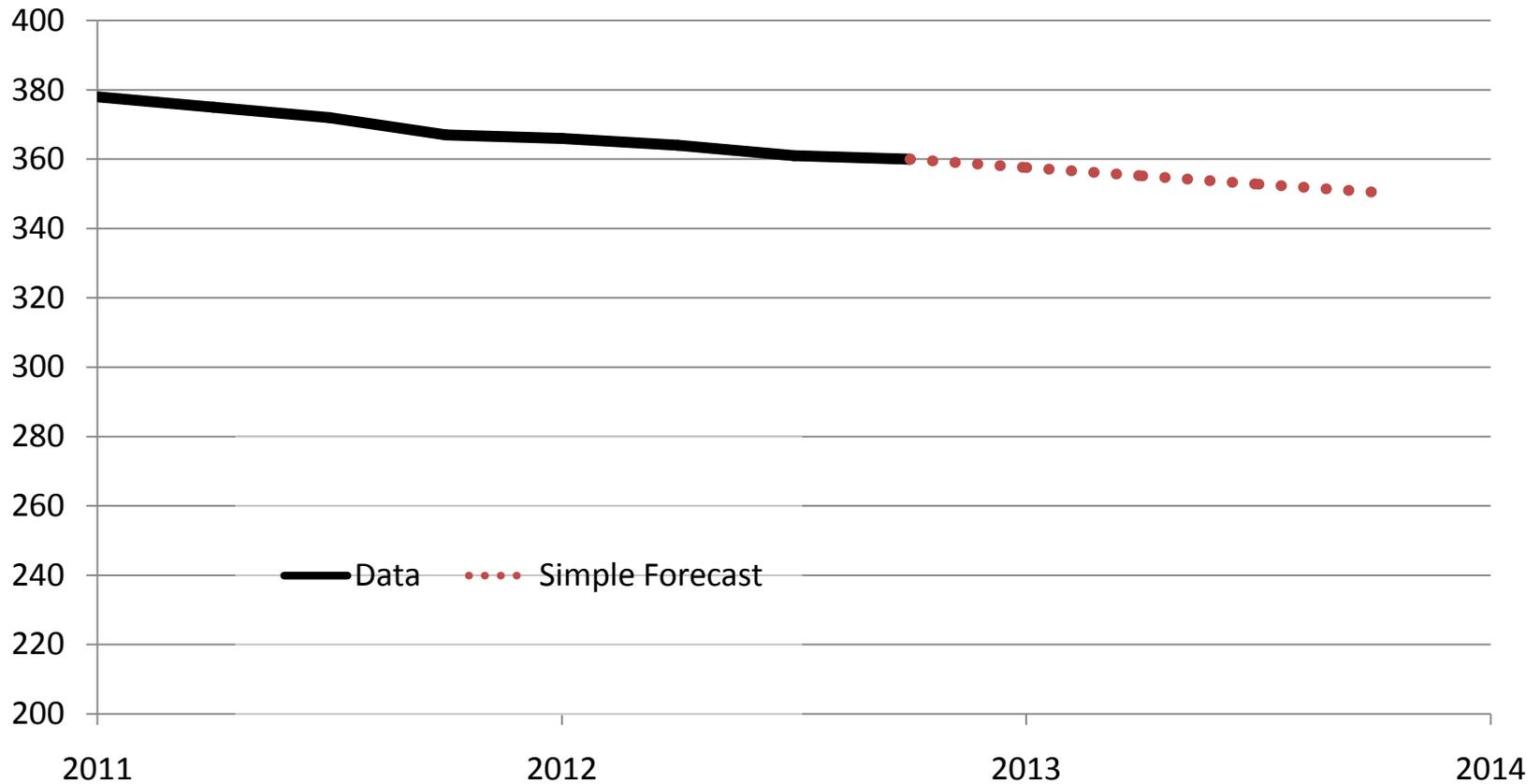
Forecasting Future Steady Decline: Minnesota Case

Figure: Minnesota Baseline Forecasts

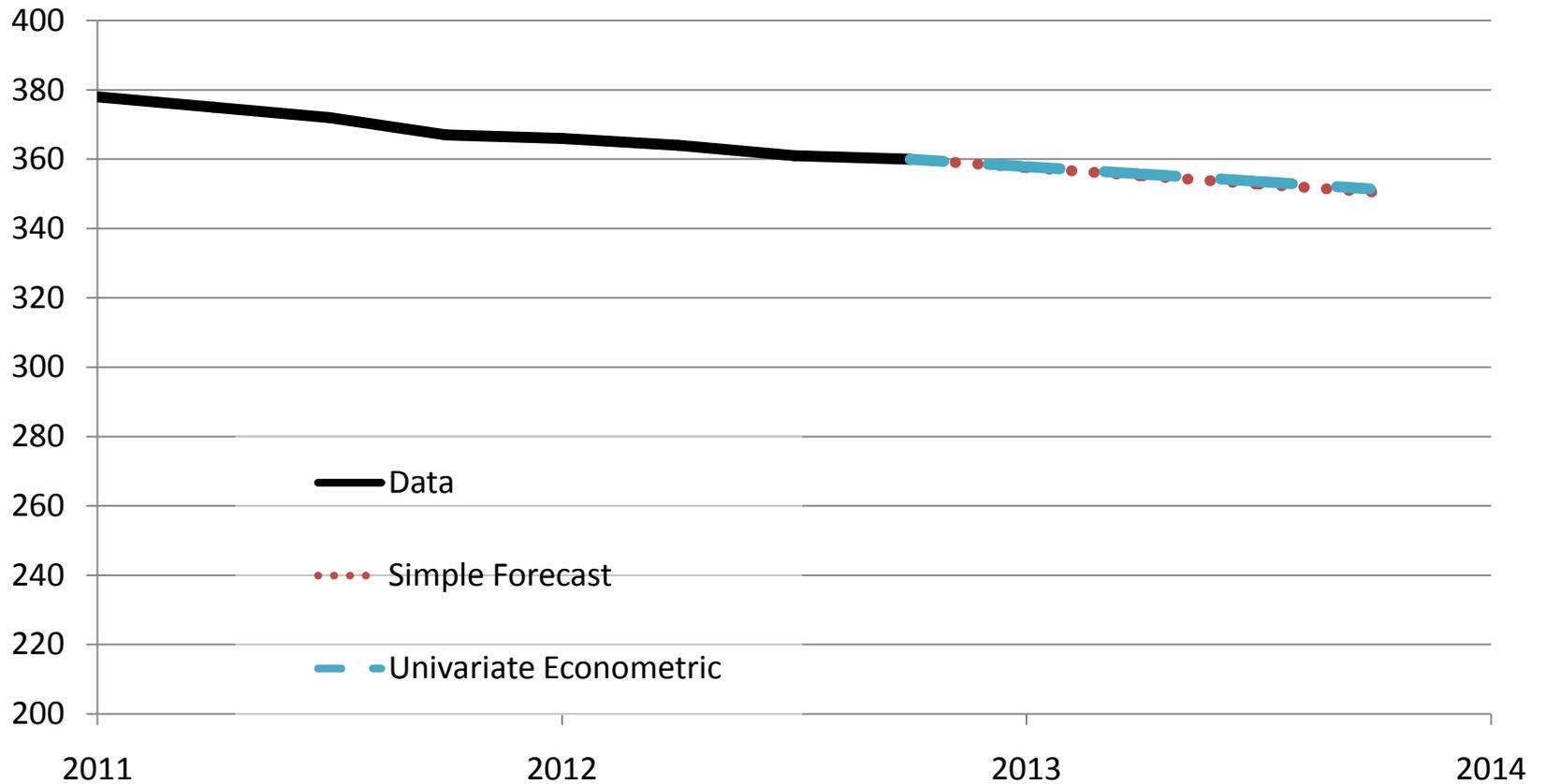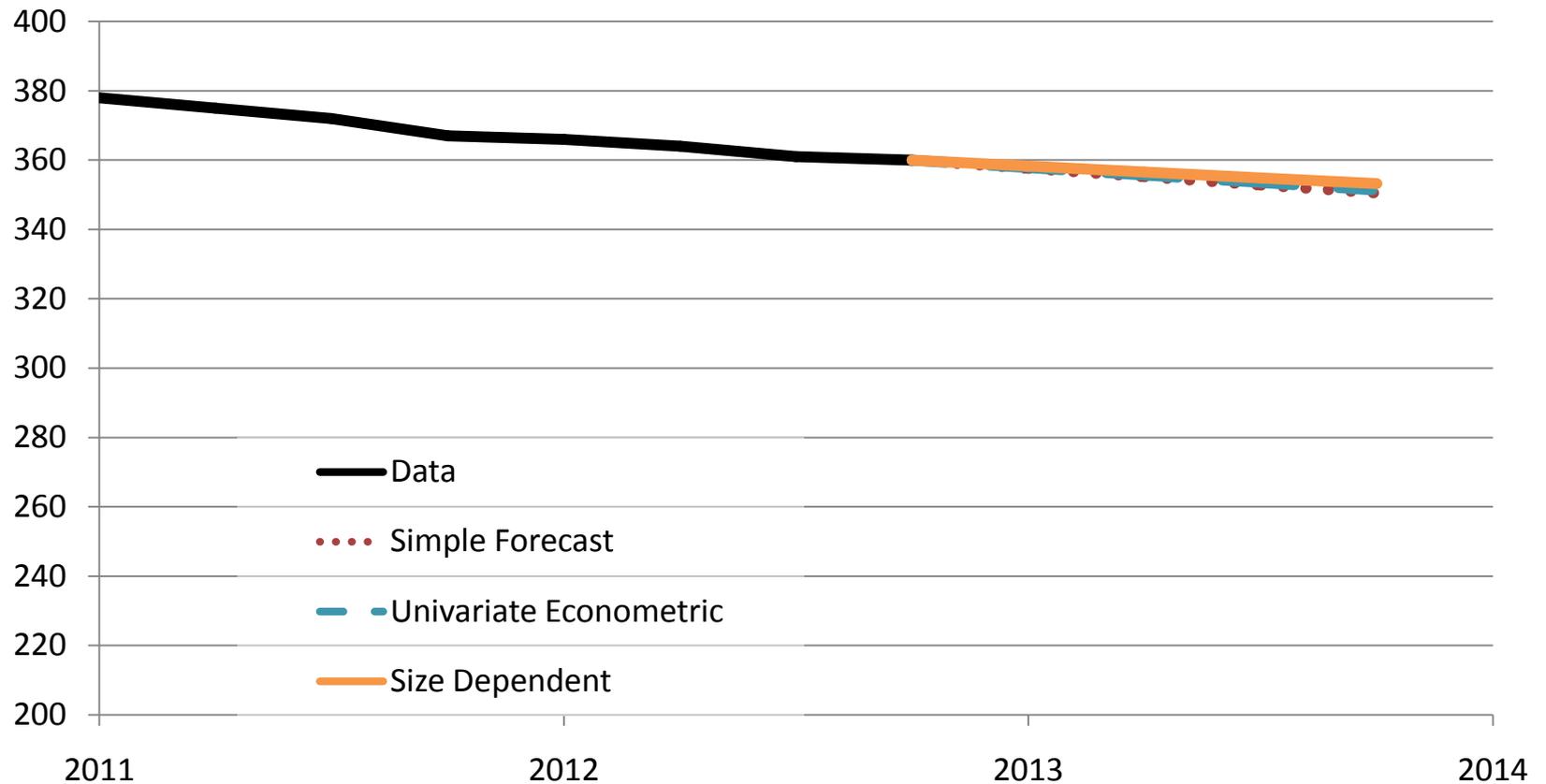# Forecasting Future Steady Decline: Minnesota Case

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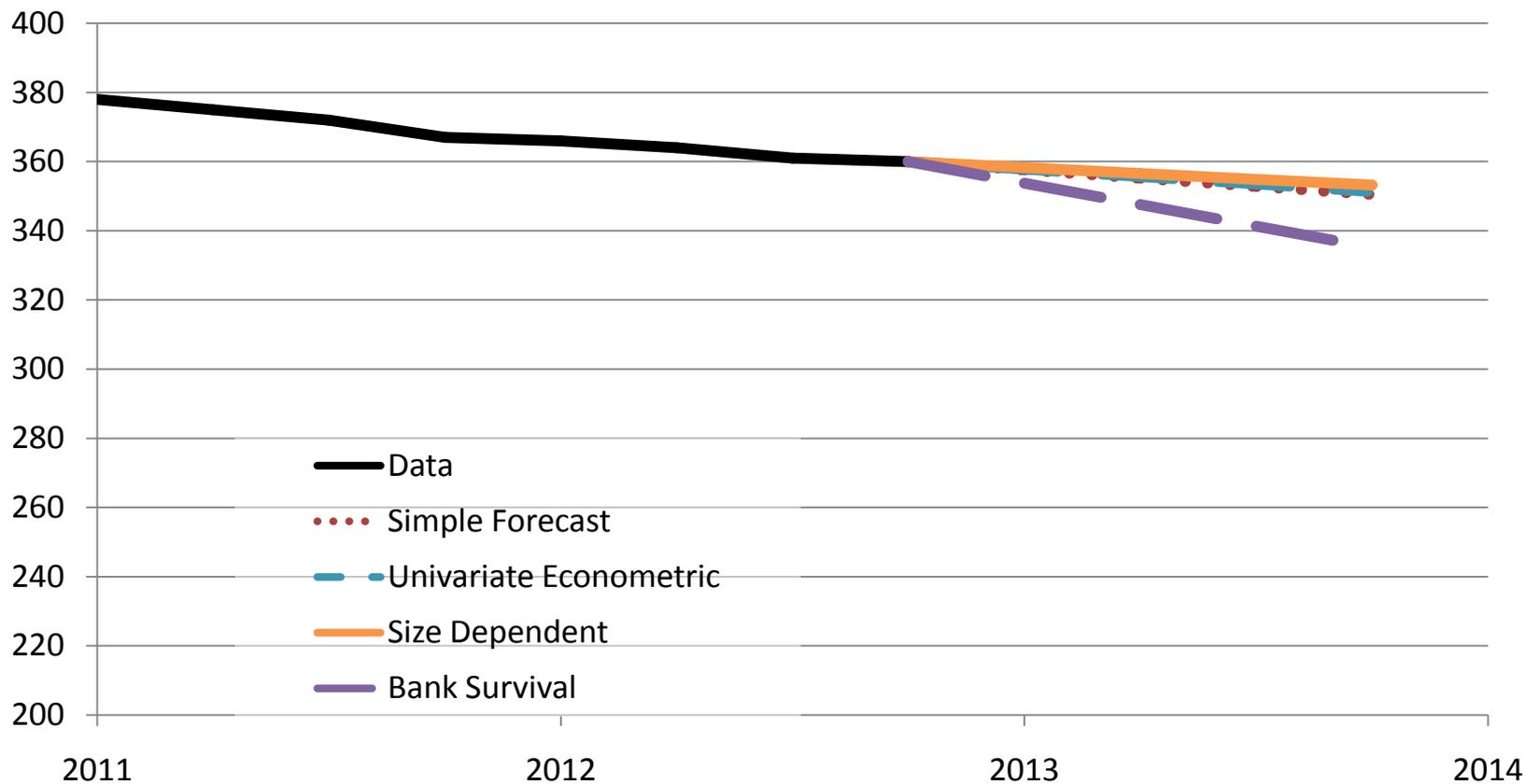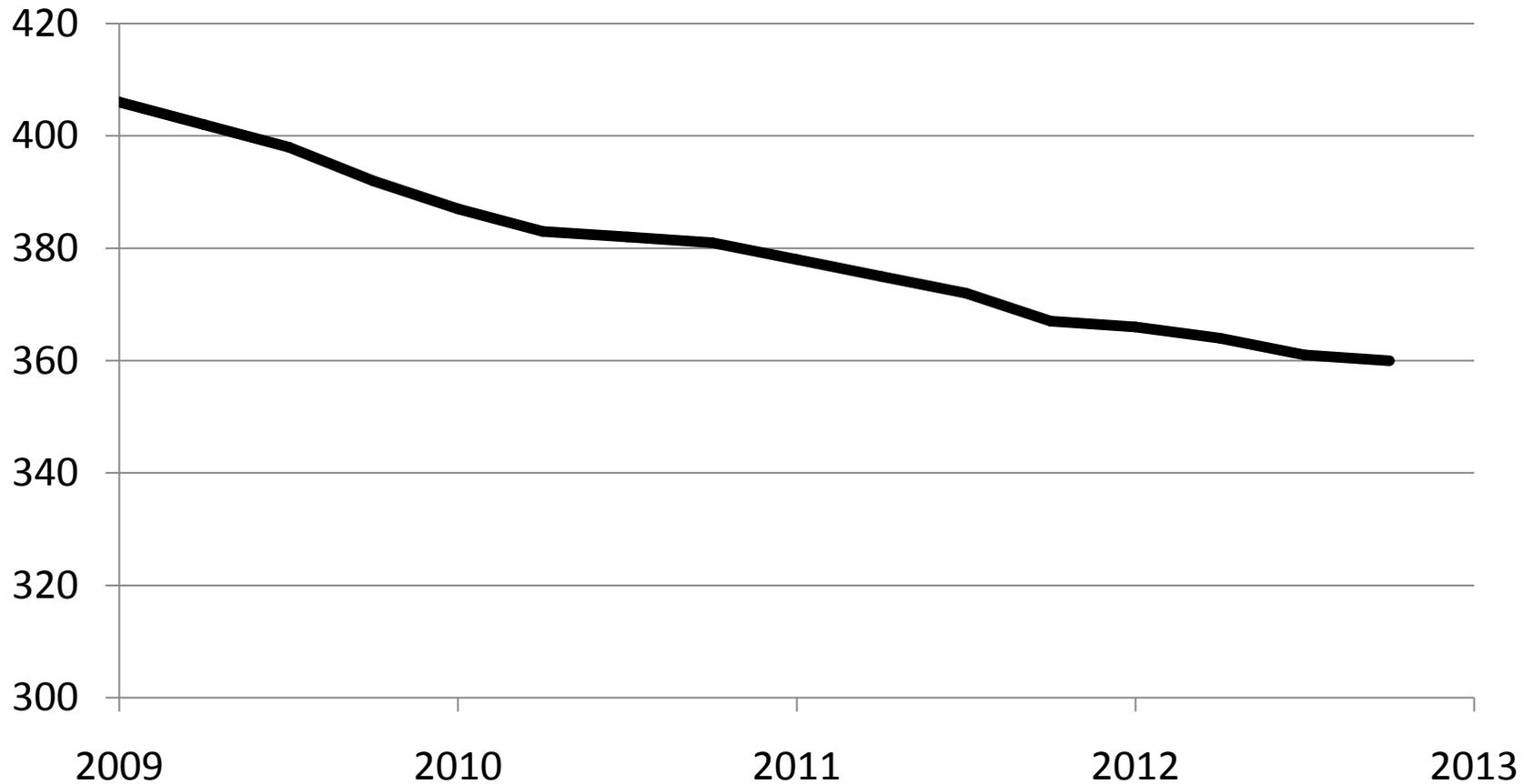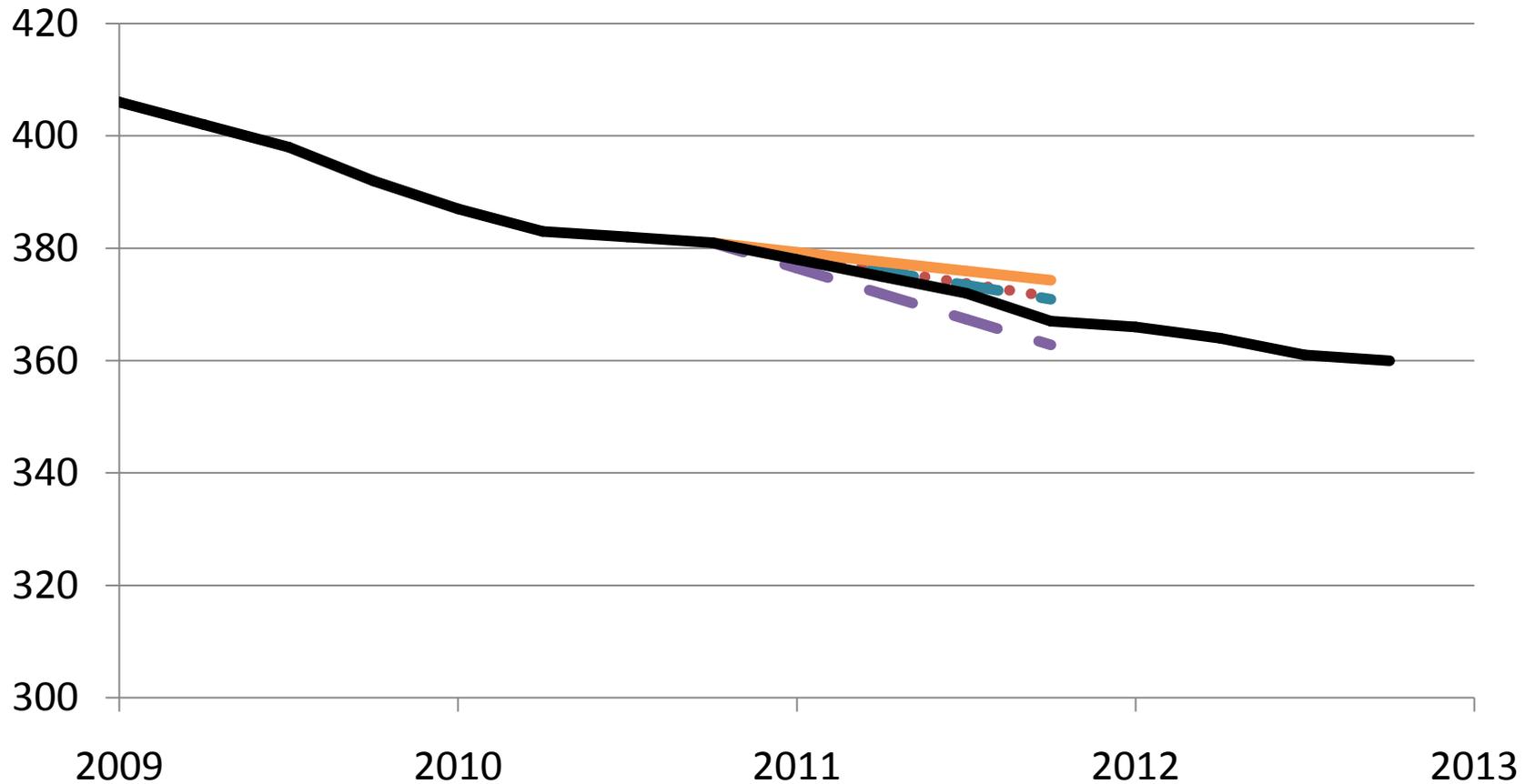

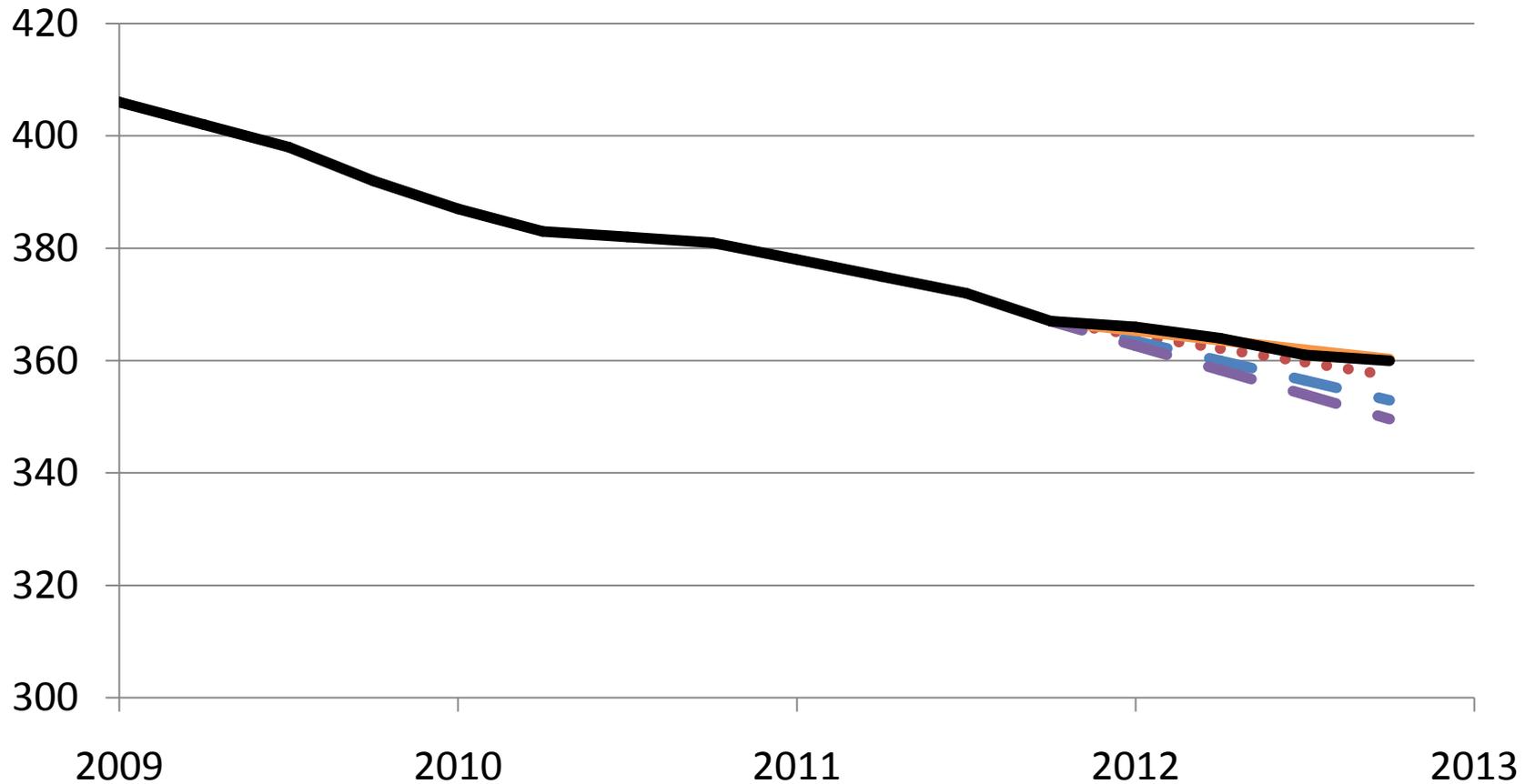**Figure: Minnesota Baseline Forecasts**

Performance of Forecast
Out-of-Sample in Minnesota Post-DFA

Performance of Forecast Minnesota in 2011

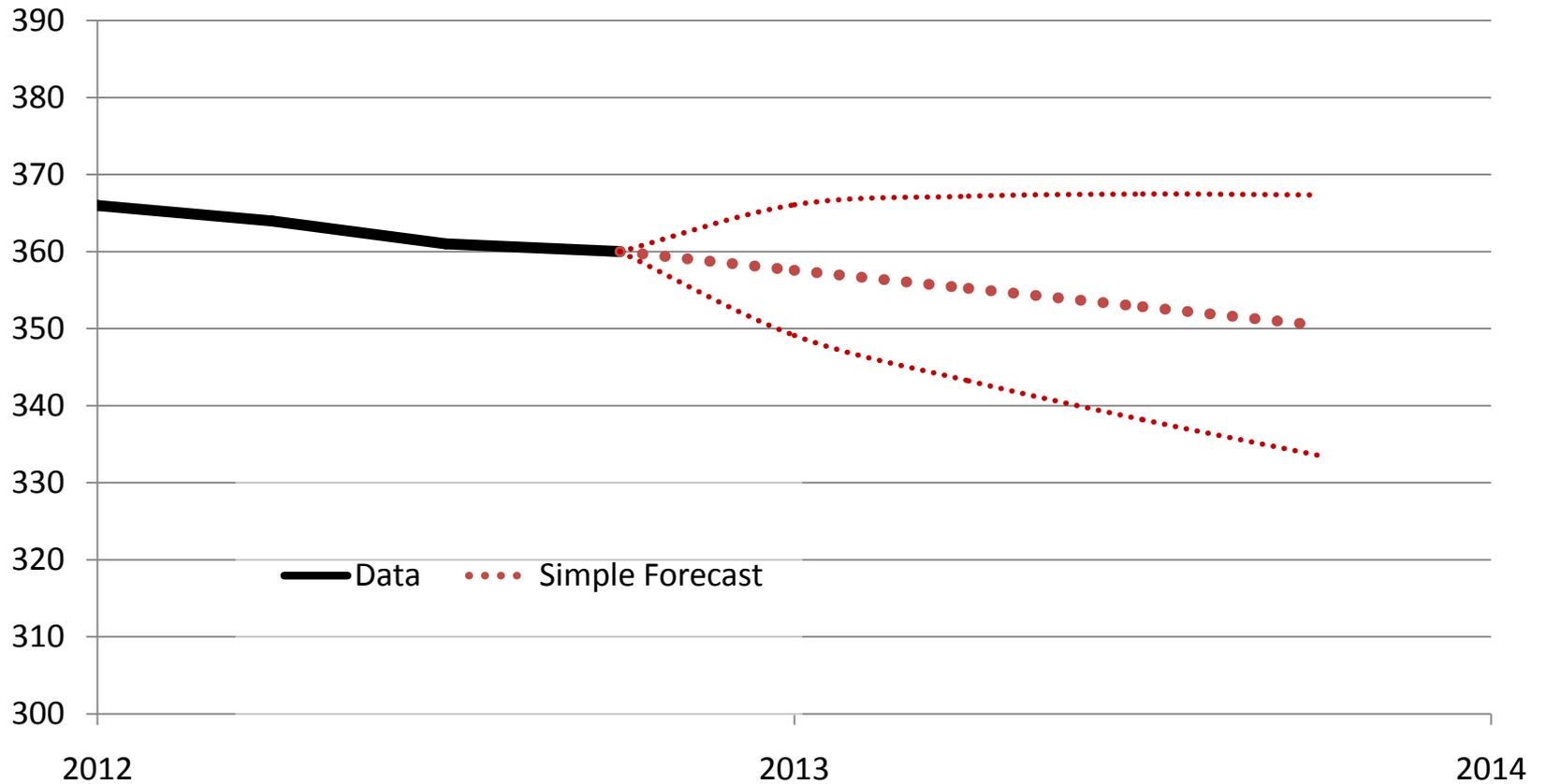# Performance of Forecast Minnesota in 2012

Forecasts Are Uncertain

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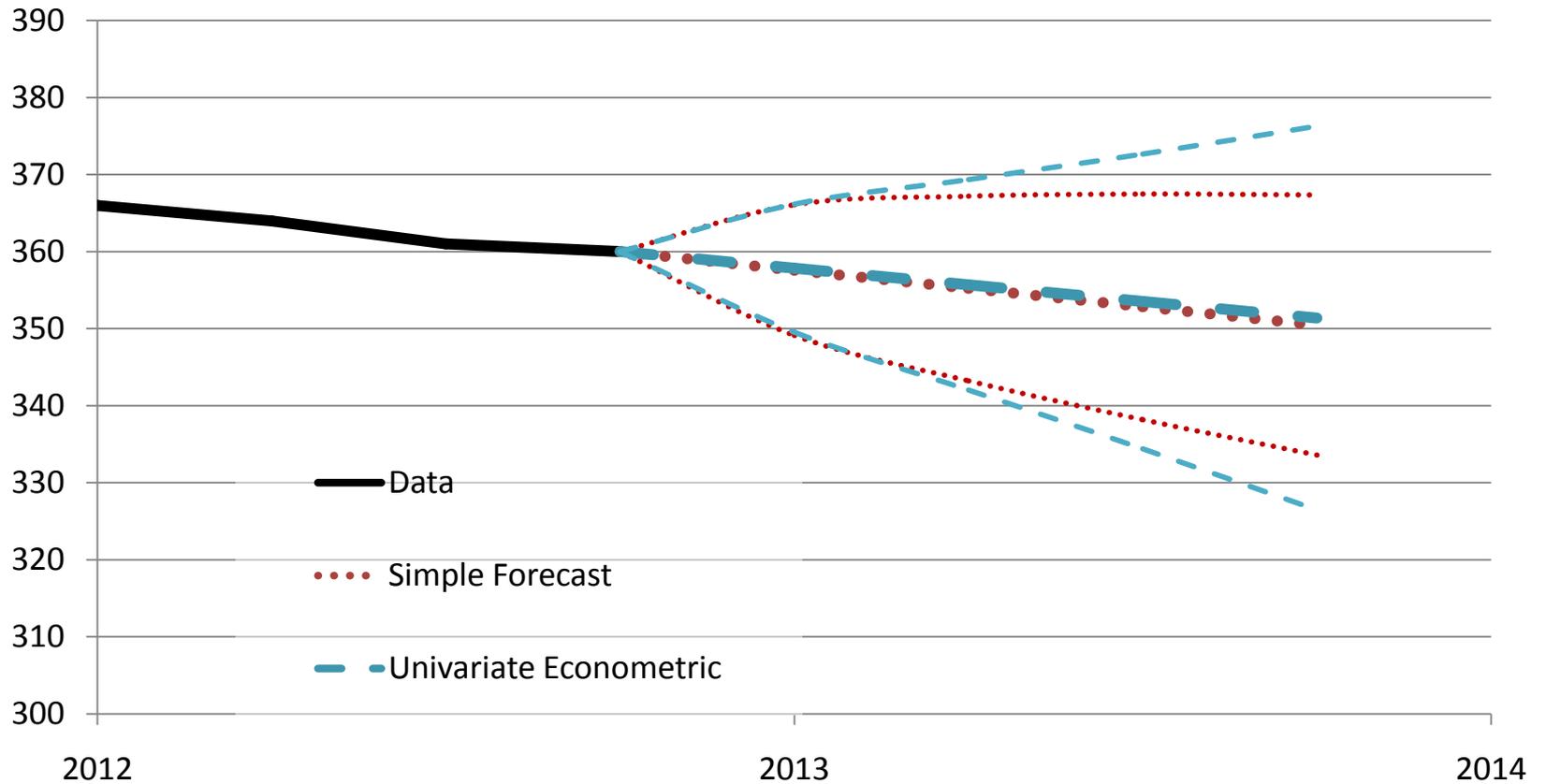
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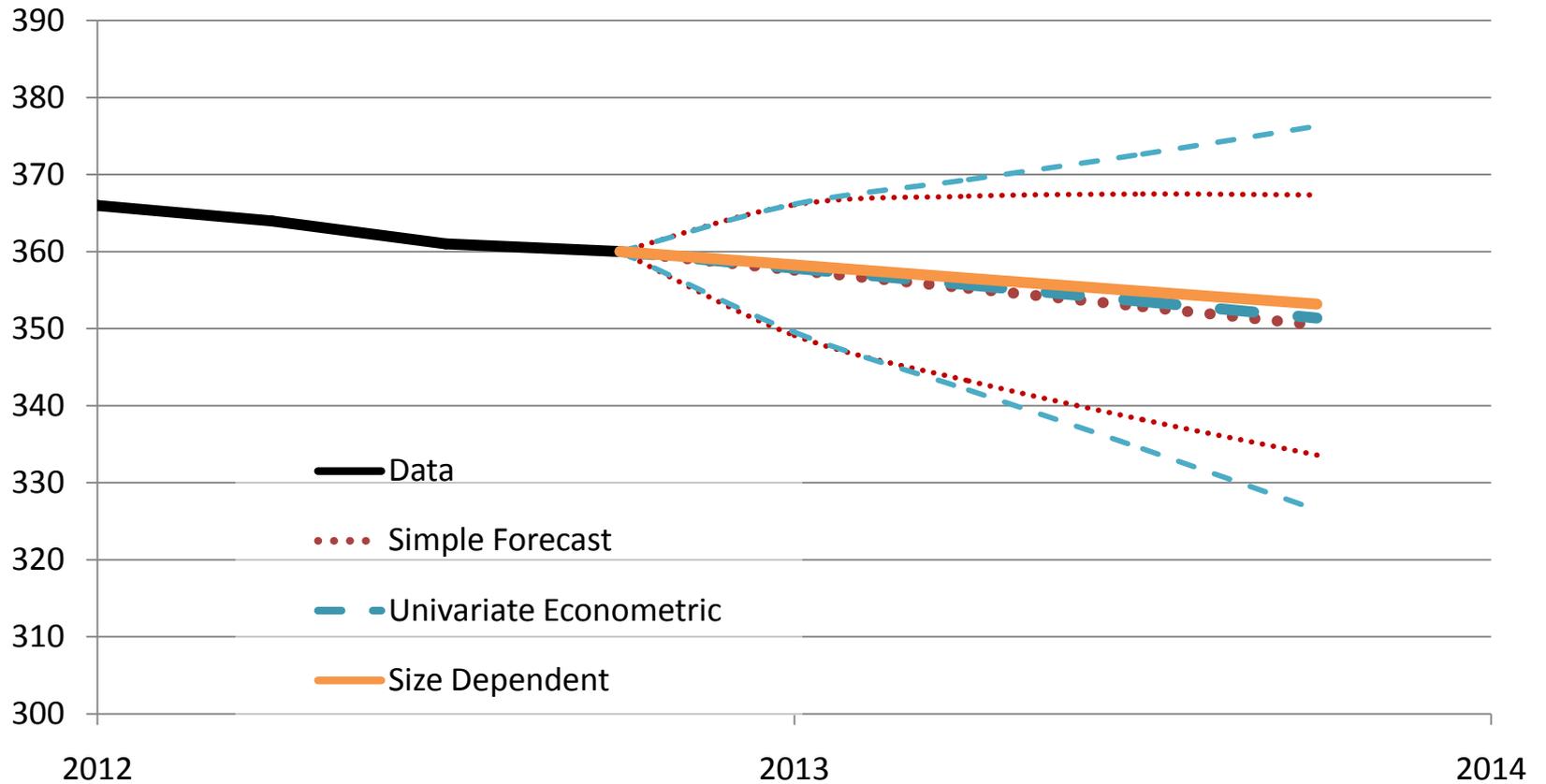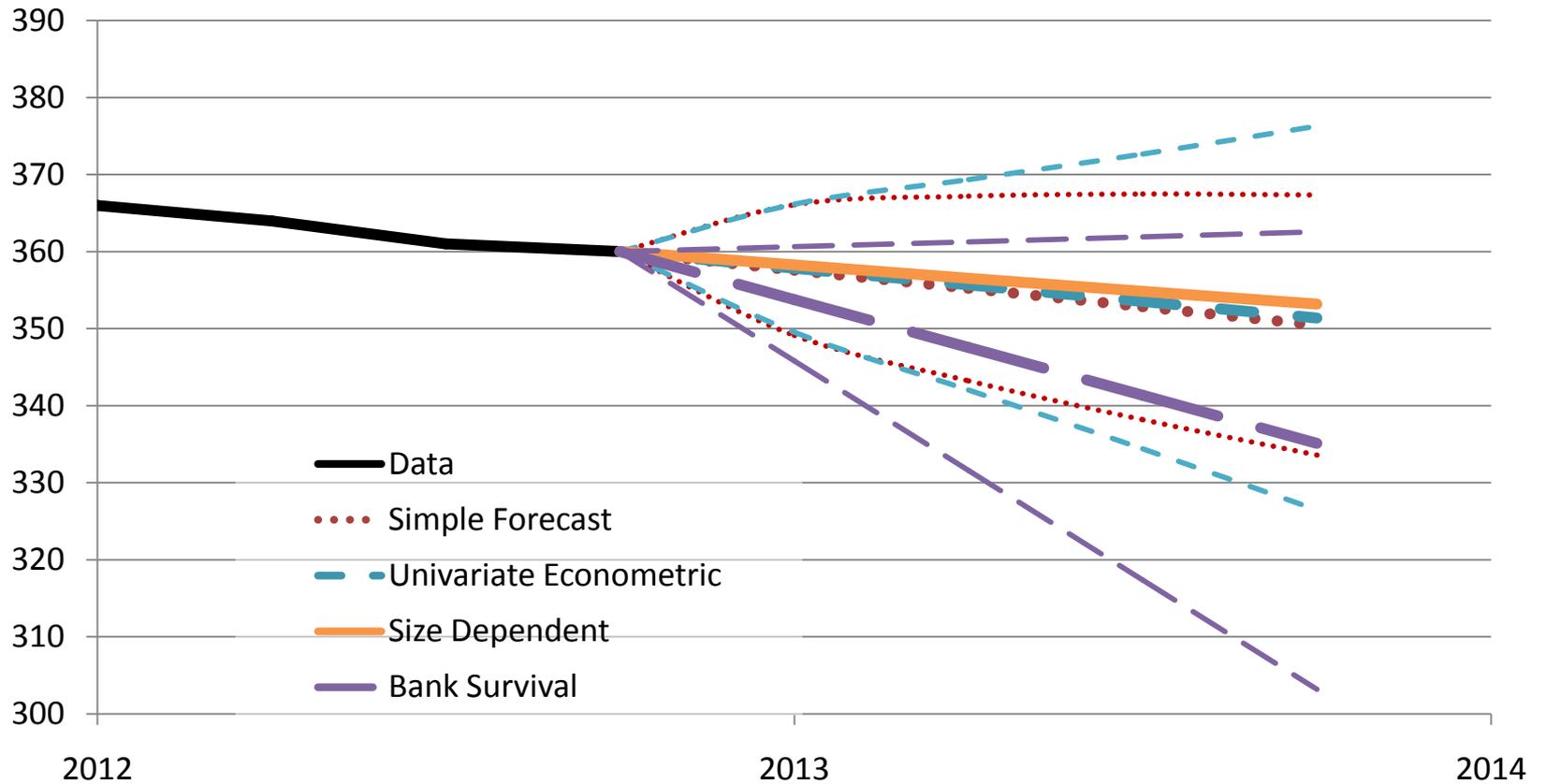
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Forecasting Number of Banks By State

	Minnesota		North Dakota		South Dakota		Montana	
	#	%	#	%	#	%	#	%
2012 Q4 Data	360		88		72		63	
Model Forecast for 2013 Q4								
Simple Trend	-10	-2.78%	-2	-2.27%	-2	-2.78%	-2	-3.17%
Rate of Change	-9	-2.50%	-1	-1.14%	-2	-2.78%	-3	-4.76%
Size Dependent	-7	-1.94%	-2	-2.27%	-1	-1.39%	-1	-1.59%
Bank Survival	-25	-6.94%	-5	-5.68%	-4	-5.56%	-4	-6.35%