

## When Banks Explode

The proliferation of branches of banks in most American cities has become so epidemic that it is hard not to notice the dominance of this kind of business on any street corner in your town. In many cases, a busy intersection which might be used for retail operations such as fast food restaurants, cleaners, gas stations and quick stop stores has been taken over by banks. In some cases you will see three of the four corners of a popular intersection in town occupied by different bank branches.

It makes you wonder, just how many banks do we need in town and why are the banking institutions spending so much money to put branches in virtually every location that has open space? It is a business trend that gets your attention and it makes you wonder what is driving this bank explosion. After all, in many cases there are not more customers for those banks. You have to wonder how banks can cost justify such expansion when the growth of bank branches is not even in step with population growth in a given community.

The phenomenon has become more profound in the last ten years than ever before. And much of it has to do with changes in how banks are regulated and the financial objectives that these branches are targeting, financial objectives that bring big money to the banking institutions spreading all over town.

- **Regulatory Changes.** The rules for how many branches a bank can own and where they can open them have changed significantly in the last decade. Now banks can open branches inside grocery stores and at a greater density than before. And this has set off the growth war of branch banking that we notice going on all over town.

- **An explosion of services.** Along with a freeing up of the branch banking laws, commercial banks can offer many more services than ever before. While we think of banks in terms of checking and savings accounts only, if you walk into the bank, you will be buried with offers for a huge variety of financial services including varieties of investment services and different forms of credit arrangements. And these services are huge money makers for your local banker.

- **How banks really make their money.** Obviously banks don't make much money just keeping your checking account working correctly. But using checking as a loss leader, banks can capture your business to offer credit services and investment vehicles that yield them much higher returns on the use of your funds. Further, the fees that can be applied for overdraft accounts and other fee based services are a pure profit mechanism for banks.

· Visibility counts. Each new customer a bank lands takes revenue out of competitor's banks. And if they can capture your banking business, the money you store in your accounts is available for loans and interest they can realize by using your money while it is in their care. So they want to be visible to assure you think of them first when it is time to open a new account.

This trend is not likely to change any time soon. The competition in the banking industry is fierce and bankers are aggressive business people. So we should expect them to continue to work hard to capture the consumers business and make themselves available to consumers to steal your business away from competing banks. And while it might be troubling to see every street corner filled with bank branches, its part of the market system that makes our economy strong. And that is a good thing.

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