Statement for the Record

On Behalf of the Massachusetts Bankers Association

before the Subcommittee on Economic Policy

Of the

Senate Committee on Banking, Housing and Urban Affairs

July 12, 2023

The Massachusetts Bankers Association (MBA),[1] appreciates the opportunity to provide a Statement for the Record for this hearing, *Bank Mergers and the Economic Impacts of Consolidation*. We are pleased that the Subcommittee is bringing attention to the important issues involved in assessing the impact and importance of banking industry mergers and consolidation. These issues include how bank mergers can benefit competition while maintaining a high level of customer financial services at fair pricing, and how to more accurately measure and account for the increasing level of nonbank competition in the "banking" market. Ultimately, policymakers should ensure that banks have the option to consider mergers under reasonable conditions and receive regulatory feedback in a reasonable timeframe.

Mergers Can Benefit Competition and Consumers

According to the FDIC's most recent Deposit Market Share Report, 132 FDIC-insured banks have a depository presence in the Commonwealth. All but eight hold deposits under $10 billion, the vast majority of which are community banks. Massachusetts community banks operate in a highly competitive environment, and for some of our members, bank mergers are one of the options that allow them to remain competitive. The profound changes in financial services including the technology needed to protect and meet consumer demand in recent decades mean

[1] The Massachusetts Bankers Association represents 132 commercial, savings, cooperative, and federal savings banks and savings and loan associations with approximately $380 billion in local assets, 72,000 employees across Massachusetts and New England, over 2,000 banking locations, more than 4,500 ATMs, and donate more than $105 million annually to social agencies and charitable organizations across the Commonwealth. For further information, visit www.massbankers.org

that assessing the benefits and impacts of banking industry mergers and consolidation defies a simple, broad-brush approach, however. Further, a bank's decision to merge with another is often a succession planning strategy, whereby bank management and Board members can align their bank with another organization that they trust, that will continue their community commitment and integrate staff into the combined operation. Bank customers benefit from a wide array of choice in products and services, but assuming that consolidation always narrows those choices ignores important practical considerations.

For example, as Federal Reserve Chair Powell noted in his 2022 confirmation hearing,[2] many rural counties have experienced serious population loss, and in many cases the bank(s) in those markets have faced severe pressure to meet fixed costs (regulation, technology investment, cybersecurity, and others) to continue serving a shrinking customer base. In such cases a merger with another institution may be the best way to preserve banking services to the remaining customers and avoid losing entirely a banking presence in the market.

In 1995, the Assistant Attorney General in charge of the Antitrust Division of the U.S. Department of Justice noted that "[t]o the extent that a bank merger allows the merging firms to achieve significant economies of scale or scope, consumers may benefit from lower costs and/or improved services, and our competitive analysis takes into account such factors."[3] Similarly, Acting Comptroller of the Currency Michael Hsu recently noted that, though merger analysis should be updated to reflect the profound financial market changes since 1995, the goal should not be to prevent mergers, but to revise assessment standards so that the broad benefits of mergers are realized.[4] Not all community banks will find a merger to be the best option for keeping healthy and maintaining a high level of community service, but for all these reasons, the option should be available under reasonable conditions and in a reasonable timeframe.

According to the 2022 Conference of State Bank Supervisors (CSBS) Community Bank national survey, achieving economies of scale was the number one motivating factor driving a community bank's decision to make an acquisition offer (77% said extremely or very important).[5] Similarly, an inability to achieve economies of scale was the primary driver of a community bank's decision to accept a merger and acquisition (M&A) offer (70.6% said extremely or very important).

These considerations are especially acute for a subset of Massachusetts banks: mutual institutions, which do not issue stock to investors. Out of 102 commercial banks and savings associations headquartered in the Commonwealth, 80 are organized in mutual form, either directly or as subsidiaries of mutual holding companies. These institutions, some of which have

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[2] See https://www.c-span.org/video/?517047-1/federal-reserve-chair-confirmation-hearing, Response to Senator Smith at 1:58:06.

[3] Anne K. Bingaman, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Antitrust and Banking (Nov. 16, 1995) (https://www.justice.gov/atr/speech/antitrust-and-banking).

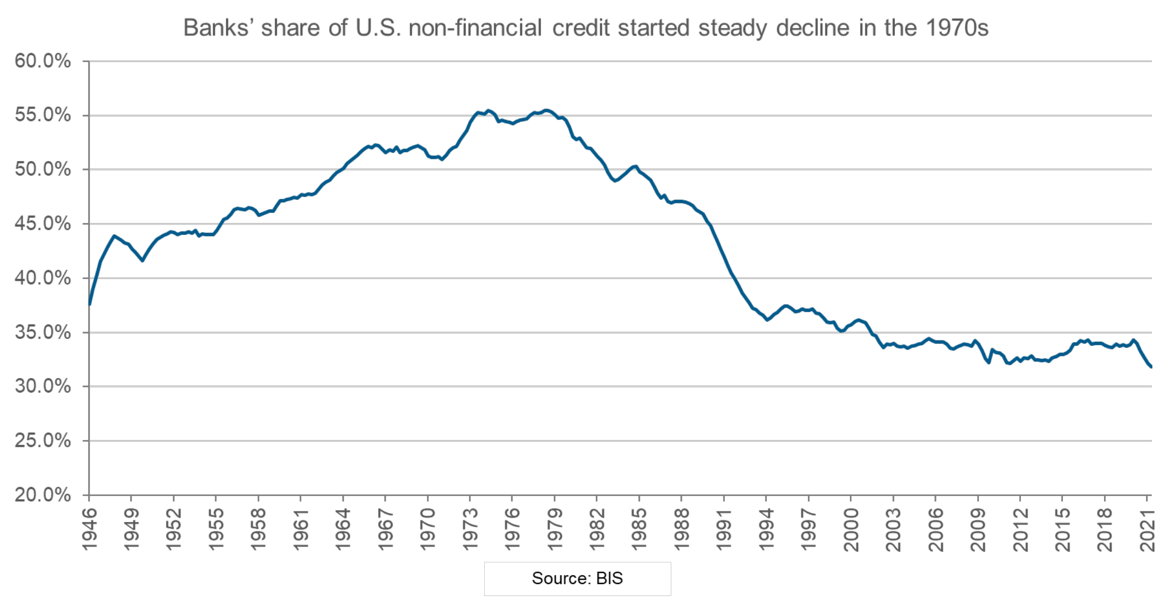
[4] See https://www.occ.treas.gov/news-issuances/speeches/2022/pub-speech-2022-49.pdf

[5] See https://www.csbs.org/system/files?file=2022-09/CB22pub_2022_survey_Final_n092122.pdf

been in business for over a century, accumulate capital primarily through retained earnings. Though legal options exist to convert to stock form and raise capital from investors, these institutions are committed to maintaining the community ties that the mutual form supports. Yet they face the same pressures of capital expansion and operational scale that their investor-owned competitors face. There have been successful mergers of mutual institutions that preserved the mutual character in a stronger, more competitive resulting community bank. Without the merger option, such a successful outcome would have been more doubtful, to say the least.

Current Competitive Analysis Fails to Measure Non-Bank Competition

Another key consideration in bank merger policy debates is the need to reflect accurately the true competitive environment for financial products and services in which banks operate. Unfortunately, the current methods employed by regulators to measure the competitive impact of a proposed bank merger (such as the Herfindahl–Hirschman index, or HHI, which measures market concentration) fail to adequately capture the universe of institutions that offer competing products and services. This is because over the past few decades, a significant amount of "banking" activity has moved out of the banking sector. According to Bank for International Settlements (BIS) data, banks' share of total non-financial credit in the U.S. declined from 55% in 1974 to 32% in 2021.



The BIS data is consistent with the findings of an FDIC report,[6] which observed that the rise of loan securitization in the 1970's coincided with the decline in banks' share of total loans across lending categories like residential and multifamily mortgages. Essentially, the "banking" market is much larger than just banks.

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[6] See https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2019-vol13-4/fdic-v13n4-3q2019-article1.pdf

Banks' Market Share of Loan by Type of Loan, U.S.					
	Bank Share of Loans Outstanding (%)				
Type of Loans	1980	1990	2000	2010	2020
Total Loans	64	49	38	35	40
excluding GSEs	73	64	55	55	63
1-4 Family Mortgages	66	40	30	25	22
CRE mortgages	51	50	49	48	49
Commercial mortgages	54	52	54	54	59
Multifamily residential mortgages	47	44	34	30	30
Consumer credit	57	52	35	45	40
Agriculture loans	23	39	51	46	40
Sources: Federal Reserve, FDIC, USDA					

While precise analysis is complicated by data limitations, community banks face significant competitive pressure from nonbanks in their local markets. The findings of the 2022 CSBS community bank survey underscore this point. Community banks were asked to identify the institutions they primarily compete with for a variety of products and services. While competition from community and regional banks is strongest in most categories, a significant share of respondents indicated they primarily compete with credit unions and other nonbanks for products including small-dollar unsecured loans, wealth management services, mortgages, and payment services.[5]

Conclusion

Banks operate in a highly competitive environment. The opportunity for banks, especially community banks, to merge or acquire another institution often functions as a way to preserve a more competitive environment and banking services to the community, and these opportunities should not be discouraged. In fact, we respectfully urge Congress to consider updating the current regulatory environment to reflect the competitive landscape and the increasing level of non-bank competition more accurately in the "banking" market.