Bank Location and Small Businesses

To individuals and small businesses, a banking market is generally local. A 1981 survey of over 500 of Ohio's small businesses ascertained the locations and distances of the commercial banks that these firms used. Small firms, for example, acquire financial services from commercial banks that operate near their place of business. A greater percentage of the firms acquired over 80 percent of the banking services from offices located within the same county and within 5 miles of their offices (see table and chart). The firms acquired an additional 10 percent of their banking services within a 10-mile radius. Both suburban firms and small firms were located farther away from their place of business than did the total sample of firms. Approximately 15 percent of the firms located 10 to 25 miles away from their place of business and an additional 10 percent of the firms located 25 miles away or beyond. Moreover, a greater percentage of the suburban, and larger firms generally acquired more than the total sample of firms. Approximately 25 percent of the firms located 25 miles away or beyond. Moreover, a greater percentage of the suburban, and larger firms generally acquired more than the total sample of firms. Approximately 25 percent of the firms located 25 miles away or beyond.


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Market Delineations

Some analysts contend that the service areas of banks are the appropriate geographic areas for evaluating the competitive consequences of a bank merger. A service area generally represents the geographic area from which a bank draws the bulk of its existing deposits. The fundamental drawback with service areas as such areas do not reflect markets in the pure economic sense. A service area takes into account only a portion of existing customers of an institution, failing to consider potential customers who would use the institution as an alternative source for banking services.

The geographic banking markets are usually larger than service areas of individual banks. Determining which banks represent reasonable alternatives for a significant number of consumers and businesses within a given area is a subjective decision that is based not only on current banking practices but also on the amount of economic interaction between the communities or areas in question. If a high level of economic interaction exists between two communities—reflected in significant commuting for employment purposes and travel in the region, commonality of media coverage, and other factors—many customers in one community might consider the banks in the other community as a reasonable alternative to the banks currently serving them.

Like the other regulatory agencies, the FRS occasionally has cited data in market delineations when denying merger applications. For example, the FRS considered Schenectady County in New York state to be part of the Albany banking market. Among other factors 7.6

Justice Department expands the boundaries of the market area if it anticipates that a significant, nontransitory change in price would lead a significant number of customers to shift to banks outside the initial market area. While the area continues to be expanded as long as this criterion is met, the percent of the employed residents of Schenectady County commuted to Albany County. Nearly all of the commercial banks with offices in Schenectady County also operated offices in Albany County, and states on selected services were similar among these banking offices. In another proposed acquisition that was denied, the FRS concluded that the two Michigan banking organizations involved were in the same banking market. One of the two banks drew 10 percent of its loans from the service area of the other bank; the banks were only 15 miles apart and directly connected by a highway, making the organizations poor substitutes for customers in either town.

In contrast to the Justice Department and the FRS, the FDIC very often adheres essentially to the service-area approach in defining banking markets. Yet, in a recent merger decision the FDIC stated that "commuting, shopping, pricing behavior, market strategies, and branch networks can sometimes be used to perform as if they were operating in a market area substantially larger than that of loan or deposit service areas."

The CC generally contends that the proper area to assess the competitive effects of the proposed merger is the area where the banks involved operate offices and from which they draw the bulk of their business. As a result, the CC's definitions of some market areas seem rather narrow. 8