

Discussion of: “Banking Markets and Antitrust Analysis”

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¹Disclaimer: The views expressed in this presentation are those of the author and do not necessarily reflect the views of other members of the research staff or the Board of Governors.

Question

How does local market structure impact bank deposit rates?

1. Regulators typically assess mergers based on MSA or county deposit concentration
2. With the increased importance of nationwide banks & internet banking, this may no longer be appropriate

Findings

1. CD rates differ little within states for the 25 largest BHCs
2. Banks more responsive to conditions in core markets
 - High Concentration \implies Low rates
 - More pronounced in markets where bank holds higher share of deposits

State Level Rate Setting is Hard to Argue With

Finding consistent with Radecki (1998)

Can be confirmed by bank websites:

Select Your State

Please tell us where you bank so we can give you accurate rate and fee information for your location.

 

ZIP Code Information

Enter Your ZIP Code

 

360 CD Rates



Terms	Fixed Annual Percentage Yield (APY)
6 Month	0.40%
9 Month	0.40%
12 Month	1.30%
18 Month	1.35%
24 Month	1.45%
30 Month	1.45%
36 Month	1.60%
48 Month	1.80%
60 Month	2.00%

Comments on Regressions

- Is $DepositShare \times HHI$ the best measure?
 - In Park & Pennacci 2009 the optimal interest rate for the multimarket bank is "a volume - weighted average of the rates that would be individually optimal in each market"
 - Deposit weighted HHI of markets in state as RHS variable
 - More theoretically justifiable
 - Easier to interpret than triple-interaction
 - No longer seems like regressing price on quantity
- Elaborate why having fixed rate banks lowers optimal rate
 - "It is Citibank's response function ... that imposes competitive discipline"
 - Can't it be the opposite:
 - Lowering interest rates hurt market share
 - Effect smaller if other banks lower rates in response
 - Simple model might clarify proposed mechanism

Does this mean we need to rethink antitrust policy?

- Deposit rates for single market banks may still vary within states even if multimarket banks offer a fixed rate (Heitfield, 1999)
- Concentration may still matter for large bank pricing
 - Concentration in one market may lower rates throughout state
 - Concentration just as important, however effects become less localized

Does this mean we need to rethink antitrust policy (cont.)

- Concentration may matter more for lending
 - Scharfstein & Sunderam (2016): Concentrated mortgage markets have diminished pass through to mortgage rates when MBS yields fall
 - Median rate setting location is four branches
 - Small business lending likely more dependent on local conditions (Cetorelli & Strahan, 2006)