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FRB Governor Bowman Speaks on Banking Competition



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On September 28, Federal Reserve Board (“FRB”) Governor Michelle Bowman [spoke](#) to the Community Banking Research Conference regarding the landscape for banking competition. Governor Bowman noted, as many have, that it is past time to update the bank merger framework, which was last updated in 1995. Governor Bowman said that in light of banking industry changes, “we need to change how we think about competition for banking products and services and modernize our approach to competitive analysis that promotes a healthy banking and financial system, supports consumer choice, and creates the right incentives for continued innovation.”

Governor Bowman pointed out that the current guidelines for banking markets continue to be local banking markets, and define a market with a Herfindahl-Hirschman index (“HHI”) of 1,800 or higher as concentrated, but Department of Justice (“DOJ”) guidelines for horizontal mergers in other industries draw that line at the 2,500 level. Governor Bowman suggested that it might be time to revisit the stricter levels for the banking industry. She also noted that the “cluster” of banking products defined in *United States v. Philadelphia National Bank*, 374 U.S. 321 (1963) faces increasing competition in the form of community-based credit unions, on-line banks, and non-bank finance companies.

In light of those competitive forces that aren’t accounted for under the current merger framework, Governor Bowman had three recommendations to include as regulators work to modernize their framework for analyzing bank mergers: (1) include credit unions in all competitive analyses in a more systemic way; (2) factor in deposits at digital banks; and (3) consider nonbank financial firms in all competitive analyses.

Governor Bowman, a former banking commissioner in Kansas, noted that the current bank merger framework seems to particularly disadvantage community banks, and hopes that as the agencies and DOJ take a closer look at the framework, these considerations are considered.

