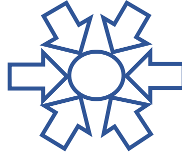

Federal Financial Analytics, Inc.

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FedFin: Looming bank merger restrictions Likely to increase market Concentration, bank failures

New analysis reveals onslaught of consequences as M&A regulations approach finalization

Sept. 17, 2024, WASHINGTON – The FDIC this week will finalize the first of several proposed bank mergers and acquisitions (M&A) regulations as a new Federal Financial Analytics, Inc. (FedFin) research paper released today warns that the resulting de facto ban on all but the simplest and smallest bank mergers will bring an onslaught of perverse consequences. If implemented, the proposals will exacerbate industry concentration, incite more bank failures, perpetuate migration of core services to nonbanks and stunt national macroeconomic growth.

FedFin's analysis of the state of financial competition further revealed that the asset growth of the nation's two largest banks between 2019 and the first quarter of 2024 exceeded the total size of the three largest regional banks. Despite longstanding scrutiny over the impact of mid-sized-bank consolidation on overall industry market concentration, the disproportionate growth of the largest banks is turbocharging nonbanks' takeover of U.S.

corporate finance.

“Not all bank mergers are sound bank mergers, but blocking all but the smallest and simplest mergers accelerates the strategic challenge already facing mid-sized banks,” said FedFin Managing Partner Karen Petrou.

“Banks that do not make money are banks no more because investors will not put their money in banks with poor long-term prospects for robust profitability—they have lots of options and banks will only be among them if investors receive market rates of return.

“Banks without investors are failed banks and failed banks undermine regulated financial-services delivery at grave cost to communities and even the taxpayer.”

FedFin’s research deployed first-of-its-kind scenario analyses to forecast likely banking-industry configuration in the absence of sound mid-sized bank mergers, factoring in a diverse slate of issues effecting bank competition. For example, the methodology considered rapid digitalization and the resulting regulatory arbitrage by nonbanks exempt from critical consumer-protection and safety-and-soundness rules.

The findings concluded that meaningful organic growth now is challenging for all but the very largest banks, making sound mergers the principal way for regional banks to achieve the economies of scope and scale essential for survival.

“No one wants giant banks wielding unrestrained market power, but the FDIC’s approach to bank mergers and that under consideration by the OCC could well bring that about,” Petrou said.

The FedFin study does not assert that all bank mergers are sound mergers. Rather, the paper states that we need clear and consistent criteria that allows for a path for sound bank mergers of even the largest regional banks. As demonstrated, deals that pass rigorous muster are deals that make the regulated U.S. banking system stronger.

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Federal Financial Analytics, Inc. is a proprietary think tank providing analytical and advisory services on legislative, regulatory, and public-policy issues affecting global financial-services companies. Since 1985, the firm's practice has been a unique blend of strategic advice and policy analysis, serving as a thought leadership resource for boards of directors and senior management seeking a forward looking assessment of risks, opportunities, governance, and other matters critical to success. Clients also include senior regulators and policy-makers around the globe, who rely on the firm's objectivity for confidential forecasts of the market impact of actions under consideration.