The Expanding Geographic Reach of Retail Banking Markets

Note To Editors

NEW YORK—The article The Expanding Geographic Reach of Retail Banking Markets appears in the latest edition of the New York Fed’s Economic Policy Review.

According to author Lawrence J. Radecki, an assistant vice president at the New York Fed, local markets for retail banking services have been absorbed into larger arenas of competition. State borders more accurately define the territory in which banks now vie with one another than do the boundaries of single counties or metropolitan areas.

Using recent data on retail loans and deposits, Radecki shows that:

- Many banks set uniform interest rates for loans and deposits across an entire state or broad regions of a large state. If banks were still operating in distinct local markets, their interest rates would show substantial intercity variation.

- The effect of local deposit concentration on loan and deposit interest rates across localities has broken down.

- A significant relationship exists at the state level between some retail deposit rates and some measures of market concentration.

The author links the expansion of retail markets to the regulatory and structural changes affecting the banking industry over the past twenty years. Deregulation has largely removed the geographic restraints on the industry, enabling banks to establish nationwide branch networks and to buy banks in other parts of the country. At the same time, the trend toward centralized bank operations has encouraged the development of standardized products and led to a transfer of decision-making responsibility from local managers to the head office.