



## **Statement for the Record**

### **Bank Policy Institute**

#### **Senate Committee on Banking, Housing and Urban Affairs Subcommittee on Economic Policy**

#### **Hearing: “Bank Mergers and the Economic Impacts of Consolidation”**

**July 12, 2023**

The Bank Policy Institute welcomes the opportunity to provide input on today’s Senate Banking Committee Subcommittee on Economic Policy hearing on “Bank Mergers and the Economic Impacts of Consolidation.” The subject of this hearing has far-reaching implications for the vitality of the American banking sector and the future of the U.S. economy.

Scale in banking has inherent benefits that ripple throughout the economy.<sup>1</sup> Merging banks can invest more in costly technology upgrades that protect their customers’ data and help them access services more conveniently. They can reach more customers through enhanced digital channels and expanded branch footprints. And they can reduce costs through economies of scale, enabling them to lower costs for customers.

Despite these benefits - and despite a diverse financial services sector, with banks of all sizes competing in every corner with fintechs and big tech firms - there is a view among some policymakers that “big is bad” in banking. That view ignores the thriving competitive banking landscape and the benefits that large, diversified banks bring to the economy. It is also inconsistent with evidence: for example, the notion that bank mergers cause banking deserts is unfounded.<sup>2</sup>

The banking turmoil this spring brought more urgency to the M&A issue. The episode illustrated the contrast between a chaotic and costly failure such as Silicon Valley Bank’s and the more organized and less disruptive acquisition of First Republic. It also highlighted the benefits of diversification from safety and soundness and financial stability perspectives. When a bank is too weak to stand on its own, a merger can be the most optimal outcome for customers and other stakeholders. Just as taking preventive steps to strengthen a healthy patient is preferable to emergency surgery, mergers between healthy banks are better than eleventh-hour transactions in a failure. Openness to bank M&A among top policymakers is necessary to ensure the banking system remains healthy even under stress and continues to meet the needs of customers.

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<sup>1</sup> Bank Policy Institute, “Banks thrive at scale, and so do consumers”, Feb. 10, 2022, available at <https://bpi.com/banks-thrive-at-scale-and-so-do-consumers/>.

<sup>2</sup> Bank Policy Institute, “Exposing some serious untruths about bank mergers, bank branches and banking access”, Jan. 18, 2022, available at <https://bpi.com/exposing-some-serious-untruths-about-bank-mergers-bank-branches-and-banking-access/>.

It is encouraging to see policymakers such as Acting Comptroller Michael Hsu<sup>3</sup> and Treasury Secretary Janet Yellen<sup>4</sup> express receptiveness to bank M&A. But these comments have coincided with confusing and conflicting messages from other senior policymakers. As the banking sector moves on from a stressful period, an acknowledgment from policymakers of the benefits of bank M&A would be a welcome step.

Clear expectations and timelines for merger approvals would also enable banks to make informed decisions about growth through M&A. The current process is fraught with delays and uncertainty, despite clear statutory standards.<sup>5</sup> Recent comments from the Department of Justice antitrust chief<sup>6</sup> suggest the process could soon become even more opaque, subjective and unpredictable. Languishing merger bids have tangible costs for bank customers, employees and investors, who may choose to leave a bank stuck in deal limbo.

We encourage the Subcommittee to consider the economic benefits of bank M&A and the costs of precluding it. A predictable path forward for bank mergers promotes a healthier banking system and a more stable U.S. economy.

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<sup>3</sup> Hsu, Michael J., testimony before the House Financial Services Committee, May 16, 2023, available at: <https://docs.house.gov/meetings/BA/BA00/20230516/115922/HHRG-118-BA00-Wstate-HsuM-20230516.pdf>. “The OCC is committed to being open-minded when considering merger proposals and to acting in a timely manner on applications, consistent with the requirements of the Bank Merger Act.” (p. 4).

<sup>4</sup> Reuters, “Yellen expects US regulators to be open to mergers among midsize banks”, May 12, 2023, available here: <https://www.reuters.com/markets/yellen-expects-us-regulators-be-open-mergers-among-midsize-banks-2023-05-13/>.

<sup>5</sup> Law360, “Banks’ wait time for Fed deal blessing hits decade high”, May 24, 2023, available at <https://www.law360.com/articles/1680804/banks-wait-time-for-fed-deal-blessing-hits-decade-high>.

<sup>6</sup> Kanter, Jonathan, Keynote Address at the Brookings Institution’s Center on Regulation and Markets Event “Promoting Competition in Banking”, June 20, 2023, available here: <https://www.justice.gov/opa/speech/assistant-attorney-general-jonathan-kanter-delivers-keynote-address-brookings-institution>.