

## The Most Competitive Banking Markets

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### Most Competitive MSAs

The Bank Competition Index (BCI) identifies the banking markets with the greatest competition intensity in the U.S. Table 1 lists the top ten most competitive metropolitan statistical areas (MSAs) out of all 382 MSAs in 2018.

The top ten most competitive MSAs include some of the most populated areas in the U.S. The New York-Newark-Jersey City MSA has a population of 20.2 million, and it ranks as the 6<sup>th</sup> most competitive urban banking market. Both the Cincinnati and Cleveland MSAs are in the top 10, as well as Fayetteville and Little Rock, reflecting the competitive banking environments in Ohio and Arkansas.

With a population of 85,150 Grand Island, Nebraska ranks as the most competitive MSA. Specifically, its BCI is -0.12 relative to the 2018 average across all MSAs of -0.47. The value indicates that given a typical interest rate environment, competition would have reduced the average net interest income to average assets (NII) of banks in the MSA in 2018 by 35bp (-0.12-(-0.47)) relative to the average urban banking market in the same year. Of course, as we explain in our article titled *A Post-Crisis Reduction in Competition Intensity*, Federal Reserve monetary policy post-crisis has

significantly reduced the earnings penalty that banks pay for utilizing maturity funding.

The primary factor driving Grand Island's top ranking is the heavy reliance on maturity liabilities by the 22 banks in the market, reflecting intense competition for deposits. On average, 36% of total liabilities are maturity liabilities, 7 percentage points higher than the average banking market in 2017.

The second factor driving the high BCI for banks in Grand Island is the higher number of (adjusted) offices per capita. The 50 offices give the MSA 0.59 offices per 1000 people, more than double the 0.27 average, reflecting less of a physical presence among the banks competing for loans and deposits.

The third factor is that deposits in Grand Island are more equally distributed among the banks than average, reflecting heavy competition for deposits and loans. The complement to the deposit-share market concentration measure (1-HHI) is 0.90, 0.07 above average.

Just 8bp differentiates the BCI in Grand Island from Cleveland, so we must not overemphasize the importance of an individual ranking. It is more accurate to say that commercial banking in each of these markets is highly competitive.

**Table 1. MSAs in 2018 with the highest competition intensity**

Market	Mat Liab	Offices	1-HHI	BCI
Grand Island, NE	0.36	0.59	0.90	-0.12
Pittsburgh, PA	0.41	0.33	0.75	-0.15
Bowling Green, KY	0.39	0.39	0.91	-0.17
Salt Lake City, UT	0.44	0.19	0.83	-0.18
Cincinnati, OH-KY-IN	0.40	0.34	0.68	-0.18
New York-Newark-Jersey City, NY-NJ-PA	0.41	0.28	0.87	-0.18
Fayetteville-Springdale-Rogers, AR-MO	0.38	0.39	0.76	-0.19
Little Rock-North Little Rock-Conway, AR	0.37	0.40	0.88	-0.19
Baltimore-Columbia-Towson, MD	0.42	0.25	0.85	-0.20
Cleveland-Elyria, OH	0.39	0.32	0.88	-0.20
Average for all MSAs	0.29	0.27	0.83	-0.47

### Most Competitive Counties

Table 2 lists the top ten most competitive rural counties (not in MSAs) of all 1,818 counties in 2018. Counties with fewer than four banks with deposits in the market are excluded from the list because the BCI is less accurate for such markets. Nebraska has four markets, and Iowa has two in the top ten, reflecting the competitive banking environment in the Midwest.

The most competitive county in 2018 is Thayer, Nebraska with a population of 5,100 and a BCI of 0.23. This value means that, given a typical interest rate environment, competition would have reduced the NII of the 6 banks in the market by 67bp (23-(-44)) in 2018 relative to the average banking market in the same year.

Thayer County's top ranking comes primarily from the banks' heavy reliance on maturity liabilities shown in Table 2. The average maturity liability to liability ratio is 50% relative to the industry average of 31%. The county also has 1.57 banking offices for every 1,000 people, well above the mean of 0.30. Finally, the distribution of deposits across banks is slightly more equal than average as reflected by the complement to the HHI (1-HHI) value of 0.77 relative to the average value of 0.67.

Table 3 lists the six banks in 2018 with deposits in Thayer County along with their maturity liability ratios, net interest income (NII) and deposit shares. In the current interest rate environment, the average

**Table 3. Banks in Thayer County in 2018**

Institution Name	Mat Liab	NII	Deposit Mkt Share
Bruning State Bank	49%	3.22%	40.7%
Western National Bank	74%	3.35%	19.7%
Thayer County Bank	46%	3.41%	14.3%
Midwest Bank NA	24%	3.62%	13.5%
Cornerstone Bank	34%	3.42%	6.9%
Citizens State Bank	47%	3.58%	4.9%

Sources: FDIC Summary of Deposits, FFIEC Call Reports.

NII of the six banks in 2018 was 3.43%, slightly higher than the 3.37% average for all rural markets. Banks in competitive markets such as Thayer, however, are vulnerable to sharp relative declines in profitability when interest rate patterns normalize because interest expense will rise sharply. Indeed, Thayer County has had a highly competitive banking market for decades. Between 1997 and 2007, mean NII for banks in the market was 33bp lower than for banks in the average market.

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**Table 2. Rural counties in 2018 with the highest competition intensity\***

Market	State	Mat Liab	Offices	1-HHI	BCI
Thayer	NE	0.50	1.57	0.77	0.23
Clayton	IA	0.51	0.80	0.66	0.20
Marshall	KS	0.45	1.27	0.76	0.18
Carroll	MO	0.49	1.01	0.77	0.15
Harlan	NE	0.49	1.73	0.73	0.14
Furnas	NE	0.45	1.67	0.72	0.13
York	NE	0.46	0.94	0.60	0.12
Ida	IA	0.48	1.15	0.48	0.12
Washita	OK	0.47	0.87	0.87	0.11
Carroll	IL	0.46	0.83	0.80	0.09
Average for all rural counties		0.31	0.30	0.67	-0.44

\*Excludes markets with fewer than four banks.