

**Supporting Statement for the Survey to Obtain Information on  
the Relevant Market in Individual Merger Cases  
(FR 2060; OMB No. 7100-0232)**

**Summary**

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with minor revision, the voluntary Survey to Obtain Information on the Relevant Market in Individual Merger Cases (FR 2060; OMB No. 7100-0232). The Federal Reserve designed this voluntary survey to determine from what sources small businesses and consumers in a particular geographical area obtain financial services. The Federal Reserve uses this information to define relevant banking markets for specific merger and acquisition applications and to evaluate changes in competition that would result from proposed transactions, including purchase and assumption agreements. The event-generated survey is conducted by telephone and has been used no more than once per year since 1990.

The Federal Reserve proposes to include savings and loan holding companies (SLHCs) in the evaluation of changes in local banking markets. The current annual burden for the FR 2060 survey is estimated to be nine hours and would remain unchanged with the proposed revision.

**Background and Justification**

Under the Bank Holding Company Act of 1956 [12 U.S.C. §§1841 *et seq.*], the Bank Merger Act of 1960 [12 U.S.C. §1828(c)], and the Change in Bank Control Act of 1978 [12 U.S.C. §1817(j)], the Federal Reserve is required to evaluate merger and acquisition applications submitted by bank holding companies to determine the effects of proposed transactions on competition. The standards of the antitrust laws, specifically Section 7 of the Clayton Antitrust Act, must be applied. If a merger may substantially lessen competition or tend to create a monopoly, the Federal Reserve shall not approve the merger.

The foundation for an analysis of competition by the Federal Reserve in such merger applications is the economic concept of the relevant market. Applying the theoretical concept to specific situations requires the determination of the geographic area that includes all direct competitors (this area could be a town, a county, a state, a region of the country, or the entire country) and the relevant product market (this requires identifying the firms within the relevant geographic area that compete with one another).

For some time, there was widespread belief that the geographic markets in commercial banking were local (for example, a single county) and that the product market was composed only of commercial banking. This definition was accepted and applied by the Supreme Court and accepted by the Federal Reserve.<sup>1</sup> However, as a

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<sup>1</sup> In its *Philadelphia National Bank* decision in 1963 and again in its *Connecticut National Bank* decision in 1974, the Supreme Court concluded and reaffirmed that banking should be treated as a distinct and separate line of commerce and that only firms offering the full array of bank products should be included in the

result of substantial changes in banking and in the financial services industry as a whole in the past two decades, some have questioned the traditional definition of banking markets, even for households and small businesses. Specifically, numerous changes in bank regulation and technology have raised questions regarding the traditional definition of locally limited commercial banking. The most notable of these changes are:

- Thrift institutions are now permitted to offer the majority of banking products, including transaction accounts and commercial loans.
- Nondepository institutions now offer various financial services.
- Securitization and sales of loan products have increased.
- Electronic technology has increased the potential for remote delivery of some financial services to final users, including small businesses and consumers.

The definition of a relevant geographic banking market is therefore an empirical question. Prior to the implementation of the FR 2060 in 1987, there was no direct means by which to gather empirical evidence to assess the geographic scope of banking markets in specific situations. Although the findings of the Federal Reserve's Survey of Consumer Finances (FR 3059; OMB No. 7100-0295) generally confirms the validity of the local market approach as a general proposition, these findings will not necessarily apply in specific merger and acquisition cases. In addition, the Federal Reserve's Survey of Small Business Finances (FR 3044; OMB No. 7100-0262), which formerly provided information of the proximity of small businesses to their financial institutions, was discontinued.<sup>2</sup> Although the Federal Reserve occasionally uses small business loan data from the Recordkeeping, Reporting, and Disclosure Requirements in Connection with Regulation BB (Community Reinvestment Act) (OMB No. 7100-0197) as a source of information for analyzing small business financing, there are cases where the Federal Reserve needs the small business portion of the FR 2060 survey for supplemental information. Thus, for both consumer and small business finances, the use of local depository institutions in specific cases can be ascertained only by conducting a survey such as the FR 2060.

The empirical evidence compiled since the implementation of the FR 2060 survey has indicated that relevant banking markets for smaller businesses and households are still generally limited to small geographic areas, such as a county or a metropolitan area, and that there is a tendency to purchase a cluster of services from commercial banks. The data obtained from this survey have provided the Federal Reserve with a more accurate picture of the relevant banking market for selected merger applications. This type of case-specific information on the market definition in merger applications has provided an empirical foundation for staff analysis, Board decisions, and published Board orders prepared by the Board's Legal Division.

Out of the several hundred bank merger and acquisition applications reviewed by the Federal Reserve each year, as required by law, fewer than a dozen typically are evaluated

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market definition of banking. Furthermore, the Supreme Court determined that banking markets for small businesses and consumers were limited to small geographic areas. Survey research conducted in conjunction with individual bank merger and acquisition cases between 1963 and 1974 supported this view.

<sup>2</sup> The 2003 survey is the most recent version available.

by the Federal Reserve as having potentially serious competition problems.<sup>3</sup> In a few of these cases, there is not sufficient data to allow a sound economic analysis as the basis for a decision by the Federal Reserve and a written Board order by the Legal Division. In these cases, the FR 2060 survey provides useful information for analyzing competition or clarifying the market definition.

### **Description of Information Collection**

The Federal Reserve conducts the survey by telephone. Information is obtained from approximately 50 consumers and approximately 25 small businesses selected at random from local telephone directories. The survey focuses on local consumers and businesses to determine whether, as in the past, they generally rely on local providers of financial services or instead obtain financial services from a broader geographic area such as a state or the entire country. In the survey of small businesses, responses are obtained from the most knowledgeable available individual, usually the president or treasurer. The sample selection process is described in Attachment 1.

The survey questions serve as a guideline for the Federal Reserve and were developed in consultation with staff from throughout the Federal Reserve who have considerable experience in defining relevant banking markets in cases where competitive issues arise. The questions were designed to assess the extent to which nonbank and nonlocal financial services are used by or offered to small businesses and consumers. The main objective of the questions is to determine the importance and influence of nonbank and out-of-area sources of credit and deposit services. In several merger and acquisition cases, the surveys have provided the Federal Reserve with key information for defining the relevant banking market and assessing competition. The Federal Reserve has worked with Reserve Banks to tailor the survey questions for certain mergers or acquisitions, as appropriate. An example of one of these tailored surveys is provided as Attachment 2.

The survey data permit the use of statistical tests to determine the confidence that may be placed in the findings. Because the samples are drawn from a specific local market, the findings are valid only for the particular case under consideration, and extrapolation to other markets or to the nation as a whole is not appropriate.

### *Proposed Revision*

Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) transferred all former Office of Thrift Supervision authorities related to SLHCs to the Federal Reserve effective July 21, 2011. As a result, the Federal Reserve proposes to include SLHCs in the evaluation of changes in local banking markets.

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<sup>3</sup>This number has risen somewhat over the past year due to the acquisitions of a large number of troubled or failing banks; however, none of the recent failure cases has necessitated an FR 2060 survey.

## **Time Schedule for Information Collection and Publication**

Generally within the first week after a Reserve Bank accepts a merger application, the Federal Reserve makes a preliminary evaluation of the possible effects on competition. If certain Federal Reserve delegation criteria are not met, the Federal Reserve analyzes the likely competitive effects and decides whether it would be advisable to conduct the survey. If a survey is deemed advisable, the appropriate Reserve Bank conducts the FR 2060 survey. The number of questions in the survey has been kept at a minimum so that the entire process of conducting the survey, tabulating the responses, and summarizing the findings can be finished within the confines of the Federal Reserve's internal 60-day limit for processing merger and acquisition applications. Once the Federal Reserve summarizes the responses of small businesses and consumers, the survey results are analyzed and the relevant findings are incorporated into a memorandum to the Board of Governors. The responses are confidential and therefore are not published.

## **Legal Status**

The Board's Legal Division has determined that this report is voluntary and is authorized pursuant to the Change in Bank Control Act (12 U.S.C. §1817(j)(7)(A) and (B)), the Bank Merger Act (12 U.S.C. §1828(c)(5)), and section 3(c)(1) of the Bank Holding Company Act (12 U.S.C. §1842(c)(1)). Individual responses are confidential pursuant to the Freedom of Information Act [5 U.S.C. §§552 (b)(4) and (b)(6)] for small businesses and consumers, respectively.

## **Consultation Outside the Agency**

On April 15, 2013, the Federal Reserve published a notice in the *Federal Register* (78 FR 22261) seeking public comment for 60 days on the extension, with revision, of the Survey to Obtain Information on the Relevant Market in Individual Merger Cases. The comment period for this notice expired on June 14, 2013. The Federal Reserve did not receive any comments. The revision will be implemented as proposed. On June 25, 2013, the Federal Reserve published a final notice in the *Federal Register* (78 FR 38032).

## **Sensitive Questions**

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

## **Estimate of Respondent Burden**

The current burden for the FR 2060 survey is estimated to be nine hours annually as shown in the following table. Because the survey is event generated, it is not possible to predict exactly how many surveys will be conducted in a given year. The burden estimate shown in the table below is based on the number of surveys conducted during the past three years. This reporting requirement represents less than 1 percent of total Federal Reserve System paperwork burden.

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	<i>Number of respondents</i>	<i>Estimated annual frequency</i>	<i>Estimated average time per response</i>	<i>Estimated annual burden hours</i>
Small Businesses	25	1	10 minutes	4
Consumers	50	1	6 minutes	5
<i>Total</i>				9

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The current annual cost to the public of these reports is estimated to be \$455.<sup>4</sup>

### **Estimate of Cost to the Federal Reserve System**

The annual cost to the Federal Reserve of conducting the surveys is negligible.

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<sup>4</sup> Total cost to the public was estimated using the following formula: 4 hours multiplied by \$85 per hour for Chief Executives at small businesses, and 5 hours times \$23 per hour for consumers. Hourly rate from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2011, [www.bls.gov/news.release/ocwage.nr0.htm](http://www.bls.gov/news.release/ocwage.nr0.htm) Occupations are defined using the BLS Occupational Classification System, [www.bls.gov/soc/](http://www.bls.gov/soc/) The average consumer cost of \$23 is estimated using data from the BLS Economic News Release (USDLE-12-0549)

**Attachment 1**  
**FR 2060**  
**Overview of the Sample Selection Process**

**Sampling Procedures**

For the consumer component of the survey, the population of interest consists of all households located in the geographic area that the Reserve Bank defines as the market. The unit of observation is the household. The respondent will be the financial head of the household or a financially knowledgeable spouse.

For the business component of the survey, the population of interest consists of all business enterprises that had revenues of less than \$1,000,000 in the past year and that had an establishment in the designated geographic market area. However, there may be rare occasions where information from business enterprises with more than \$1,000,000 in annual revenue would be considered necessary. The unit of observation is the business enterprise. The respondent will be an individual who is responsible for the lending relationships and financial decision-making in the firm. That individual may be the owner, chief executive officer, president, treasurer, or comptroller.

A random sample will be drawn from listings in the local telephone directory using a random number table to select a page and then to select an entry on the page. The residential listings will be used for the consumer survey. The business white pages will be used for the business survey. In the event that business white pages do not exist, the yellow pages will be used.

The number of listings selected should be large enough to yield fifty completed household interviews and twenty-five completed business interviews. The proportion of blank listings (for example, listings with the number not working or that do not belong to a small business or household) and the response rate must be estimated to determine the number of listings to be selected.

A small number of screening questions will be required to determine whether a listing is an element of the population. If the survey yields substantially fewer than the desired number of completed interviews, perhaps because of an underestimate of the number of blank listings, then the first sample may be supplemented by a second random drawing. New listings, however, will not be allowed to substitute for refusals. Not at home will be treated as a refusal but efforts should be made to re-contact.

**Sampling Errors**

The following tables present sampling errors, for the target sample sizes, across various hypothetical population sizes and across selected percentages of household or business respondents that do something asked in the survey.

**Table 1**  
**Sampling Errors for Survey of Consumers**  
**(Sample Size of 50 Households)**

*Sampling error (plus or minus, in percentage points) for a population of:*

Percentage of households that do something asked in the survey	2,000 households	4,000 households	10,000 households	20,000 households
90	9	9	9	9
70	13	13	13	13
50	14	14	14	14
30	13	13	13	13
10	9	9	9	9

**Table 2**  
**Sampling Errors for Survey of Business**  
**(Sample Size of 25 Businesses)**

*Sampling error (plus or minus, in percentage points) for a population of:*

Percentage of businesses that do something asked in the survey	120 businesses	240 businesses	600 businesses	1,200 businesses
90	11	12	12	12
70	17	18	18	19
50	18	19	20	20
30	17	18	18	19
10	11	12	12	12

**Attachment 2- Sample of a modified FR 2060 survey form**

Name: \_\_\_\_\_

Phone: \_\_\_\_\_

City: \_\_\_\_\_

Hello, I'm calling from the Federal Reserve Bank of \_\_\_\_\_, which is part of the Federal Reserve System. We're surveying small businesses in your area to find out where they do their banking and what services they use. We're asking a series of questions that takes about 5 minutes to complete, and we'd appreciate your help.

Would you like to participate?

Appropriate person not in. (*Terminate*)

No. (*Terminate*)

Yes. Thank you. (*Continue*)

1. Do you have any loans outstanding?

Yes

No

No Response

2. If yes to question 1, where did you obtain the most recent loan?

Name \_\_\_\_\_ City

3. Do you have any other loans?

Yes

No

No Response

4. If yes to question 3, where did you obtain these loans?

Name \_\_\_\_\_ City

5. Are any of your loans from

Finance companies? Name \_\_\_\_\_ City

Credit unions? Name \_\_\_\_\_ City

Brokerage firms? Name \_\_\_\_\_ City

6. During the past two years, has your firm been directly solicited for its loan business by any financial institutions?

Name \_\_\_\_\_ City

7. If you were solicited by a financial institution, did you accept the services or credit offered? If not, why not?

8. In which institution does your firm maintain its primary checking account?

Name \_\_\_\_\_ City

9. Does your firm have a formal line of credit outstanding?

Yes

No

No Response

10. If yes to question 9, where was the line of credit obtained?

Name \_\_\_\_\_ City

11. I'm going to read a list of ranges for the annual revenue of firms. I want you to stop me when I read the range that covers your firm's annual revenue.<sup>5</sup>

\$0 - \$250,000 \_\_\_\_\_

\$250,000 - \$1 Million \_\_\_\_\_

\$1 Million - \$10 Million \_\_\_\_\_

\$10 Million and over \_\_\_\_\_

*(Respondent does not meet sampling criteria)*

Thank You!

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Miscellaneous comments: \_\_\_\_\_

\_\_\_\_\_

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Interviewer: \_\_\_\_\_

Date: \_\_\_\_\_ Time: \_\_\_\_\_

\_\_\_\_\_

<sup>5</sup> This should include the entire firm rather than an office, branch, or franchise of a larger firm.

CONSUMER SURVEY

\_\_\_\_\_ County, \_\_\_\_\_

Name: \_\_\_\_\_  
 Telephone Number: 205/ \_\_\_\_\_  
 City: \_\_\_\_\_  
 Date: \_\_\_\_\_  
 Time: \_\_\_\_\_  
 Interviewer's Initials: \_\_\_\_\_

Hello, I'm calling from the Federal Reserve Bank of \_\_\_\_\_, which is part of the Federal Reserve System. We're surveying people in your area to find out where they do their banking and what services they use. We're asking a series of questions that takes about 5 minutes to complete, and we'd appreciate your help.

Would you like to participate?

Appropriate person not in. (*Terminate*)

No. (*Terminate*)

Yes. Thank you. (*Continue*)

Questions	Response	Skip to #
1. Do you have a checking account?	Yes No No response	2 3 3
2. Where do you maintain this account?	Would not specify	3
Bank: City:		
3. Do you have a savings account or CDs?	Yes No No response	4 5 5
4. Where do you maintain this account?	Would not specify	5
Bank: City:		

5.	Do you use a bank for any other type of services such as a mutual fund?	Yes No No response	6 7 7
6.	Where do you maintain this account?	Would not specify	7
	Bank: City:		
7.	Have you taken out any loans in the past five years?	Yes No No response	8 10 10
8.	What was the purpose of the loan(s)?		
	Car House Personal Expenditure Mobile Home Farm Home Improvement Education Other	Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Would not specify	9
9.	Where did you obtain this loan (these loans)?	Would not specify	10
	Bank: City:		
	Bank: City:		
10.	If you became dissatisfied with your bank, where would you go to do your banking? (list nearby cities)		
	Bank: City:		

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Next, we have a few general questions about what cities you visit for work, shopping, and entertainment.

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11.	Do you or any member of your household travel to another town or city for work?	Yes No No response	12 13 13
12.	Which towns or cities	Would not specify	13
13.	In which towns or cities do you shop regularly? City:	Would not specify	14
14.	Do you go anywhere else to shop or for entertainment? City:	Yes No Would not specify	

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Thank you very much for your help.