Banking Market Determination— The Case of Central Nassau County

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Commercial banks are multiproduct firms operating in many different markets. The geographic boundaries of these markets vary from service to service and depend to a significant degree on the type of customers served. The market for loans to large national corporations, for example, is countrywide with only the United States' largest banks as "sellers". In contrast, the market for personal checking services tends to be local in character, with all commercial banks, large and small, that operate in a local area functioning as suppliers.

The "multimarket" character of commercial banking poses particularly difficult problems for bank regulatory authorities in considering bank mergers and acquisitions by bank holding companies because these authorities must determine a "relevant" market within which to evaluate anticompetitive effects and convenience and needs benefits.[1] In the landmark Philadelphia National Bank case, the Supreme Court provided guidance in resolving this particular problem by asserting that commercial banking is a "distinct line of commerce" consisting of a "cluster of products (various kinds of credit) and services (such as checking accounts and trust administration)".[2] This single-line-of-commerce position has been reaffirmed in subsequent antitrust actions and most recently in the Phillipsburg case.[3]

As a result of the Court's position, regulatory authorities have focused primary attention on product markets unique to commercial banking—demand deposit services and business loans. Competition with other financial institutions in other product markets, such as for consumer savings and mortgage financing, is also considered in determining the relevant market but accorded less weight. Thus, by and large, the boundaries of the relevant market are drawn in the best judgment of the authorities so as to include commercial banks and the households and business firms for whose deposit and loan business the banks compete. To be sure, the Court's line-of-commerce argument simplifies considerably the task of defining a relevant market. Nevertheless, in any particular case, there remains the knotty problem of determining, even for a single product, where properly to fix geographic boundaries that would indeed delineate the area of competition.

This article discusses the problem of determining and identifying the relevant market area for banking services in a suburban area with reasonably close economic and

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[1] The Bank Merger Act of 1960 requires that every bank merger involving an insured bank receive the prior approval of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, or the Federal Deposit Insurance Corporation depending on whether the resulting bank is a national bank, state member bank, or nonmember insured bank, respectively. The Bank Holding Company Act of 1956 requires the prior approval of the Board of Governors of the Federal Reserve System for a company to become a bank holding company and for a bank holding company to acquire more than 5 percent of the voting stock of another bank. In ruling on such proposals, the responsible agency is required to consider the likely effect of the proposal on competition, the convenience and needs of the communities involved, and the financial and managerial resources and future prospects of the institutions involved.

[2] *United States* v. *Philadelphia National Bank*, 374 U.S. 321, 356 (1963). In reaching this opinion the Court indicated that, since only commercial banks have the privilege of accepting demand deposits, they have a competitive advantage over other financial institutions in providing loans and other services because of consumer preference for full service banking.

[3] *United States* v. *Phillipsburg National Bank & Trust Co.*, 399 U.S. 350 (1970).

cultural ties to New York City. It presents the results of a survey conducted recently by the Banking Studies Department of this Bank of households, business firms, and professional individuals in central Nassau County—a suburban area outside the city but within the New York metropolitan area.[4] "Central Nassau" was selected for study to aid the Board of Governors in consideration of a merger proposal.[5] However, the Central Nassau area is of interest in its own right because the structure of banking there has been undergoing significant changes as a result of extensive branching by New York City banks and numerous mergers and acquisitions involving local banks. To measure and evaluate the likely competitive effects of these changes, it is important that the market area be properly delineated.

The primary objective of the survey was to obtain information on where residents and businesses of a suburban area do their banking. The survey would thus indicate whether suburban households and firms confine their banking locally or exercise their preferences elsewhere in the metropolitan area. To the extent that the survey results can be generalized, they shed some light on the factors bankers and bank regulators ought to consider important in delineating banking markets in metropolitan areas.

This article comprises three sections. The first part discusses the concept of a market area. The second part presents the results of the survey. The final part discusses the implications of the findings for market area analysis.

MARKET AREA DELINEATION

The most widely used approach to defining a market area, particularly favored by bankers and many bank regulators, is through consideration of "service areas". A service area is the geographic area from which a bank derives the bulk of its deposit or loan business.[6] Banks proposing to merge or affiliate are required to identify and submit data on their service areas. Two banks are said to be operating in the same market if each derives a significant amount of deposit or loan business from the service area of the other. All other banks maintaining offices in the service areas of the two merging banks would also be counted as competitors. In the typical case, the relevant geographic market would center on the combined service areas of the two banks.

The rationale for the service area approach is that households are thought to choose a banking office that is convenient to their residences, and business firms an office convenient to their locations. Households and business firms located in an area-of-service overlap of two banks are thus assumed to have either bank as a convenient alternative. If each bank derives a significant fraction of its deposits or loans from the area, the competitive effort of either bank is likely to be countered by its rival to defend its market share.

But what of the case of two banks that do not share a common service area in any degree? In such a case the service area approach proves to be of limited usefulness. For while it is clear that two banks sharing such a common service area are indeed competitors, it is not true that two banks not sharing a common service area are not competitors. To cope with this kind of market area problem, it is necessary to refer to the analytical framework provided by economic theory. Indeed, the delineation of a relevant market area for analysis of bank competition must meet tests derived from the economic theory of markets.

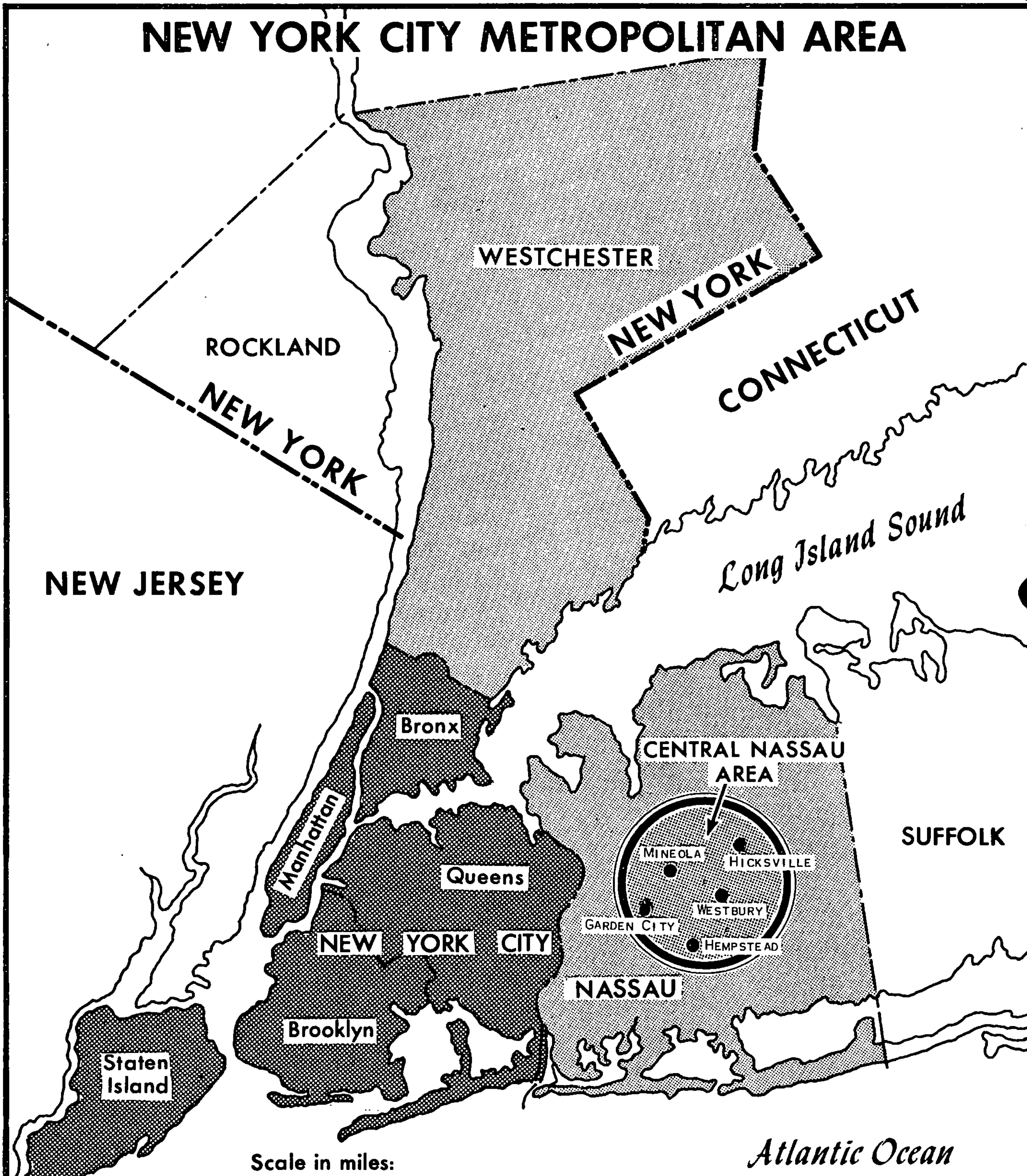
According to theory, two banks may be considered in the same market if significant price, service, and marketing decisions of one cause a significant competitive response on the part of the other. If no reaction is elicited, the banks are likely serving different markets. The unifying force is the actual or potential threat that customers will "substitute" lower priced, higher "quality", or more varied banking services offered at one bank for higher priced, lower "quality", or less varied ones at another.

For two banks sharing a common service area, the competitive linkage is direct. Customers of each bank view the other as an immediate alternative. But customers may also find it convenient to bank beyond the service areas of local banks. If a number of such households bank outside their resident communities—for example, near work or shopping—banks in widely separated locations may in fact compete directly with one another. In seeking such custom the banks may be induced to provide banking services on generally more attractive terms to all customers. The significance of such households—and they

[4] The New York City metropolitan area may be represented by the five counties of New York City—New York (Manhattan), Kings (Brooklyn), Queens, the Bronx, and Richmond (Staten Island)—plus the two New York State counties which are contiguous to New York City—Nassau and Westchester (see map on page 260).

[5] *Federal Reserve Bulletin* (October 1970), pages 769-71, referring to the Board's decision on the merger proposal of the Long Island Trust Company and Bank of Westbury Trust Company.

[6] Usually the service area is specified as the area from which a bank derives 75 percent or more of its total individual, partnership, and corporate (IPC) deposits.


NEW YORK CITY METROPOLITAN AREA
WESTCHESTER
NEW YORK
CONNECTICUT
ROCKLAND
NEW YORK
NEW JERSEY
Long Island Sound
Bronx
CENTRAL NASSAU AREA
SUFFOLK
Manhattan
Queens
MINEOLA
HICKSVILLE
WESTBURY
GARDEN CITY
HEMPSTEAD
NEW YORK CITY
NASSAU
Brooklyn
Staten Island
Atlantic Ocean
Scale in miles:
5 0 5 10

need represent no more than an important minority—in tying together seemingly remote areas should not be underestimated, since the prospect of gain and the fear of loss of meaningful increments of business may represent a strong competitive inducement for banks.

In addition, competitive forces may be transmitted indirectly through third or intervening banks. Consider two banks that are not direct competitors, that do not share common customers or a common service area. If each of them competes significantly with a third bank, any important competitive efforts by either one of the banks that are not direct competitors will nevertheless be transmitted to the other through the competitive reaction of the third bank. Such indirect competition is a feature of economically integrated metropolitan areas.

Competition thus may be both direct and indirect: direct because of overlapping service areas, extensive commutation, and area-wide advertising, and indirect because competitive efforts in any part of the area are transmitted efficiently through intervening banks to more remote parts of the market. However, as an empirical matter, it frequently is difficult to identify the direct and indirect competitors which should be included in the market area.

For bank merger proposals in rural communities and in self-contained nonmetropolitan towns and cities, the service area approach to market area definition probably delineates roughly the same geographic area that would be suggested by economic theory. Buyers of banking services almost all live, work, shop, and do business within the areas served by banks, which are frequently located in the economic center of a trading area. Market studies in such areas have supported the widely held view that for most business and household customers the demand for banking services tends to be highly localized.[7]

For bank merger proposals in major metropolitan areas, and particularly in suburban communities, the service area approach is likely to result in delineating a substantially different market area than theory would suggest —and is likely to lead to different conclusions regarding the effect of merger proposals on banking performance in the designated market areas. For example, for a merger of suburban banks, the service area approach for measuring the scope of competitive forces would delineate an area including only the local banking options of individuals and firms. Economic theory would suggest a much larger market, perhaps an entire metropolitan area, because of the substantial economic and financial interdependence that usually exists among the communities comprising a metropolitan area. Whether or not a specific community would be included within the relevant market area would depend upon the strength and importance of such factors as the extent of commutation, the pull of centralized shopping facilities, patterns of commerce and transportation, the possibility for branching in the area by "central city" institutions, and the extent to which banks and other financial institutions in the city engage in area-wide advertising. Economic integration *per se* suggests, however, that the local community is not the relevant market area for measuring bank competition.

SURVEY OF CENTRAL NASSAU COUNTY

The survey of central Nassau County requested by the Board of Governors in connection with the merger proposal provided an opportunity to test the hypothesis that the relevant market for banking services in suburban communities is broader than the service areas of local banks. The survey focused on Central Nassau, a sector encompassing two dozen communities clustered in the geographic center of that county (see map).

Nassau County, as a whole, has experienced very rapid growth over the past twenty years and was in the 1950's one of the fastest growing areas in the United States, reaching a population of 1,500,000 in 1970. The growth of commerce and industry has paralleled the growth of population. Nevertheless, the county—and particularly Central Nassau—retains the character of a "bedroom" for persons working in New York City. The major transportation systems (highways, railroads, bus lines) are east-west oriented, and link Nassau County to the city proper. A study completed in 1963 showed that 350,000 Nassau residents traveled to work, and over 170,000 of them, or almost one out of every two workers, commuted to New York City.[8]

Central Nassau consists primarily of high-income, residential communities. Current estimates indicate that this area of roughly seventy-five square miles contains about

[7] George G. Kaufman, *Customers View Bank Markets and Services: A Survey of Elkhart, Indiana* (Federal Reserve Bank of Chicago, 1967). George G. Kaufman, *Business Firms and Households View Commercial Banks: A Survey of Appleton, Wisconsin* (Federal Reserve Bank of Chicago, 1967). Lynn A. Stiles, *Businesses View Banking Services: A Survey of Cedar Rapids, Iowa* (Federal Reserve Bank of Chicago, 1967).

[8] *Long-Island-Journey-to-Work Report, 1963* (New York Office of Transportation, August 1963). The Central Nassau survey indicated that commutation patterns in 1970 did not differ much from those reported in 1963.

400,000 residents, the majority of whom live in single-family dwellings. The center of the area is about six miles from the New York City border and about twenty miles distant from midtown Manhattan. While the economy of Central Nassau is oriented toward New York City, it nevertheless provides employment in the manufacturing of aerospace products and communications equipment and in publishing. Retail trade employment is also significant, due principally to the clusterings of retail stores along principal roads.

The Central Nassau area is served by fourteen commercial banks, which operate a total of sixty-eight banking offices. Since 1960, commercial banks headquartered in New York City have been permitted to branch into Nassau County.[9] Five large banks headquartered in Manhattan presently operate fifteen of the sixty-eight banking offices in the Central Nassau area. In addition, this area is served by sixteen savings banks and savings and loan associations with seventeen offices, nine of which are branches of New York City-headquartered institutions.

To obtain information on different categories of customers served by banks, four separate samples were drawn —households, "large" businesses, "small" businesses, and professionals.[10] Questionnaires were mailed to 1,619 households, 684 businesses (large and small), and 668 professional individuals, all located in Central Nassau. Different questionnaires were used for households, business firms, and professionals. Those sampled were asked to indicate the location of the banking offices at which each of their deposit and loan accounts was held and to answer a few demographic questions. A total response rate of well over 60 percent was achieved, with usable questionnaire returns obtained from 804 households, 90 large businesses, 265 small businesses, and 345 professionals.

WHERE HOUSEHOLDS BANK. Of the types of banking services considered in the survey—checking, savings, and loan accounts—almost 80 percent of the household respondents with banking affiliations indicated having one or more accounts at offices of banks and thrift institutions outside Central Nassau, principally in New York City. About one fifth of the respondents said they bank only at offices in Central Nassau. Very few have no banking connections.

The greatest use of "outside" banking services was found among commuters. The survey disclosed that about three out of four of the employed household respondents work outside Central Nassau, with about one half of all those employed commuting to New York City. Almost 90 percent of the New York City commuters reported having at least one deposit or loan account outside Central Nassau. Even for those householders who both work and live in Central Nassau, 75 percent have a banking connection outside Central Nassau.

Looking at each of the surveyed banking services separately, the results still show substantial ties to New York City. About three out of five responding households indicated having their main (most active) checking account at a Central Nassau banking office, but more than half of them said that this account was in a bank which also had offices in Manhattan.[11] About 20 percent of respondent households said their most active account was in New York City. Households reported a similar locational preference for their principal savings account, the account with the largest balance. (See Tables I and II.)

Commutation and convenience to work apparently also were important factors to Central Nassau residents in obtaining personal loans. Commuters to New York City reported that one half of their personal (nonmortgage) loans outstanding were obtained from banking offices in New York City, while only about a third were obtained in Central Nassau (see Table III). For those who live and work in Central Nassau, nearly two out of three of their personal loans were from local-area banking offices while one in ten was obtained in New York City.

For mortgage credit accommodation, however, commutation does not explain the locational preferences of Central Nassau residents. Residents of that area reported mortgage loans from offices all over the metropolitan

[9] The Omnibus Banking Act of 1960, as reenacted in 1961, permits New York City commercial banks to branch and merge into Nassau and Westchester Counties and banks in these counties to branch and merge into New York City. Prior to this act, New York City banks were restricted to the city itself, except for banks headquartered in Brooklyn and Queens which were allowed to operate branches in Nassau and Suffolk Counties.

[10] The *Nassau County Telephone Directory* was used as the source for the household and professional samples. The "large" business sample was drawn from Central Nassau firms listed in the Dun & Bradstreet *Credit Directory* with at least an "A" rating (net credited assets of $500,000 or above) or branches and subsidiaries of other firms with at least a "C" rating (net credited assets of $150,000 or above). The "small" business sample was drawn from Central Nassau firms listed in the *Nassau County Yellow Pages Telephone Directory*, excluding those in the large business category defined above.

[11] The group of banks with Manhattan offices consists of five major city banks headquartered in Manhattan, one large bank headquartered in Queens, and one large bank headquartered in Nassau County.

New York area. A high proportion—about 87 percent—of these mortgage loans was obtained from banking offices located outside Central Nassau, with Brooklyn and Queens accounting for 53 percent (see Table IV). This pattern reflects the importance of the giant New York City thrift institutions in mortgage financing in the metropolitan area. It also suggests the willingness of prospective homeowners to shop for credit, since a mortgage loan represents perhaps the most important financial transaction a household undertakes, and may indicate as well close ties with New York City institutions of former city residents who have moved to the suburbs. Moreover, real estate agents and builders may often refer Central Nassau borrowers to the major New York City thrift institutions with which the agents and builders may have made prior credit arrangements or may have long-established business relationships.

The results of the household survey thus show the high degree to which Central Nassau residents demand banking services outside their home communities. Commuters to the city, in particular, tend to utilize banking services convenient to their place of work. But even noncommuters, who have fewer convenient banking alternatives available, have a tendency to seek at least some banking services outside their local area. While the majority of residents maintain their major deposit relationships in Central Nassau, over three quarters depend on New York City banking offices for mortgage credit. Even those few who depend solely on Central Nassau banking offices quite often use financial institutions which are either headquartered in Manhattan or have Manhattan offices. Both the preferences of residents for outside services and the intensive use of the local offices of banks with Manhattan offices provide a strong link between banking developments in Central Nassau and those in the city. Area residents are affected by these developments even if they have no direct banking relationships with the major city banks.

These findings for households in Central Nassau differ significantly from other studies of banking habits, reflecting to a large extent differences in the size and character of the areas surveyed. The Elkhart (Indiana), Appleton (Wisconsin), and Cedar Rapids (Iowa) studies show convenience to residence as the most important determinant of where people do their banking.[12] However, each of these cities is a relatively self-contained locality and the distances between work and home are relatively short. The Doylestown (Pennsylvania) study did involve a region where some "central city" commutation exists; however, Doylestown is less integrated into the metropolitan area of Philadelphia than is Nassau County into

Table I

LOCATION OF MOST ACTIVE CHECKING ACCOUNTS OF CENTRAL NASSAU RESIDENTS

Location of banking office	All residents	Residents commuting to New York City	Residents working in Central Nassau	All other residents
	In percent of all accounts			
Central Nassau	64	47	83	69
Nassau County outside Central Nassau	13	5	13	19
New York City:				
Manhattan	*15*	*32*	*3*	*6*
Brooklyn and Queens	*6*	*12*	*1*	*2*
Bronx and Staten Island	*	*1*	—	*
Total New York City	21	45	4	8
All other locations	2	3	—	4
Grand total	100	100	100	100
Number of respondents reporting accounts with location of banking office designated	723	280	160	283

* Less than 0.5 percent.

Table II

LOCATION OF PRINCIPAL SAVINGS ACCOUNTS OF CENTRAL NASSAU RESIDENTS

Location of banking office	All residents	Residents commuting to New York City	Residents working in Central Nassau	All other residents
	In percent of all accounts			
Central Nassau	63	51	75	67
Nassau County outside Central Nassau	15	11	15	18
New York City:				
Manhattan	*14*	*27*	*6*	*7*
Brooklyn and Queens	*6*	*10*	*3*	*5*
Bronx and Staten Island	—	—	—	—
Total New York City	20	37	9	12
All other locations	2	1	1	3
Grand total	100	100	100	100
Number of respondents reporting accounts with location of banking office designated	663	255	153	255

[12] See footnote 7.

Table III

LOCATION OF BANKING OFFICES HOLDING PERSONAL LOANS TO CENTRAL NASSAU RESIDENTS

Location of lending office	All residents	Residents commuting to New York City	Residents working in Central Nassau	All other residents
	In percent of all loans			
Central Nassau	52	38	63	57
Nassau County outside Central Nassau	18	10	22	22
New York City:				
Manhattan	*18*	*36*	*10*	*8*
Brooklyn and Queens	*7*	*13*	*1*	*6*
Bronx and Staten Island	*	*1*	—	—
Total New York City	25	50	11	14
All other locations	5	2	4	7
Grand total	100	100	100	100
Number of loans reported with location of lending office designated	280	97	73	110

Note: Personal loans are largely consumer instalment loans.
* Less than 0.5 percent.

that of New York City.[13] The degree of commutation, for example, from Doylestown to the city of Philadelphia is much less. However, for suburban communities with substantial commutation to a major city, the Central Nassau study suggests that convenience to work is also an important determinant of where people do their banking.

WHERE BUSINESS FIRMS BANK. Since large firms have considerably more latitude in bank selection than small firms, two separate business samples were drawn. Of the large firms responding, about two thirds had one hundred or more employees and annual sales in excess of $1 million. Of the small firms, about 85 percent had twenty-five or fewer employees and sales of $1 million or less.

The survey results showed that large firms in Central Nassau are more likely than small firms to bank outside Central Nassau, but a substantial proportion in both groups—about 75 percent of large firms and 43 percent of small ones—reported some use of banking offices outside Central Nassau, primarily in New York City (see Table V). Most of these firms use outside-Central-Nassau facilities in addition to offices in Central Nassau, but 20 percent of the firms, large and small alike, reported banking exclusively with offices outside Central Nassau. Moreover, about three quarters of all large firms and about one half of all small firms with outside-Central-Nassau banks indicated that these affiliations were at some distance from their own locations—five miles or more—reflecting, for the most part, banking connections in New York City.

It is interesting to note furthermore that a great many of the firms which bank exclusively with banking offices in Central Nassau do so with large banking institutions that also operate Manhattan branches. About one quarter of the large firms indicated having checking accounts only at Central Nassau offices, but two thirds of these accounts were with offices of banks which have Manhattan offices. For small firms, two thirds indicated having checking accounts only with a Central Nassau office but one half of them were at offices of banks with Manhattan offices. The intensive use of large branch banking organizations by Central Nassau firms may be attributable largely to the existence of many branches of these institutions in Central Nassau; about 55 percent of the sixty-eight offices of commercial banks operating in Central Nassau are offices of banks with Manhattan branches. The findings also suggest that Central Nassau firms are able to obtain locally the full range of sophisticated financial services which are offered by the leading New York-area banks having

Table IV

LOCATION OF BANKING OFFICES HOLDING MORTGAGE LOANS TO CENTRAL NASSAU RESIDENTS

Location of lending office	All residents	Residents commuting to New York City	Residents working in Central Nassau	All other residents
	In percent of all loans			
Central Nassau	13	12	11	16
Nassau County outside Central Nassau	7	7	12	5
New York City:				
Manhattan	*23*	*26*	*24*	*18*
Brooklyn and Queens	*53*	*50*	*49*	*58*
Bronx and Staten Island	*	*1*	—	*1*
Total New York City	76	77	73	77
All other locations	4	4	4	2
Grand total	100	100	100	100
Number of loans reported with location of lending office designated	464	194	101	169

* Less than 0.5 percent.

13 Robert D. Bowers, "Businesses, Households, and Their Banks", *Business Review* (Federal Reserve Bank of Philadelphia, March 1969).

Table V
LOCATION OF BANK AFFILIATIONS OF LARGE AND SMALL FIRMS IN CENTRAL NASSAU

Location of bank affiliation	Large firms		Small firms	
	Number	Percent	Number	Percent
Only in Central Nassau	22	24	151	57
Both in Central Nassau and elsewhere	49	55	62	23
Only outside Central Nassau	18	20	52	20
No banking connection reported	1	1	—	—
Total number of firms	90	100	265	100

branches or headquarters in the financial center of the city.

That so many large and small Central Nassau firms have outside banking connections and that these firms use the local facilities of banks with Manhattan offices indicate the high degree to which Central Nassau is financially integrated into the city. These considerations suggest that the relevant geographic market for banking services for business customers, large and small, is much broader than the Central Nassau area itself and reaches at least into New York City.

WHERE PROFESSIONALS BANK. Professional individuals—physicians, lawyers, accountants, etc.—were surveyed separately because they have some characteristics of both households and business concerns. Most of these individuals have high incomes, are self-employed, and live in the Central Nassau area. The results of the professional survey are similar in many respects to the household survey. However, the professionals tend to have more checking accounts and make more extensive use of the services offered by banks. This reflects to a large degree their higher incomes and that they utilize banking services for personal as well as business reasons.

Professionals who live and work in the Central Nassau area have banking habits similar to other residents who work locally; they tend to bank to a greater extent in Central Nassau than those professionals who commute to the area each day. Of those professionals who live and work within Central Nassau, three out of ten bank exclusively at area banks. Only about one out of eight of those who live out of the area use Central Nassau banking offices exclusively. The high percentage of professionals who have banking connections outside the Central Nassau area suggests that the market for banking services for professional individuals is not confined to the local area.

An interesting finding is the fact that a greater percentage of professionals obtain mortgage loans in Central Nassau than do other residents of the area. Three out of ten professionals have Central Nassau-area mortgage loans, whereas only about one in eight of the respondents in the household survey obtained mortgage credit locally. The greater use of local facilities by professionals is probably attributable to the strong banking contacts which they develop in the course of their normal professional activities, as well as their being considered preferred credit risks by local bankers.

IMPLICATIONS OF THE SURVEY RESULTS

The survey results demonstrate that the marketplace for banking services in Central Nassau extends far beyond the service areas of local sellers. Indeed, local buyers, large and small, demand banking services from sellers located elsewhere in the New York metropolitan area. While local convenience remains an important determinant of bank-selection behavior of customers, it is clear that other factors in a suburban area such as Central Nassau have a significant bearing on where individuals and firms seek and obtain banking services.

The survey disclosed that locational preferences of Central Nassau buyers tend to follow the commerce and transportation patterns that link Nassau County with Manhattan—the hub of the New York City economy. This Manhattan-Nassau corridor (which may be approximated by the borough of Manhattan and Nassau County as well as the two intervening New York City boroughs of Brooklyn and Queens) circumscribes an area encompassing the work locations of about 90 percent of all workers residing in the Central Nassau area. This four-county area also contains about 95 percent of the banking offices where households, business firms, and professional individuals obtain all their banking services. This evidence suggests that the appropriate geographic boundaries for measuring direct competition should be broad enough to embrace banking options convenient to places of work.[14] In other words, the market area for measuring bank competition should, at minimum, include banking alternatives convenient both to work and to home of a significant proportion of households in the community under consideration.

[14] Information on shopping patterns was not collected and may be an important independent factor in determining the choice of a particular banking office. However, market areas that include banking alternatives convenient to home and to work would in most cases also include those convenient to shopping.

Competition in a metropolitan area, however, may be even broader than revealed by the survey. Central Nassau is only one of many suburban communities surrounding New York City. Most of these communities have similar economic and demographic characteristics, with a substantial percentage of their working populations commuting daily to New York City. The area for measuring direct competition among banks in these suburban communities would presumably also extend into Manhattan. As a consequence, banks in one suburban community may be linked indirectly to banks in other suburban communities through the major New York City banks that seek and serve customers, large and small, throughout the metropolitan area. Thus, for an area like New York City and its suburbs, characterized as they are by a high degree of economic and financial interdependence, the relevant market for measuring the scope of competitive forces in banking may well include New York City and all of Nassau and Westchester Counties.

In any event, it would appear that direct and indirect linkages tend to spread the benefits of competition over the entire metropolitan New York area. Indeed, the compactness of the area and interdependence of its sectors make it unnecessary for most bank customers to shop the entire area. Competitive striving of two banks, for example, has an effect on other banks which are geographically close by or otherwise compete for some important fraction of the commuter trade. The competitive reaction of these other banks stimulates, in turn, a reaction among still different banks in the market, and so on. As a result, banks throughout the entire market are forced generally to maintain competitive prices, even though each bank may not appear to be in direct competition with every other bank in the market. In such an environment, advantages offered to bank customers in one sector of the market are likely to be transmitted to all other parts of the market, making it unnecessary for bank customers to change their banking affiliations. Moreover, if a bank customer does change his affiliation, it is not necessary that he elect to do business with the most competitively aggressive bank but only that he change to a bank that responds promptly to competitive pressures originating elsewhere in the market.

In conclusion, the economic and financial environment of metropolitan New York City places few obstacles to competition among banks in the area. On the contrary, the economic structure of the market and its interdependence are conducive to the development of meaningful competition both through the buyers' side—by permitting residents of the area to shift their bank allegiance if the services currently provided are below what they consider reasonable—and through the sellers' side—by forcing banks to be responsive to competition originating in any sector of the metropolitan area.