

News Release

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UNDERSTANDING THE EFFECTS OF THE MERGER BOOM ON COMMUNITY BANKS

The U.S. banking industry's merger boom has cut the number of banking organizations by nearly one-third since 1990. This consolidation has especially affected small community banks, raising concerns in many communities that a major source of personal service and relationship lending to local businesses is disappearing.

But the actual effects of the merger boom may be quite different than that general perception. In the article "Understanding the Effects of the Merger Boom on Community Banks," Julapa Jagtiani, a senior economist at the Federal Reserve Bank of Kansas City, investigates the banking merger boom in detail and finds that it has the potential to strengthen the community banking sector. The article appears in the second quarter edition of the Bank's *Economic Review*.

The article examines who purchased community banks, the relative performance of merging banks and the stock price premiums paid by large and small acquirers. It suggests that some community banks are acquired by more efficiently run community banks in the same state, and community banks that survive the merger boom may be in a good position to continue serving local businesses and depositors who value personal service and relationship lending.

The article is available on the Bank's website at www.KansasCityFed.org.

