

Finance 4000

Money and Capital Markets

Tenth class

- What Do Banks Do?
 - What is a bank?
 - Accepts deposits of funds
 - Promises to pay depositor back the amount deposited
 - Makes loans
 - Different types of banks
 - Mutual savings banks
 - Savings and loans
 - Credit unions
 - Commercial banks
 - Accept deposits
 - Make commercial loans

- Banks' activities are fairly well represented by
 - Balance sheets
 - Income statements

TABLE RC-1 ASSETS AND LIABILITIES OF FDIC-INSURED COMMERCIAL BANKS
Institutions Grouped by Asset Size and Insurance Fund Membership
(Amounts in Millions of Dollars)
All Commercial Banks
SEPTEMBER 30, 1998

Number of institutions	8,910
Total assets.....	5,269,220
Cash and due from depository institutions.....	307,025
Noninterest-bearing.....	216,815
Interest-bearing.....	90,211
Securities.....	923,072
Federal funds sold and securities purchased under agreements to resell.....	288,418
Loans and leases, net.....	3,088,525
Plus: allowance for losses and allocated transfer risk reserve.....	57,263
Loans and leases, total.....	3,145,788
Assets held in trading accounts.....	306,194
Bank premises and fixed assets.....	69,877
Other real estate owned.....	3,944
Intangible assets.....	77,110
All other assets.....	205,055
Total liabilities, limited-life preferred stock, and equity capital.....	5,269,220
Total liabilities.....	4,811,790
Deposits, total.....	3,506,900
Noninterest-bearing.....	653,789
Interest-bearing.....	2,853,111
Federal funds purchased and securities sold under agreements to repurchase.....	419,327
Demand notes issued to the U.S. Treasury.....	28,485
Trading liabilities.....	235,172
Other borrowed money.....	391,278
With remaining maturity of less than one year..	229,381
Subordinated notes and debentures.....	68,823
All other liabilities.....	161,804
Total equity capital.....	457,430
Perpetual preferred stock.....	2,840
Common stock.....	35,107
Surplus.....	210,700
Undivided profits.....	210,202
Cumulative foreign currency translation adjustments.....	(1,419)

TABLE RI-1 INCOME AND EXPENSE OF FDIC-INSURED
 COMMERCIAL BANKS
 (Amounts in Millions of Dollars)

SEPTEMBER 30, 1998 YEAR-TO-DATE

Number of institutions.....	8,910
Total interest and fee income.....	271,261
Loans.....	198,034
Lease financing receivables.....	6,382
Balances due from depository institutions	4,935
Investment securities.....	42,277
Assets held in trading accounts.....	8,341
Federal funds sold and securities purchased under agreements to resell.....	11,291
Total interest expense.....	135,027
Deposits.....	94,200
Federal funds purchased and securities sold under agreements to repurchase.....	16,889
Demand notes issued to the U.S. Treasury and other borrowed money.....	20,367
Subordinated notes and debentures..	3,571
Net interest income.....	136,234
Provisions for loan and lease losses and allocated transfer risk.....	16,720
Total noninterest income.....	89,448
Fiduciary activities.....	13,603
Service charges on deposit accounts...	14,679
Trading account gains and fees.....	5,731
All other noninterest income.....	55,436
Total noninterest expense.....	139,616
Salaries and employee benefits.....	57,932
Premises and equipment.....	17,560
All other noninterest expense.....	64,125

- What do bankers do to maximize shareholder value?
 - Maximize value of bank to owners
 - Liquidity management
 - Asset management
 - Liability management
 - Capital management

- Measures of performance

- Return on equity

$$\frac{\text{Net income}}{\text{Equity}}$$

- Return on assets

$$\frac{\text{Net income}}{\text{Assets}}$$

- Net interest margin

$$\frac{\text{Interest income} - \text{Interest expenses}}{\text{Assets}}$$

- Recent developments
 - ATM and debit cards
 - New forms of deposits
 - NOW (negotiable order of withdrawal) accounts
 - ATS (automatic transfer from savings) accounts
 - Sweep accounts

- Possible future developments
 - Electronic banking
 - Smart cards
 - Digital currency
 - Results of digital revolution

- Characteristics of United States Banking
 - Many banks
 - Over 8,000
 - Far more than most other countries
 - Unit banking back to early U.S. history
 - Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994
 - Implications for the future
 - Separation of commercial banking from investment banking
 - Separation of commercial banking from commerce
 - Glass-Steagell Act
 - Effects of repeal
 - Competition in securities business
 - Universal banking

- Financial innovations associated with the decline of traditional banking
 - Money market mutual funds
 - Junk bonds
 - Commercial paper
 - Securitization

- Banks' responses
 - Focus more on noninterest income
 - Securitize assets