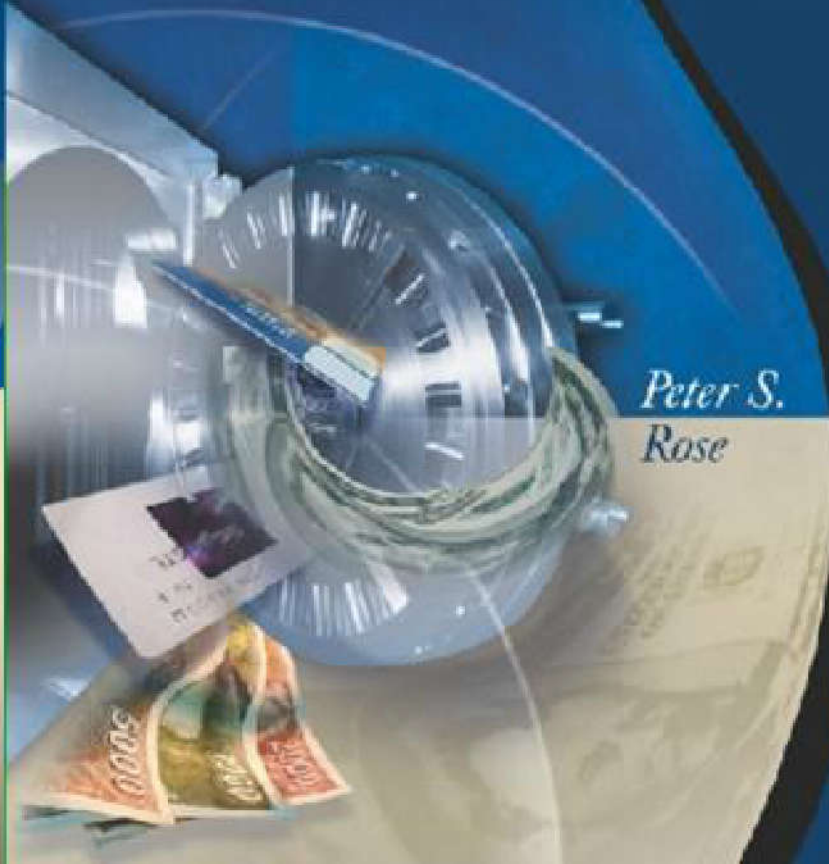


Commercial Bank *Management*

*Peter S.
Rose*

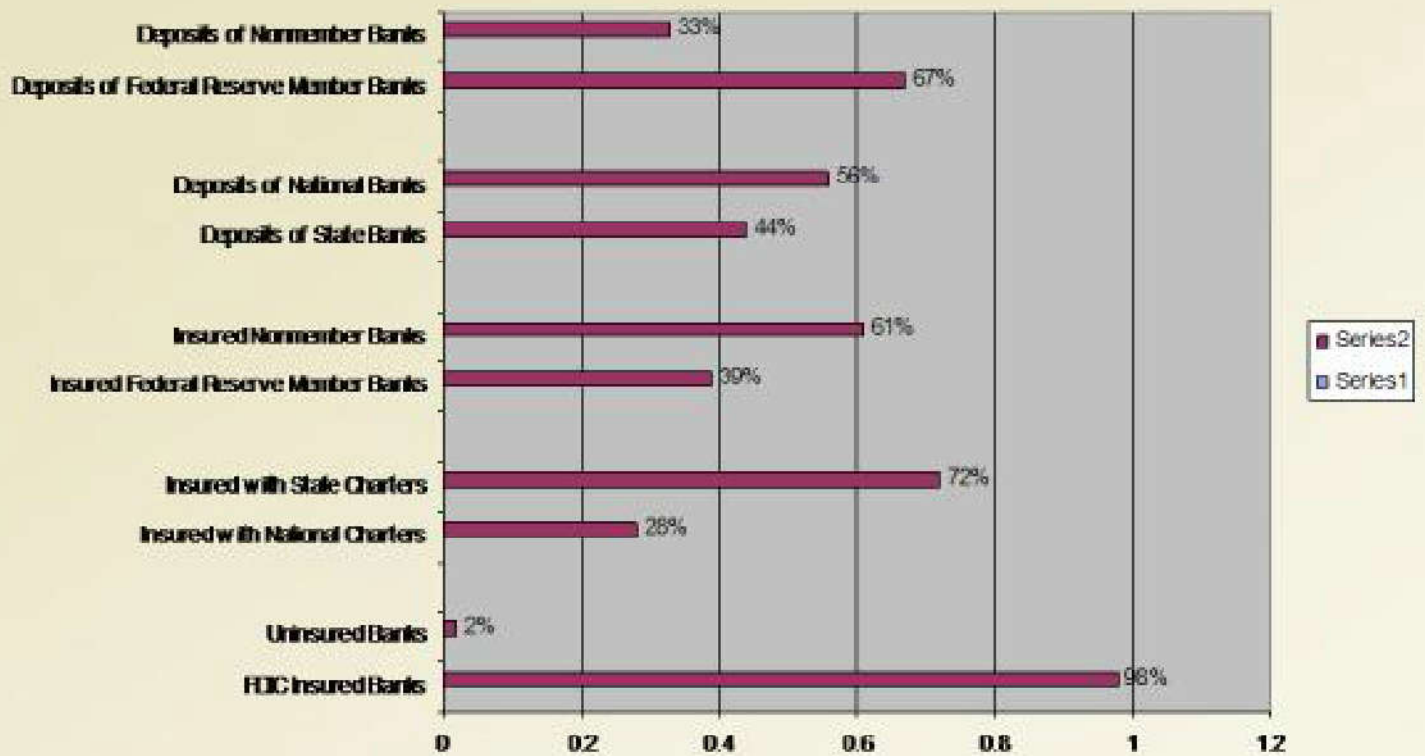


The Organization and Structure of Banks and Their Industry

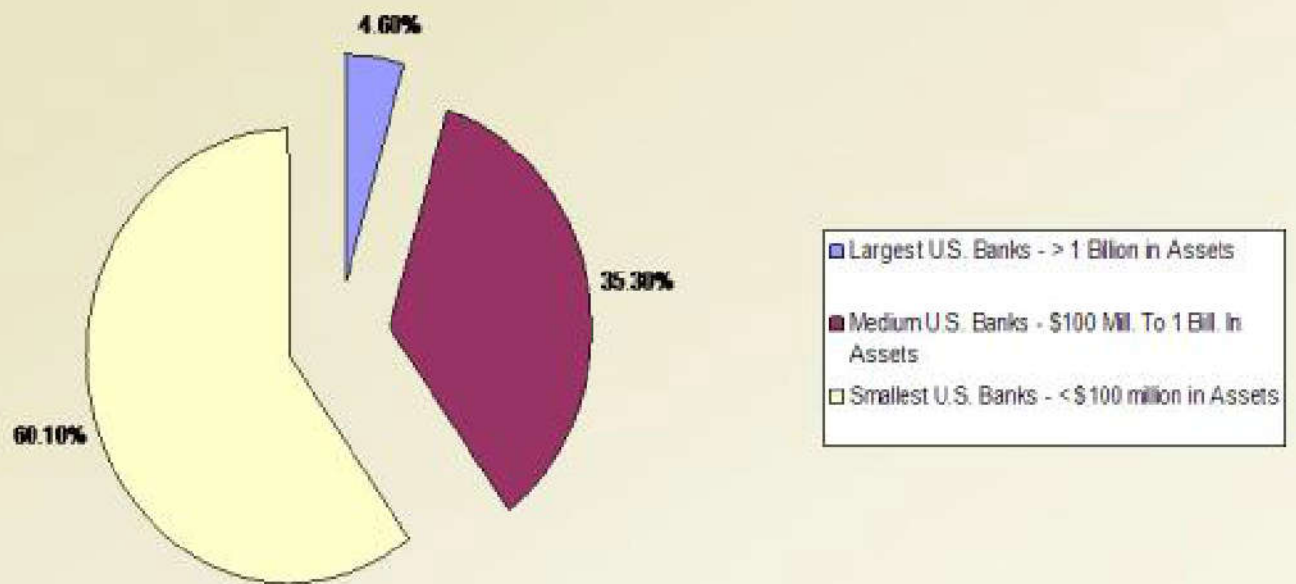
The goals of this chapter are to explore the different types of organizations used in the banking industry, to see how each organizational type affects bank behavior and service to the public, and to determine how management's choice of a particular kind of banking organization can affect profits, risks and operating efficiency.

Common Classifications of U.S. Banks 1999

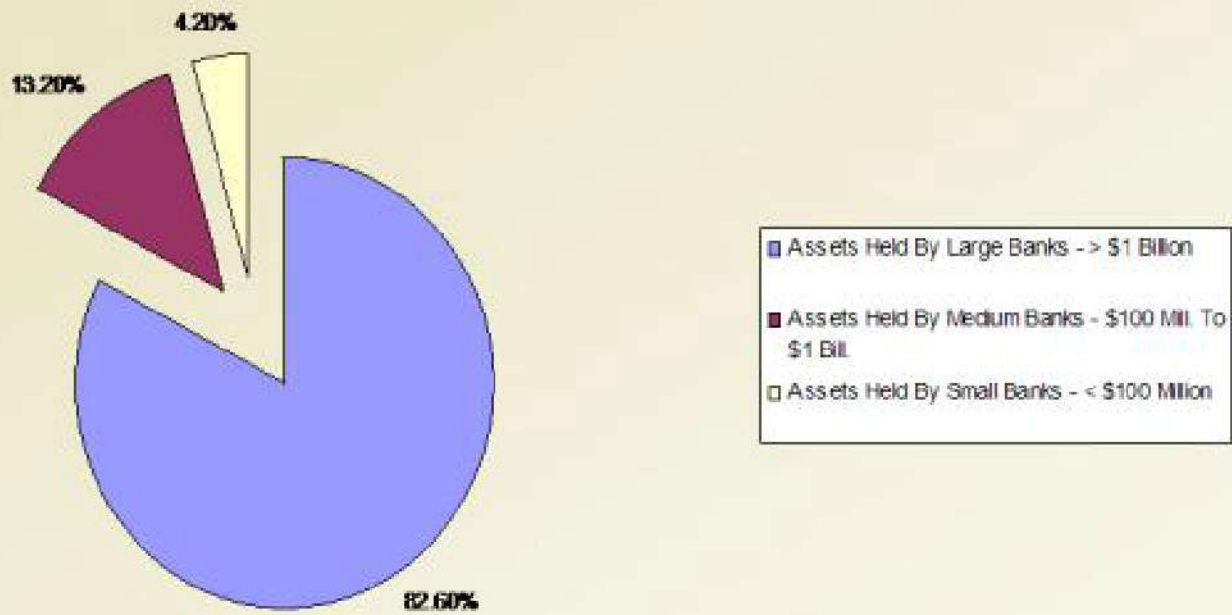
8774 Banks



Number of U.S. Banks



Assets Held by U.S. Banks



Unit Banks

Offer All Services From One Office

Branch Banks

Offer Full Range of Services from Several
Locations

Branch Banking Proponents and Opponents

Proponents

- Greater Operating Efficiency
- Availability and Convenience of Services
- Fewer Failures

Opponents

- Drives Out Smaller Competitors
- Higher Service Fees
- Drains Scarce Resources from Local Community

Bank Holding Company (BHC)

A Corporation Chartered for the Purpose of
Holding the Stock of One or More Banks

Nonbank Businesses of BHCs

- Finance Companies
- Mortgage Companies
- Data Processing Companies
- Insurance Underwriters
- Security Brokerage Firms
- Financial Advising
- Merchant Banking
- Trust Companies
- Credit Card Companies
- Leasing Companies
- Insurance Agencies
- Real Estate Services
- Savings and Loan Associations
- Security Underwriting Firms

Reasons for the Growth of BHCs

- Geographic Diversification
- Product Line Diversification
- Tax Sheltering
- Double Leveraging
- Source of Strength
- A Way Around Regulatory Restrictions

Networking Systems

Banks Communicating Through Electronic
Systems to Collect and Move Funds

Full-Service Interstate Bank

Banks Providing All of Their Services
Across State Lines

State Reciprocity Agreements

Regional Reciprocity
National Reciprocity
National Nonreciprocity

Riegle-Neal Interstate Banking and Branching Efficiency Act

- Allows BHCs to Acquire Banks Anywhere in the U.S.
- Allows BHCs to Convert Banks to Branches – June 1997
- States Can ‘Opt Out’ and Not Allow BHCs to Convert to Branches
- States Can ‘Opt In’ Early
- Limits Deposits of One BHC to 10% Nationwide and 30% Within One State

Proponents and Opponents of Interstate Banking

Proponents

- Efficient Use of Scarce Resources
- Lower Prices for Services
- Geographic Diversification
- Efficient Flow of Credit in the System

Opponents

- Increased Bank Concentration
- Less Competition
- Higher Prices for Services
- Drain Resources from Community

Organizational Forms of Foreign Banks

- Representative Offices
- Agency Offices
- Full Service Branches
- Shell Branches
- Subsidiary Firms
- Other Forms

Conclusions Regarding the Impact of Organizational Type

- The Profitability of a Bank is Not Determined by How it is Organized
- Small Banks Can Successfully Compete with Large Banks
- Branch Banks and Banks Affiliated with Holding Companies Have Greater Protection from Failure
- Prices and Deposit Interest Rates Do Not Depend on Organizational Type
- The Type of Bank Does Not Appear to be a Key to Economic Growth
- The U.S. Banking Industry is Consolidating

Expense Preference Behavior

Managers Value Fringe Benefits Over
Pursuit of Maximizing Return for
Shareholders

Agency Theory

Explores Whether Mechanisms Exist to
Compel Management to Act to Maximize
the Return to Shareholders