***Financial Markets and Institutions, 7e* (Saunders)**

**Chapter 11 Commercial Banks: Industry Overview**

1) Business loans have dropped in importance since 1987 as measured by the proportion of these loans on the bank balance sheet.

2) Loans comprise the single largest asset category for a bank.

3) Banks have an average total debt ratio of about 90 percent.

4) On average, bank liabilities tend to have shorter maturities and greater liquidity than bank assets.

5) Nontransaction deposits at banks include NOW accounts and demand deposits.

6) The majority of banks are nationally chartered and insured by the FDIC.

7) Since 1980, the number of banks in the United States has been increasing dramatically due to deregulation of the industry.

8) Small banks control about 70 percent of banking industry assets.

9) Off-balance-sheet activities consist of issuing financial instruments such as various types of guarantees and engaging in derivative trading to generate additional revenue.

10) The financial crisis of 2008, demonstrated that activities such as trading in financial futures and interest-rate swaps have low risk.

11) International expansion for financial institutions coming from highly integrated countries maximizes the risk diversification.

12) A bank's balance sheet equates the value of total assets to the sum of total liabilities and equity capital.

13) Negotiable certificates of deposit (CDs) do not have an active secondary market.

14) Financial institutions generally do not face liquidity risk.

15) In a bankruptcy situation, the Federal Reserve acts as the liquidator of the bank.

16) Banking may be subdivided into at least three categories of banks. Match the definitions with the appropriate name.

I. A bank that specializes in retail or consumer banking in a local market

II. A bank that engages in a complete array of wholesale commercial banking activities and usually also provides retail banking services

III. A bank that is located in a financial center and relies on nondeposit or borrowed sources of funds for a significant portion of its liabilities

A) Money center bank; community bank; super-regional bank

B) Community bank; money center bank; super-regional bank

C) Super-regional bank; money center bank; community bank

D) Money center bank; super-regional bank; community bank

E) Community bank; super-regional bank; money center bank

17) Bank assets tend to have \_\_\_\_\_\_\_\_ maturities and \_\_\_\_\_\_\_\_ liquidity than/as bank liabilities.

A) longer; greater

B) longer; lower

C) shorter; greater

D) shorter; lower

E) equal; equal

18) In comparison to small banks, larger banks typically have

A) more equity capital.

B) more core deposits.

C) more off-balance-sheet activities.

D) larger net interest margins.

E) All of these choices are correct.

19) In terms of profitability, a well-run bank usually has an ROA of

A) 0.5–3 percent.

B) 3–5 percent.

C) 5–10 percent.

D) 10–15 percent.

E) 15–20 percent.

20) Which of the following could result in a negative NIM?

A) Growth in net interest income

B) Lower non interest expense

C) Decline in net interest income

D) Higher non interest income

E) Positive net interest spread

21) Most of the changes in size, structure, and composition of the banking industry in recent years are due to

A) bank failures.

B) increasing regulations.

C) new charters granted.

D) declines in the number of branch offices.

E) mergers and acquisitions.

22) About \_\_\_\_\_\_\_\_ of federally insured banks are nationally chartered and about \_\_\_\_\_\_\_\_ of federally insured banks are members of the Federal Reserve.

A) 77 percent; 65 percent

B) 65 percent; 77 percent

C) 34 percent; 22 percent

D) 19 percent; 34 percent

E) 40 percent; 60 percent

23) Nationally chartered banks receive chartering and merger approval from the

A) Federal Deposit Insurance Corporation.

B) Office of Comptroller of the Currency.

C) Federal Reserve System.

D) Office of Thrift Supervision.

E) All of these choices are correct.

24) State chartered banks \_\_\_\_\_\_\_\_ be members of the Federal Reserve System and nationally chartered banks \_\_\_\_\_\_\_\_ be members of the Federal Reserve System.

A) must; may

B) must; must

C) may; must

D) may; may

25) The largest single category of loans on the typical bank's balance sheet in 2016 was

A) U.S. government securities.

B) commercial and industrial loans.

C) consumer loans.

D) real estate loans.

E) interbank loans.

26) Equity capital at commercial banks in 2016 comprised about \_\_\_\_\_\_\_\_ of liabilities and equity.

A) 25 percent

B) 21 percent

C) 55 percent

D) 11 percent

E) 5 percent

27) Commercial banks are the \_\_\_\_\_\_\_\_ financial intermediary in the United States as measured by asset size.

A) largest

B) second-largest

C) third-largest

D) fourth-largest

E) fifth-largest

28) The provision of banking services to other banks, such as check clearing, foreign exchange trading, and so forth, is an example of

A) correspondent banking.

B) trust services.

C) off-balance-sheet assets.

D) economies of scope.

E) credit derivatives.

29) A contingent promise by a bank to pay a bill when it comes due if the bill's originator fails to pay is an example of a

A) swap agreement.

B) standby letters of credit.

C) forward contract.

D) loan commitment.

E) commitment to buy foreign exchange.

30) A contingent item that may eventually be placed on the right-hand side of the balance sheet or expensed on the income statement is a(n)

A) loan commitment.

B) off-balance-sheet liability.

C) off-balance-sheet asset.

D) net charge-off.

E) loan sold without recourse.

31) Reasons behind the drop in bank profitability in the second half of this decade include

I. flattening of the yield curve.

II. increase in competitive pressures on asset pricing.

III. increases in foreclosures in the mortgage market.

IV. increases in net interest margin.

A) I only

B) II and III only

C) I, II, and III only

D) II, III, and IV only

E) III and IV only

32) Loans past due 90 days or more and loans that are not accruing interest because of problems of the borrower are called

A) loan losses.

B) net charge-offs.

C) provisional loans.

D) noncurrent loans.

E) contra loans.

33) Which of the following is the primary regulator of bank holding company activities?

A) Federal Bank Holding Company Board

B) FDIC

C) Federal Reserve

D) State regulatory agency in the chartering states

E) U.S. Treasury

34) Banks differ from other types of depository institutions in that

I. banks have more diversified asset portfolios.

II. banks obtain funds from more different types of sources.

III. the average size bank is larger than other depository institutions.

A) I only

B) I and II only

C) I and III only

D) II and III only

E) I, II, and III

35) Advantages of going global for U.S. banks include all but which one of the following?

A) Diversification of earnings

B) Greater opportunities to exploit economies of scale

C) Greater sources of funds

D) Conducting business in less regulated environments

E) Low fixed costs involved in international expansion

36) An ILC is a type of

A) finance company.

B) thrift institution.

C) credit card bank.

D) nonbank bank.

E) foreign-owned loan corporation.

37) A bank has an interest rate spread of 150 basis points on $30 million in earning assets funded by interest-bearing liabilities. However, the interest rate on its assets is fixed and the interest rate on its liabilities is variable. If all interest rates go up 50 basis points, the bank's new pretax net interest income will be \_\_\_\_\_\_\_\_.

A) $600,000

B) $450,000

C) $300,000

D) $250,000

E) $175,000

38) A bank is earning 6 percent on its $150 million in earning assets and is paying 4.75 percent on its liabilities. The bank's interest rate spread is \_\_\_\_\_\_\_\_.

A) 6.00 percent

B) 4.75 percent

C) 1.25 percent

D) 10.75 percent

E) 1.26 percent

39) An example of off balance sheet activity includes:

A) lending money to a depositor.

B) borrowing from another bank.

C) borrowing from the Federal Reserve.

D) purchasing a futures contract.

E) All of these choices are correct.

40) Suppose you deposit $100 in a bank, which of the following will occur?

A) The bank's assets will increase by $100.

B) The bank's liabilities will decrease by $100.

C) The bank's liabilities will increase by $200.

D) The bank's reserves will increase by $200.

E) The bank's reserves will decrease by $100.

41) The ROA for financial institutions such as banks is typically quite low as compared to nonfinancial firms. Why? With such a low ROA, how can banks attract stockholders?

42) Why are loans such a high percentage of total assets at the typical bank? What four broad classes of loans do banks engage in?

43) Most nonfinancial firms would never hold as much of their assets in safe liquid securities as banks do. Why do banks maintain such a high percentage of investment in securities?

44) What are the major sources of funds for banks? Provide a breakdown of all the major sources of funds at a bank and briefly describe the different types of deposits/nondeposit sources.

45) What are the major advantages a bank gains by expanding into international bank services? What are three disadvantages of international expansion?

46) Why are banks different from other depository institutions?

47) Discuss the major differences between large banks and small banks. Which have had higher ROAs? Why?

48) Why did bank profitability decline beginning in late 2006 and through 2008?