***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.

Answer: TRUE

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 1 Easy

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: TRUE

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 3 Hard

Topic: Global Issues

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-08 List the worlds biggest banks.

Accessibility: Keyboard Navigation

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

Answer: TRUE

Difficulty: 1 Easy

Topic: Commercial Banks as a Sector of the Financial Institutions Industry: Chapter Overview

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-01 Define what a commercial bank is.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 2 Medium

Topic: Liabilities

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

14) Financial institutions generally do not face liquidity risk.

Answer: FALSE

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: FALSE

Difficulty: 3 Hard

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: E

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: B

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.; 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: C

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: A

Difficulty: 2 Medium

Topic: Industry Performance

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation

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

Answer: C

Difficulty: 1 Easy

Topic: Industry Performance

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation

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.

Answer: E

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: D

Difficulty: 3 Hard

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: B

Difficulty: 2 Medium

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: C

Difficulty: 1 Easy

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: D

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: A

Difficulty: 1 Easy

Topic: Commercial Banks as a Sector of the Financial Institutions Industry: Chapter Overview

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-01 Define what a commercial bank is.

Accessibility: Keyboard Navigation

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.

Answer: A

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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.

Answer: B

Difficulty: 2 Medium

Topic: Definition of a Commercial Bank

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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.

Answer: B

Difficulty: 2 Medium

Topic: Definition of a Commercial Bank

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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

Answer: C

Difficulty: 2 Medium

Topic: Industry Performance

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: Industry Performance

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation

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

Answer: C

Difficulty: 1 Easy

Topic: Regulators

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: E

Difficulty: 2 Medium

Topic: Definition of a Commercial Bank

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-01 Define what a commercial bank is.

Accessibility: Keyboard Navigation

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

Answer: E

Difficulty: 2 Medium

Topic: Global Issues

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-08 List the worlds biggest banks.

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: C

Explanation: (1.50% − 0.50%) × $30 million

Difficulty: 2 Medium

Topic: Size, Structure, and Composition of the Industry

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: C

Explanation: 6% − 4.75% = 1.25%

Difficulty: 1 Easy

Topic: Size, Structure, and Composition of the Industry

Bloom's: Analyze; Apply

AACSB: Analytical Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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.

Answer: D

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-04 Understand the types of off-balance-sheet activities that commercial banks undertake.

Accessibility: Keyboard Navigation

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.

Answer: A

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Understand

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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?

Answer: Microeconomics tells us that firms earn positive net present values by producing a good or service that not enough other firms can perfectly duplicate, at least not at the same cost. Because the major assets of a bank are pieces of paper (loans and securities), it is difficult for a bank to generate substantially positive NPVs and earn a large ROA. For instance, an ROA of 2 percent for a bank is outstanding. Trying to convince your stockholders that a 2 percent return on their investment is outstanding is, however, quite difficult! To get an acceptable ROE, (the rate of return to the shareholder) banks must resort to using a very high amount of leverage. The debt/asset ratio at a bank is usually over 90 percent.

Difficulty: 3 Hard

Topic: Industry Performance

Bloom's: Understand; Evaluate

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation

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?

Answer: Loans are the highest earning asset on the bank's balance sheet. In order to compete and reward its shareholders, banks must invest heavily in their highest returning asset. Prior to deregulation and increased competition, banks held much lower percentages of loans.

The four major loan categories are commercial and industrial loans (loans to businesses), real estate loans, individual/consumer loans, and the ubiquitous "other" category.

Difficulty: 1 Easy

Topic: Balance Sheets and Recent Trends

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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?

Answer: To answer this we must look at the right-hand side of the balance sheet as well as the left side. A major portion of bank funds is raised through short-term deposits that people can choose to withdraw at short notice. Consequently, banks must plan for withdrawals and keep a significant portion of their assets in cash or near cash investments. Likewise, banks must have cash available for loan customers and to honor previous loan commitments. So even though much of the investment portfolio earns only low rates of interest, banks must maintain liquid reserves to meet loan demand and deposit withdrawals.

Difficulty: 2 Medium

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-02 Identify the main assets held by commercial banks.

Accessibility: Keyboard Navigation

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.

Answer:

* Equity: Common stock, paid-in capital, and retained earnings
* Deposits: The main source of funding:
* Transaction accounts are composed of demand deposits (pay no interest) or NOW accounts (negotiable order of withdrawal or an interest-bearing checking account).
* Retail savings and time deposits (< $100,000 in size) savings have no fixed maturity, while time deposits have a set maturity date.
* Large time deposits (> $100,000) are negotiable certificates of deposit that can be resold to other investors prior to maturity.
* Nondeposit liabilities include loans from other banks, repurchase agreements, and bonds.

Difficulty: 3 Hard

Topic: Balance Sheets and Recent Trends

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-03 Identify the main liabilities held by commercial banks.

Accessibility: Keyboard Navigation

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

Answer: Better diversification by expanding beyond the home market, greater economies of scale and scope, more sources of funds, a greater ability to provide banking services to large international corporate customers, ability to move into other product lines not allowed in the home country, and avoiding domestic regulations and oversight. Disadvantages include higher exposure to risk. In particular, foreign lending has been quite risky and has experienced much higher default rates than other loan types. It is often difficult to properly assess a borrower's risk in other countries with less stringent accounting practices, for example. The risk of having one's assets expropriated is present, and foreign banks are often used as scapegoats when economic problems emerge. The fixed costs of establishing foreign operations can be quite high, increasing the riskiness of foreign expansion.

Difficulty: 3 Hard

Topic: Global Issues

Bloom's: Remember

AACSB: Reflective Thinking

Learning Goal: 11-08 List the worlds biggest banks.

Accessibility: Keyboard Navigation

46) Why are banks different from other depository institutions?

Answer: Banks are the main conduit of monetary policy; they are also critical in operating the nation's payments system. The banking industry constitutes the nation's largest intermediary and is one of the major methods of allocating credit in the economy. Banks provide risk, liquidity, and maturity intermediation that encourages savers to make their money available to the system and thus encourages economic growth.

Difficulty: 3 Hard

Topic: Regulators; Commercial Banks as a Sector of the Financial Institutions Industry: Chapter Overview

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Learning Goal: 11-07 Know the main regulators of commercial banks.; 11-01 Define what a commercial bank is.

Accessibility: Keyboard Navigation

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

Answer: Large banks tend to have

* lower equity (%).
* easier access to capital markets; hence they often hold a lower percentage of liquid securities.
* more business loans; business borrowers often have greater bargaining power so profitability on these loans can be low.
* lower interest rate spreads.
* more off-balance sheet activities.
* higher salaries.
* more noninterest income (and expense).
* more diversification.
* more aggressive management.
* The picture that emerges is that smaller banks tend to operate in less-competitive markets and are more conservatively managed. In terms of profitability, large banks will tend to have lower ROAs but may often have higher ROEs when banks are performing well because they take more risks and have less equity.
* In periods of poorer bank performance, the more conservative tactics of smaller banks are likely to result in better ROA and ROE than large banks.

Difficulty: 3 Hard

Topic: Size, Structure, and Composition of the Industry

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Learning Goal: 11-05 Discuss which factors have motivated the significant decrease in the number of commercial banks.

Accessibility: Keyboard Navigation

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

Answer: Increased loan loss provisions, reduced servicing income, and lower trading revenue all contributed to lower net income for banks in 2006. Further, rising funding costs outstripped increases in asset yields for a majority of banks. Mortgage delinquencies, particularly subprime mortgage delinquencies, surged in the fourth quarter of 2006. By 2008, industry net income was at its lowest annual earnings total since 1989, with almost one in four institutions reporting negative net income. Sharp declines in noninterest income, primarily driven by trading losses, a decline in securitization income, and a drop in proceeds from sales of loans, foreclosed properties, and other assets also contributed to the decline in profitability. Finally, net loan and lease charge-offs hit record highs in the fourth quarter of 2007.

Difficulty: 3 Hard

Topic: Industry Performance

Bloom's: Remember; Understand

AACSB: Reflective Thinking

Learning Goal: 11-06 Evaluate the performance of the commercial banking industry in recent years.

Accessibility: Keyboard Navigation