# Quinte Financial Technologies | FinTech Solutions

**Assignment on**

**COMMERCIAL BANKING OPERATIONS AND**

**INVESTMENT BANKING OPERATIONS**

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# Commercial Banking Operations

Commercial banking provides customized banking products and services to middle market companies with annual sales ranging between $25 million and $1 billion. Middle market companies often have more complex financial needs than small businesses, and they can benefit from the specialty of a commercial banking partner to help them work toward their financial and operational goals.

Services:

|  |  |  |
| --- | --- | --- |
| **Banking Services** | **Lending Services** | **Investment Services** |
| Checking and savings accounts | Loans and [mortgages](https://www.investopedia.com/terms/m/mortgage.asp) | [Certificates of deposit (CDs)](https://www.investopedia.com/terms/c/certificateofdeposit.asp) |
| Debit card transactions | Lines of credit | Retirement account services |
| Safe deposit boxes | Letters of Credit | Investment portfolio services |

The bank profits by the spread between interest rates:

* **Interest on Loans:** Charged to businesses borrowing money.
* **Interest on Deposits:** Paid to businesses for keeping their money in the bank (typically lower than loan rates).

**Regulations:** Commercial banks in the US are heavily regulated by federal agencies like the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) (up to $250,000). These regulations ensure the safety and soundness of the banking system and protect depositors' money.

**Examples of Commercial Banks**

* Chase Bank is the commercial banking unit of JPMorgan Chase (JPM). Headquartered in New York City, Chase Bank reported more than $3.39 trillion in assets as of December 2023.
* Bank of America (BAC) is the second-largest U.S. bank, with more than $2.54 trillion in assets and 6 million customers, including both retail clients and small and midsize businesses.
* Ally Bank (ALLY) is one of the major online commercial banks in the United States. The bank is headquartered in Detroit and has $196 billion in assets as of December 2023.

**How Commercial Banks Make Money**

1. **Banking Fees and Interest on Loans or Credit**:
   * **Fees**: Charges for services like checking accounts, wire transfers, and ATM usage.

Example: JPMorgan Chase charges fees for various banking services. For instance, their Chase Total Checking account has a monthly fee of $12, which can be waived under certain conditions.

* + **Interest on Loans**: Banks earn money from interest on loans and lines of credit provided to customers. Interest rates are influenced by factors such as credit history, income, loan amount, and the prime interest rate.

Example: As of 2023 annual report, JPMorgan Chase reported significant income from interest on loans. The average interest rate on consumer loans, such as personal loans and credit cards, was around 14%.

1. **Mortgage Lending**:
   * Commercial banks provide mortgage loans, where they earn interest based on the loan term, amount, borrower's credit history, and current prime rates.

Example: JPMorgan Chase provides a wide range of mortgage products. In 2023, they issued billions in mortgage loans, earning interest based on factors like loan term, amount, and borrower creditworthiness. For example, a typical 30-year fixed-rate mortgage offered an interest rate of about 6.5% depending on the borrower’s credit profile.

1. **Credit Cards and Lines of Credit**:
   * Banks offer credit cards and lines of credit, earning money from annual fees and interest on outstanding balances, which are often higher than other loans, typically ranging from 10% to 40%.

Example: JPMorgan Chase offers various credit cards, including the popular Chase Sapphire Preferred® card. They earn money from annual fees ($95 for Sapphire Preferred) and interest on outstanding balances, which can range from 16% to 24% APR depending on the cardholder's credit score and payment history.

1. **Bond Services**:
   * Acting as intermediaries, commercial banks facilitate the purchase of government bonds, earning fees for their services.

Example: JPMorgan Chase acts as an intermediary in the purchase of government and corporate bonds. For example, they help clients buy U.S. Treasury bonds, earning fees and commissions for these services. In 2023, the bank's investment banking division reported significant revenue from bond underwriting and trading activities.

1. **Lockbox Services**:
   * Providing secure storage for valuables in lockboxes, charging fees based on the box size and insurance costs.

Example: JPMorgan Chase provides lockbox services to businesses for secure payment processing. Businesses use these services to speed up the collection and processing of payments, and the bank charges fees for these services, contributing to their cash management revenue.

1. **Payment Processing Services**:
   * Setting up point-of-sale systems and processing credit card transactions for businesses, earning transaction fees and helping reduce fraud.

Example: JPMorgan Chase offers payment processing solutions for merchants, such as point-of-sale systems and credit card transaction processing. For instance, a small business might use Chase Merchant Services to handle credit card payments, with the bank earning a percentage of each transaction (typically 2%-3%).

1. **Foreign Exchange Services**:
   * Exchanging foreign currencies and providing foreign payment services for businesses involved in international trade, earning from exchange rate spreads and service fees.
   * Example: JPMorgan Chase provides foreign exchange services, allowing customers to exchange currencies and facilitating international business transactions. They earn money from the spread between buy and sell rates and service fees. For example, if a customer exchanges USD to EUR, the bank profits from the exchange rate margin.

# Investment Banking Operations

Investment banking is a type of banking that organizes large, complex financial transactions such as mergers or initial public offering (IPO) underwriting. These banks may raise money for companies in a variety of ways, including underwriting the issuance of new securities for a corporation, municipality, or other institution. They may manage a corporation's IPO. Investment banks also provide advice in mergers, acquisitions, and reorganizations.

Investment banks were legally separated from other types of commercial banks in the United States from 1933 to 1999, when the Glass-Steagall Act that segregated them was repealed.

Essentially, investment banks serve as middlemen between a company and investors when the company wants to issue stock or bonds. The investment bank assists with pricing financial instruments to maximize revenue and with navigating regulatory requirements.

Investment banks can be categorized into four types based on their size, client base, and services offered:

* **Bulge Bracket**: Largest, global operations, full-service.
* **Middle Market**: Mid-sized, offering comprehensive services but on a smaller scale.
* **Regional Boutique**: Smallest, specialized services in specific regions.
* **Elite Boutique**: Focused on high-end, large transactions with a limited service spectrum.

**How Investment Banks Operate:**

1. **Underwriting and Issuing Securities**:
   * **Equity Offerings**: Investment banks help companies raise capital by issuing stocks (IPOs and follow-on offerings). Example: Goldman Sachs helped companies like Uber Technologies go public by underwriting their IPOs. In an IPO, the bank assesses the company’s value, sets the initial stock price, and sells shares to the public
   * **Debt Offerings**: They also assist in issuing debt instruments such as bonds to raise funds.
2. **Advisory Services**:
   * **Mergers and Acquisitions (M&A)**: Investment banks provide strategic advice and valuation services to companies involved in mergers, acquisitions, divestitures, and other restructuring activities. Example: Goldman Sachs advised on the acquisition of Whole Foods by Amazon in 2017. The bank helped Amazon evaluate the deal, negotiate terms, and complete the transaction.
   * **Corporate Restructuring**: They advise on restructuring strategies, including debt restructuring and organizational changes.
3. **Sales and Trading**:
   * Investment banks facilitate buying and selling of securities, providing liquidity and market-making services for various financial instruments. Example: Goldman Sachs acts as a market maker, buying and selling stocks, bonds, and other securities, ensuring liquidity in the market. They earn spreads between the buying and selling prices.
4. **Research**:
   * They offer in-depth research reports and analysis on markets, industries, and individual companies, helping investors make informed decisions. Example: Goldman Sachs analysts might provide projections and investment ratings on tech companies like Apple or Tesla.
5. **Asset Management**:
   * Some investment banks manage assets for clients, providing investment management and wealth management services. Example: Goldman Sachs manages assets for high-net-worth individuals and institutional clients. They offer customized investment strategies, including diversified portfolios of stocks, bonds, and alternative investments.

**How Investment Banks Make Money:**

**1. Fees and Commissions**

* **Underwriting Services**: Investment banks earn fees for underwriting services. For example, they might charge a percentage of the total capital raised during an IPO or bond issuance. **Example:** When JPMorgan Chase underwrites an IPO, such as the Lyft IPO in 2019, they charge a percentage of the capital raised. For Lyft's $2 billion IPO, the underwriting fees could be millions.
* **Advisory Services**: Advisory fees are charged for M&A and restructuring services, typically a fixed fee or a percentage of the transaction value. **Example:** JPMorgan Chase advised Microsoft on its $26.2 billion acquisition of LinkedIn in 2016, earning advisory fees that are typically a percentage of the transaction value.

**2. Trading Profits-** Investment banks make profits from trading activities by buying and selling securities and earning spreads and trading commissions. **Example:** JPMorgan engages in buying and selling stocks, bonds, and other securities. They earn money from the spreads between buying and selling prices, as well as trading commissions. For instance, in their trading operations, they might profit from price differences in high-frequency trading.

**3. Asset Management Fees-** Fees are charged for managing client assets, usually as a percentage of assets under management (AUM). **Example**: JPMorgan manages assets for individuals and institutions. They charge management fees, usually as a percentage of the assets under management (AUM). For example, if they manage a $100 million portfolio, they might charge a 1% annual fee, generating $1 million in revenue.

**4. Interest and Dividends-** They earn interest from loans and dividends from equity holdings. **Example:** JPMorgan earns interest on loans provided to clients and dividends from equity investments. For instance, if they lend $10 million to a corporation at an interest rate of 5%, they earn $500,000 annually in interest. They also collect dividends from stocks they hold in their investment portfolio.

### Top 4 Banks (that offer commercial and investment services) and their revenues:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Banks | 2019 | 2020 | 2021 | 2022 | 2023 |
| J.P. Morgan Chase | 139.46 | 130.55 | 125.89 | 177.09 | 251.07 |
| Bank of America Corp. | 111.52 | 91.03 | 94.38 | 130.96 | 179.51 |
| Citigroup | 103.93 | 84.15 | 79.63 | 117.1 | 163.14 |
| Wells Fargo | 100.51 | 80.86 | 81.99 | 91.5 | 120.06 |

# Difference between Investment Bank and Commercial Bank

|  |  |  |
| --- | --- | --- |
|  | **Investment Banks** | **Commercial Banks** |
| **Clientele** | Investors, corporations, government | Small and medium sized business |
| **Primary Services** | Assisting institutional investors and corporations with financial needs | Loans, mortgage loans, deposit accounts for small and medium businesses |
| **Other Services** | Wealth and asset management, broker services, financial advisory services | Mobile banking, credit cards, M&A services |
| **Profits** | From fees on services | From fees for services provided and interest |

|  |  |  |
| --- | --- | --- |
| **Category** | **Investment Banking** | **Commercial Banking** |
| **Stock Information** | Detailed stock data for investment banks like JPMorgan Chase, Goldman Sachs, etc. | Stock information for commercial banks, tracking overall performance and market capitalization. |
| **Financial Statements** | Income statements, balance sheets, and cash flow statements highlighting underwriting and trading profits. | Financial statements showing revenue from loans, deposits, and other commercial banking activities. |
| **News and Analysis** | Latest news on M&As, IPOs, and other significant deals involving investment banks. | News on regulatory changes, interest rates, and market trends affecting commercial banks. |
| **Industry Data** | Sector performance and comparative analysis of investment banks. | Key ratios like loan-to-deposit ratio and net interest margin for commercial banks. |
| **Interest Rate Data** | Data on interest rates affecting investment bank activities. | Current interest rates for loans, mortgages, and savings accounts in commercial banking. |
| **Regulatory News** | Updates on regulations impacting investment banking activities. | Information on regulatory changes from bodies like the Federal Reserve affecting commercial banks. |
| **Key Ratios** | Financial health indicators such as equity ratios and trading volumes for investment banks. | Ratios like non-performing loan ratio and net interest margin specific to commercial banking. |
| **Practical Usage Examples** | Comparing investment banking revenue and stock performance for investment decisions. | Monitoring interest rates and regulatory news for insights on commercial bank performance. |
| **Market Analysis** | Analyzing investment banking trends and financial metrics using Yahoo Finance tools. | Analyzing trends in commercial banking and assessing financial health using key metrics. |
| **Regulatory Impact Studies** | Accessing expert opinions and financial data on the impact of new banking regulations. | Studying regulatory impacts on commercial banks using detailed news articles and analysis. |

### How Yahoo Finance can be related to Investment banking and Commercial Banking:

Thank You