# **STRUCTURE OF US BANKING SYSTEM**

# **How Structure of US Banking Formed/Evolved?**

The structure of the banking system in the United States has evolved significantly over time, shaped by historical events, legislation, and economic conditions. Here's a brief overview of how it formed:

* **Early Development:** In the early days of the United States, banking was largely decentralized, with numerous state-chartered banks issuing their own currency. This led to a chaotic banking system prone to instability and fraud.
* **National Banking Acts:** In response to the instability of the banking system, the U.S. government passed a series of National Banking Acts in the mid-19th century. These acts established a system of nationally chartered banks, overseen by the Office of the Comptroller of the Currency (OCC). These banks were required to hold federal government bonds as a reserve.
* **Federal Reserve System:** The Federal Reserve System was established in 1913 to provide a more stable monetary and banking system. It consists of 12 regional Federal Reserve Banks, overseen by the Federal Reserve Board in Washington, D.C. The Fed serves as the central bank of the United States, responsible for conducting monetary policy, supervising and regulating banks, and providing financial services to banks and the federal government.
* **Glass-Steagall Act:** In response to the Great Depression (1929 – 1933), the Glass-Steagall Act of 1933 was passed, separating commercial banking activities (such as taking deposits and making loans) from investment banking activities (such as underwriting securities). This legislation aimed to prevent conflicts of interest and reduce the risk of bank failures.
* **Deregulation:** Starting in the 1970s and accelerating in the 1980s and 1990s, there was a wave of deregulation in the banking industry. This included the repeal of key provisions of the Glass-Steagall Act with the Gramm-Leach-Bliley Act in 1999, allowing for the consolidation of commercial and investment banking activities.
* **Consolidation:** Deregulation led to significant consolidation in the banking industry, with larger banks acquiring smaller banks and expanding their operations across state lines. This trend continued into the 21st century, resulting in a smaller number of large, national banks dominating the industry.
* **Financial Crisis and Regulation:** The financial crisis of 2007-2008 highlighted the risks posed by large, interconnected financial institutions. In response, the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010, implementing a wide range of reforms aimed at increasing transparency, reducing systemic risk, and enhancing consumer protections in the financial system.

# **Size and Structure**

**1. Number of Banks:**

As of 2023, there are approximately 4,300 commercial banks in the United States, including large national banks and smaller regional and community banks.

**2. Assets:**

The total assets of the US banking system stood at around $24 trillion in 2023, with the largest banks (JPMorgan Chase, Bank of America, Wells Fargo, citibank, and goldman sachs) holding a significant share.

## **Major Revenue Sources:**

**1. Interest Income:**

- In 2022, the net interest income for all FDIC-insured institutions was approximately $560 billion. This constitutes a significant portion of the banks' overall revenue.

**2. Non-Interest Income:**

- Non-interest income, which includes fees and commissions, was about $260 billion in 2022. This includes income from services such as account maintenance fees, transaction fees, and advisory services.

**3. Trading Revenue:**

- Investment banking and trading revenue for the largest banks (such as Goldman Sachs and JPMorgan Chase) contributed significantly to their overall earnings. For instance, JPMorgan Chase reported trading revenues of around $24 billion in 2022.

**4. Wealth Management and Advisory Services:**

- Banks like Bank of America, which operates Merrill Lynch, generated substantial revenue from wealth management services, with total assets under management exceeding $1.4 trillion.

## **Loan System:**

**1. Loan Types and Balances:**

* As of 2023, the total loan balances held by commercial banks in the US were around $11 trillion, distributed across various categories:
* Residential Mortgages: Approximately $4.5 trillion.
* Commercial and Industrial Loans: Around $2.5 trillion.
* Consumer Loans (including credit cards): Approximately $1.6 trillion.
* Commercial Real Estate Loans: About $2 trillion.

**2. Interest Rates:**

* Average interest rates for various types of loans as of 2023:
* 30-year fixed-rate mortgages: Around 6.5%.
* Credit card interest rates: Approximately 20%.
* Personal loans: Ranging from 10% to 15% depending on the borrower's credit score.
* Small business loans: Typically between 4% and 9%.

**3. Credit Assessment:**

Credit scores (FICO scores) play a crucial role in loan approvals and interest rate determination. The average FICO score in the US was about 716 in 2023.

**Information for the years 2018 to 2023, covering various metrics such as net interest income, non-interest income, trading revenue, and total loan balances.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Net Interest Income (in billions) | Non-Interest Income (in billions) | Trading Revenue (in billions) | Total Loan Balances (in trillions) |
| 2018 | 490 | 240 | 20 | 10 |
| 2019 | 510 | 250 | 22 | 10.5 |
| 2020 | 480 | 230 | 18 | 11 |
| 2021 | 550 | 260 | 25 | 11.5 |
| 2022 | 560 | 270 | 24 | 11.5 |
| 2023 | 580 | 280 | 26 | 12 |

## **Technological Integration:**

**1. Digital Banking Usage:**

Over 70% of Americans used online banking services regularly in 2023, with mobile banking apps seeing widespread adoption.

**2. Fintech and Innovations:**

Significant investments in fintech, with US fintech firms raising over $25 billion in 2022 for innovations in payment processing, blockchain, artificial intelligence, and cybersecurity.

## **Key Challenges:**

**1. Regulatory Compliance Costs:**

Compliance costs for US banks have increased significantly, with large banks spending billions annually to meet regulatory requirements.

**2. Cybersecurity Threats:**

The average cost of a data breach in the financial sector was about $5.85 million in 2022, highlighting the need for robust cybersecurity measures.

**3. Economic Impact:**

Economic fluctuations, including the impacts of the COVID-19 pandemic and subsequent recovery, have influenced loan defaults, interest rate changes, and overall financial stability.

**Key metrics and values related to the structure, revenue sources, loan systems, and technological integration of the US banking system**

|  |  |  |
| --- | --- | --- |
| Aspect | Metric/Value | Source |
| Number of Banks | 4300 commercial banks | Federal Deposit Insurance Corporation (FDIC) |
| Total Assets | $24 trillion | Federal Reserve |
| Net Interest Income (2022) | $560 billion | FDIC |
| Non-Interest Income (2022) | $260 billion | FDIC |
| Trading Revenue (2022) | $24 billion (JPMorgan Chase) | SEC |
| Wealth Management AUM | $1.4 trillion (Bank of America/Merrill Lynch) | Bank Annual Reports |
| Total Loan Balances | $11 trillion | Federal Reserve |
| Residential Mortgages | $4.5 trillion | Federal Reserve |
| Commercial and Industrial Loans | $2.5 trillion | Federal Reserve |
| Consumer Loans (Credit Cards) | $1.6 trillion | Federal Reserve |
| Commercial Real Estate Loans | $2 trillion | Federal Reserve |
| Average Mortgage Rate (30-year) | 6.50% | Federal Reserve |
| Average Credit Card Rate | 20% | Federal Reserve |
| Average Personal Loan Rate | 10%-15% | Credit Reporting Agencies |
| Average Small Business Loan Rate | 4%-9% | Small Business Administration (SBA) |
| Average FICO Score (2023) | 716 | Experian, Equifax, TransUnion |
| Digital Banking Usage | 70% of Americans | Industry Reports |
| Fintech Investments (2022) | $25 billion | Industry Reports |
| Cost of Data Breach (2022) | $5.85 million | Industry Reports |
| Regulatory Compliance Costs | Billions annually for large banks | Bank Annual Reports |