

DETERMINANTS OF NEW BANK PERFORMANCE

Nasser Arshadi

University of Nebraska, 1982

Adviser: Manfred O. Peterson

The objective of this study was to describe the overall relationship between a set of dependent variables, measuring various aspects of new bank performance, and a set of independent variables, measuring banking and market structure variables and other factors, which affect new bank performance. Subsidiary purposes were to examine: 1) the impact of extended powers to thrift institutions upon new bank performance, that thrifts gained through the MCA (1980); 2) whether commercial banking as a line of commerce remains a valid argument; and 3) the OCC's chartering policies.

A particular multivariate technique – canonical correlation analysis – was applied, and results showed that the endogenous variables, such as bank cost, bank size, and composition of loans, were among the most significant factors in determination of new bank performance. Exogenous variables, such as the growth of population and effective buying income, showed no significance. Other exogenous variables, such as the number of existing banks in a trade area, the location of new banks in either SMSA or non-SMSA counties, and population per bank office had a very small contribution to the explanation of new bank performance.

Since the passage of MCA, thrift institutions can compete with commercial banks for consumer loans and consumer transaction accounts and, on a limited basis, for business loans. The New England subsample results indicate that the extended powers of thrift institutions make them potential competitors of commercial banks in the consumer service area. However, since commercial banks still have purview over business transaction accounts and effective dominance

over the business loan market, it is expected that the argument that commercial banking falls into the category of a separate line of commerce will be upheld in the near future.

The results of this dissertation and examination of 67 cases of bank failures between 1966 and 1974 showed that internal factors are the most important factors in new bank performance. Since OCC's heavy emphasis in its chartering decisions on exogenous variables, such as "needs and convenience" seems inappropriate, an alternative was suggested.