



Potential Problem of American Banks

By CK Wong 2006.09.17

<http://www.ck-wong.ca/Money%20Matters/potential%20problem%20%20american%20banks%2020060917.pdf>

Introduction

American banking system is unique in a way that it has a few major giants with numerous regional small banks. All issue credit cards. What happen when the consumer spending cut and could not repay the credit?

Regional Banks

In many countries, banks are large organization. The asset is huge and the market coverage is wide. Therefore the clientele is always has a wide spectrum. When a specific sector's economy slows down the revenue would not be significantly hampered and the dead debt would not be out of proportion.

Contrast to the peer's practice, American regional banks is a tradition. Some may be localized in a city for specific client group some may just within a specific county. These regionalized banks compete with the bank giants through the personal services. Since the service is localized, it has to establish correspondent banks for many services. This results a higher cost of operation. The localization also creates a weakness that associates with the economy of the clients.

The Scenario

Large of small banks, they must offer credit card service which is the most lucrative because the Americans are built on credit cycle. Most of the credit card customers do not pay off the monthly balance. With the foreseeable future, we can assume the economy to be slowing down. The employment rate will be lower due to the cool down of the housing market. This creates a compound effect that the disposable income for each family will shrink. With the every increasing higher living standard, both the couple are not uncommon to work. Any unemployed will mean less payback power for the credit they rely on.

Questions

What happen this time when:

1. Income is less than the mortgage
2. Net income less than the total for daily need plus minimum credit card payment
3. House defaulted because the value of the house is less than its worth

When this happens, the banks are negatively impacted. This will trigger the domino. What could be the outcome? Would it mean the great consolidation of American banking system? Though the consolidation, the shock wave will be sent in all direction which could possibly bring American to a recession.