

Bancfirst

Business



Bancfirst And The Financial Crisis of Bus 100 – (your section number)

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Title: BancFirst and the financial crisis

Introduction

This paper discusses a bank, BancFirst, whose prudence enabled it remain strong right through the US financial crisis. We look at this bank's key external environment elements and how it has planned to tackle them. We also consider what caused the US housing crisis, and how it played out on the demand and supply curves. Lastly, we debate whether the government's decision to bailout a number of banks was necessary.

What are the major elements of the external environment? Of these, which is most important to BancFirst?

The major elements of the external environment are political, legislative, economic, social and technological. The most important to BancFirst is the economic environment because it affects the value of the bank's financial instruments, securities and loans portfolios and market and credit risk exposure. For example, a decline in economic conditions could lead to increased regulatory scrutiny, increase loan delinquencies, reduce customer borrowing power and eventually lower demand for the bank's products and services (Bancfirst 14).

What are the factors that caused the demand curve for houses to shift to the right? How did this affect the equilibrium price?

The demand curve for houses shifted to the right because of the following factors. Firstly, they began with low interest rates that prevailed from 2001 to 2004. These low rates made borrowers increasingly opt for adjustable rate mortgages over fixed-rate mortgages. Then the subprime mortgage industry

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developed a number of innovative products, e. g. hybrids, to fuel their growth. Hybrids were loans that began with a low fixed rate for an initial period and were then reset to higher variable rates for the remainder of the term of the loan. With such products in the market, borrowers and lenders alike focused only on the borrower's ability to carry the low initial payments. These factors heightened consumer optimism and confidence which encouraged more borrowing. The equilibrium price went up.

Which factors created the shift in the supply curve? How did this affect the equilibrium price for houses?

The falling prices made homeowners begin to owe more than their home's value. Borrowers with adjustable rate mortgages were unable to refinance before their rates reset. As borrowers were unable to pay, foreclosures rose sharply and financial institutions that had invested heavily in subprime-related securities went into decline and some collapsed. With some firms collapsed, the supply curve shifted inward. Thus, the equilibrium price for houses went up.

There are four stages in the business cycle: prosperity, recession, depression, and recovery. Where was the U. S. economy when the housing crisis began? Where are we today?

The housing crisis began when the US economy was in recession. This is manifested by the fact that the low interest rates that prevailed from 2001 to the end of 2004 were measures implemented by the Federal Reserve to combat the 2001 recession and prevent deflation (Barth et al. 7). The Federal Reserve Chairman says the US economy is in a fragile recovery state (Rushe par. 1).

The U. S. government “bailed out” a number of banks during this crisis. Do
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you think that this prevented a depression? Do you think that this is the proper role of government?

Yes, I think the bailout did stop the US from going into another great depression for the following reasons: it gave cash to key corporations in the country; it gave banks money to lend out to business; and it slowed things down, stopped the panic and gave investors the confidence to invest in America. I would not say that this is the proper role of government. The government's proper role was to prevent the situation from ever reaching that state. However, considering the severity of the problem the government had to act.

What are the primary concerns that BancFirst identified? What plans have they made to address each concern?

BancFirst's primary concerns could be categorized into two: changes, especially negative, in the economic and financial environment, and actions of the US government and regulators in stabilizing the financial markets.

With regards to the economic and financial environment, the bank will continue with its strategy for developing long-term customer relationships, maintaining high quality service and responding quickly to customer needs. This way it ensures it continues to provide the most competitive products within that given economic environment. With regards to the government and other regulators, BancFirst will continue to abide by its bank regulatory framework which enables it to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy.

Conclusion

From the above discussion we have seen that bank's need to identify and have a strategy on how to tackle the key elements in their external

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environment to remain strong in spite of a challenging economy. We have also seen that the government may occasionally have to step in even in a free market economy for the greater good. Most importantly, we have learned how the American credit culture brought its economy nearly to its knees.

Works Cited

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