

Interstate banking

[Business](#)



Inter Banking Inter Banking Inter banking is “ the expansion of banking across lines” (Investopedia ULC, n. d.). A rise in nationwide interstate banking emerged when the Reigle-Neal Interstate Banking and Branching Efficiency Act was passed in October 1995 (Investopedia ULC, n. d.). Banks were allowed to acquire other banks in other states as long as the capital requirements were met.

There are several benefits to interstate banking. It paved the way to more competitive interest rates because banks are able to minimize their costs due to the branching out of their operations to other states (Berry, 2011). Economies of scale are realized since loan activity is increased with the merging of assets brought about by expanded business in different states. Another advantage to interstate banking is the convenience it offers to its clients. With interstate banking, more branches are within the reach of the clients (Berry, 2011). The flow of bank activities are easily facilitated which makes it easier for the clients to do business. A smooth flow in bank activities may result in increased revenues because of the ease in doing business.

Interstate banking makes it possible for banks to offer a wider range of banking services to its clients because of the interstate acquisitions and branches (Berry, 2011). Some of these services include more ATMs, electronic banking options and varied loan products.

Financial security and stability is one of the major off-shoots of interstate banking. Since banking consolidation is allowed provided that the capital requirements are met, this means that the resources of the banks increase, making it more stable and secure. The liquidity and solvency of the banks improve with interstate banking.

<https://assignbuster.com/interstate-banking/>

Bank clients benefit the most from interstate banking. The increased competition brought about by interstate banking makes banks think of strategies to capture a bigger market; thus, improving their services and developing new products which are attractive to the clients. Aside from bank clients, banks also benefit from interstate banking. Operating costs are greatly reduced as the bank subsidiaries are converted to bank branches. Geographic diversification will help improve the risk-return opportunities of banks (United States General Accounting Office, 1995).

The most likely loser in interstate banking is the Federal Reserve (Berger & Humphrey, 1988). Since there will be an improvement in the efficiency of the payment system, multiple bank payments will decrease because most checks will be transformed to on-us checks. The Federal Reserve is expected to have less checks to process. Another loser in interstate banking are the small local banks that will be gobbled up by the competition from larger banks who are able to set up branches across states.

Other critics of interstate banking claim that interstate banking resulted in the channeling of funds from smaller communities to larger ones (Rose, 1986). Moreover, they claim that the total amount allocated for small businesses decreases.

Interstate banking is a reform that was welcomed by the banking sector. Benefits of interstate banking include financial security, cost efficient banking to clients and increased bank branches, services and products. Although there are benefits from interstate banking, it has also a negative impact on the banking industry. Some small local banks had to close because it cannot compete with the bigger banks. Overall, the advantages of interstate banking outweigh its adverse effects. The U. S. banking system <https://assignbuster.com/interstate-banking/>

stands to gain from interstate banking because of the stability and security that it brings into the system. Banks failures might be prevented with the increase in capital requirements. The public stands to gain more from the better services and cost benefits through the opening of new participants in the banking sector.

References

Berger, A. N., & Humphrey, D. B. (1988). Interstate banking and the payments system. *Journal of Financial Services Research* , 1 (2), 131-145.

Berry, A. (2011, March 7). Advantages of interstate banking for personal accounts. Retrieved January 12, 2012, from helium. com Web site:

<http://www.helium.com/items/1918218-benefits-of-interstate-banking>

Investopedia ULC. (n. d.). Interstate banking. Retrieved January 12, 2012, from investopedia. com Web site: <http://www.investopedia.com/terms/i/interstate-banking.asp#axzz1jCi8GN8s>

Rose, J. T. (1986, Fall). Interstate banking and small business finance: Implications from available evidence. *American Journal of Small Business* , 23-39.

United States General Accounting Office. (1995). *Interstate Banking: Benefits and Risks of Removing Regulatory Restrictions*. Diane Publishing Company.