

CHAPTER 21

Commercial Banks*

INTRODUCTION

The distinguishing characteristic of commercial banks, in comparison with other financial institutions, is their issuance of demand deposit accounts, transferable by check, which are used throughout the Nation as money, or means of payment. Most commercial banks also issue time deposits, usually evidenced by book accounts or by certificates of deposit. Some banks also have demand certificates of deposit.

In the 19th century what we now call commercial banks were traditionally known as banks of deposit and discount (some of them were also banks of issue because they issued circulating notes used as pocket currency). The description of them as banks of discount reflected the predominant character of their assets—as bills of exchange and promissory notes of businessmen and other individuals, with the emphasis on obligations arising out of relatively short-term commercial transactions (those not exceeding a few months). In recent decades commercial banks have made a broad variety of loans, including commercial loans of varying maturities, loans to individuals for consumer purposes, loans secured by real estate (residential, agricultural, and commercial and industrial), and loans of other types. They also hold a relatively large volume of investment securities, consisting mostly of obligations of governments (Federal, State, local, and sometimes foreign) and of other public or quasi-public bodies. The loans and investments of commercial banks represent a much broader coverage of the various types of loans and securities outstanding in the economy (except corporate bonds and stocks) than those of other types of financial institutions.

It may also be noted that the class of institutions commonly referred to as “commercial banks,” for which statistics are regularly collected and published by the Federal banking agencies, includes stock savings banks, though they may have no demand deposit accounts, and trust companies not regularly engaged in deposit banking which handle fiduciary business other than that incidental to real estate title or mortgage activities. However, such savings banks and “nondeposit trust companies” are comparatively few in number relative to the commercial banks engaged in the types of operations described above.

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