FACTOR AFFECTING US BANK PERFORMANCE

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ABSTRACT

The stability of banks remains a significant marker for the nation's economic and financial development. Accordingly, the performance of the banking sector becomes the base for profitable, proficient and beneficial conditions. Bank failures frequently happen when the economy is struggling. From the first financial panic of 1819 to the Great Recession of 2008, several significant economic crises led to a high percentage of bank failures. In order to determine the factor that affects bank performance, the researcher had chosen five United State banks as a sample in this paper since the United States is the top largest economy and a benchmark in the world. Using bank data from 2000 to 2021, this paper uses internal (capital adequacy, bank size) and external (gross domestic product) factors as a variable to test the aspect that affects bank performance. Return on equity is a proxy for bank performance, and the researcher used panel regression to test the data and conclude that capital adequacy and gross domestic product had a significant relationship toward return on equity, whereby bank size has no relationship.

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CHAPTER ONE

INTRODUCTION

1.1 Preliminary Information

This study extends the existing literature on international banking by constructing a model of foreign intermediaries in the United States (US). The primary difficulty in international banking is identifying the conditions that lead to cross-border banking. This study addresses this topic using data from the US. While several theoretical viewpoints seek to explain international banking, empirical literature evaluating these is limited. As a result, it is also necessary to evaluate if these findings are relevant in other contexts. The characteristics and nature of the US banking system give a context to evaluate concerns that are not readily apparent in other financial systems.

The banking system is collapsing due to a rise in non-performing loans, which occur when a client fails to fulfil its obligations, resulting in credit risk. A borrower fails to repay loans, which adds to bankruptcy. The banking crisis will arise if there is a large number of bankruptcy.

Trade and commerce have become increasingly crucial in commodities and financial services. Many financial institutions have grown tremendously in order to remain relevant. Banks have grown globally by establishing overseas subsidiaries and branches and encouraging foreign banks. Its goal is to increase the financial industry to improve the quality of financial services in the domestic financial sector. It also requires all banking sectors to use updated technology in their operations (Claessens, Demirgüç-Kunt, & Huizinga, 2001).

This study will concentrate on US banks in order to assess their performance in the financial sector. To remain competitive in the financial sector, all banks must understand their performance. The bank must also be aware of its weaknesses and risks. Furthermore, banks must constantly innovate in order to remain competitive in this difficult market.