



**UNIVERSITI TEKNOLOGI MARA**

**DETERMINANTS OF NET INTEREST MARGIN  
ON COMMERCIAL BANK IN UNITED STATES**

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## **ABSTRACT**

This paper provides study on Determinants of Net Interest Margin in commercial banks in United States over the period of 2006 until 2017. The purpose of this paper is to examine and investigate the main drivers of bank's net interest rate margins across selected commercial banks throughout the United States. Also, the study explored the relationship between the dependent variable, net interest margin (NIM) and a set of selected banks specific variables by employing panel data estimation methodology. In line with some expectations, findings of this paper will confirm the importance of net interest margin as net interest margin is the most suitable criterion in evaluating the stability and also efficiency of bank's operations. In this study found that the total loan total deposit (TLTD) and operating expenses to total asset (OETA) as positively influencing factors while total loan to total asset (TLTA) and common equity to total asset (CETA) has no significant influence on net interest margin (NIM). This in turn shows that liquidity and efficiency hold an important criterion to ensure optimal net interest margin (NIM) in banks.

Keywords: net interest margin; commercial bank; United States

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Introduction

Banks pay and charge numerous kinds of financing costs and have an assortment category of assets and liabilities and there is no particular method for estimating the difference between what the bank charge for loaning and the cost of banks funding sources. Net interest margin is one of the most widely used indicator in estimating the effectiveness and stability of banks as intermediaries that provides the loan and manage savings of depositor. Net interest margin can be well-defined as the difference between interest earned and interest expense divided by the average earning assets on which banks earned income in that time period (Leykun, 2016).

The high net interest margin generally implies lesser banking sector effectiveness, noticeable by rising expenses due to ineffective control over working expenses and most likely take a negative impact on the banks financial development follow-on a barrier for investment and probably agitate economic growth (Jima, 2017). Besides, the lower net interest margin indicates deeper and more develop financial markets, prompt investment activities and bolster up economic growth. While large banks, serve large business that need to sustain a competitive benefit for operating nationwide and internationally

This chapter is structured as follow, section 1.2 presents the research background of the study. In section 1.3 will covers on problem statement and follow by research question in section 1.4. While in section 1.5 describe the research objective. This study has several significances towards different parties which later will be discuss on section 1.6. Subsequently, in section 1.7 covers the scope of the study which enclosed all those things that will included in the research paper. Further, in conducting this study, has incurred several limitations that needed to be faced which will be explain more on section 1.8. Besides, in section 1.9 present several definitions of key terms that considered as an important key terminology to this study. The chapter then concludes with a summary in section 1.10.