Foreign Banking Organizations

The U.S. banking industry shows the impact of financial markets’ increasing globalization. Clearly, foreign banks are becoming more important to our country’s banking system. Total assets held by foreign banks have risen steadily from $46 billion in 1974 to over $1,497 billion in mid-2004, more than trebling the share of assets they held from 4.9% to 18.1%.

Similar patterns are apparent in foreign banking organizations’ market share of both loans and deposits. Their holdings of total loans increased from $27.0 billion in 1974 to $455.6 billion at the end of 2004:IIQ, nearly doubling their share of total loans from 5.15% to 9.95%. Given the nature of the lending process and the importance of established bank–customer relationships, it is not surprising that foreign banking organizations’ loan share has grown much more slowly than their share of total assets.

On the other hand, foreign banking organizations increased their holdings of business loans from $18.8 billion in 1974 to $182.3 billion as of June 30, 2004, increasing their share from 9.46% to 20.64%. Their greater share of business loans, compared to their share of total loans and total assets, indicates a focus on commercial lending.

Finally, the $722.8 billion in deposits held by foreign banking organizations, a 15.36% share, confirms that they are important competitors in the U.S. banking system.