Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

Updated January 6, 2025

Introduction to Financial Services: Banking

Banks serve an important role in the financial system and the broader economy. They accept deposits, make loans, and facilitate payments. Economic output would be lower if, instead of banks, businesses had to finance investments themselves or individuals had to rely on their savings alone to make expenditures (e.g., home and car purchases).

This In Focus reviews key concepts in banking, provides an overview of banking-related regulations and recent banking regulation, and highlights emerging policy issues.

Key Concepts in Banking

The term *bank* generally refers to a depository institution, such as a commercial bank or thrift, that primarily accepts deposits, makes loans, and processes payments. To accept deposits, an institution must have a federal or state charter, and deposits are generally insured by the federal government, subject to certain limits. Using customer deposits and other funding, banks generally make loans and acquire certain other assets. (Credit unions are similar to banks in these ways but are distinct from banks in their ownership structure and regulation. This In Focus generally covers banks but notes information related to credit unions where pertinent.)

Balance sheet. An understanding of a bank's balance sheet—its assets, liabilities, and capital (equity)—provides the foundation for analyzing many banking issues. Loans made and securities owned by a bank typically comprise the majority of assets on the bank's balance sheet. To get the funding to make loans and acquire assets, banks use liabilities and capital. Customer deposits (e.g., checking and savings account deposits) and any debt that a bank issues (e.g., bonds, repurchase agreements) are liabilities of the bank, as the bank owes these funds to its customers and creditors. The difference between the assets and liabilities equals the bank's equity (assets - liabilities = equity). Equity can be thought of as stockholders' ownership stake.

Deposit insurance. The Federal Deposit Insurance Corporation (FDIC) insures bank deposits up to a $250,000 account limit. (The National Credit Union Administration insures credit union deposits—referred to as "shares"—at the same level.) Deposit insurance is intended to prevent bank runs and promote financial stability. Although the deposit insurance is funded by the industry, it is backed by the full faith and credit of the United States (and, thus, ultimately by the taxpayers).

Overview of Regulation

Two major components of bank regulation are prudential and consumer compliance regulation.

Prudential. Prudential regulation (or "safety and soundness" regulation) is designed to promote bank profitability and avoid bank failures, thereby protecting taxpayers and the stability of the financial system. A bank's charter type and corporate structure determine its primary federal prudential regulator (see **Table 1**). Banks are chartered and regulated as national banks under the authority of the Office of the Comptroller of the Currency or as state banks under the authority of state regulators. The Federal Reserve (Fed) and the FDIC regulate state banks in conjunction with state bank regulators. Most banks are owned by parent companies—called bank holding companies (BHCs). Some BHCs have subsidiaries that engage in nonbank financial activities, such as underwriting and dealing in certain types of securities. The Fed is the primary regulator of BHCs.

Table 1. Primary Federal Depository Regulators

Regulator	Oversees
Office of the Comptroller of the Currency (OCC)	Nationally chartered banks and national thrifts
Federal Reserve (Fed)	Bank holding companies and Fed member state banks and thrifts
Federal Deposit Insurance Corporation (FDIC)	Non-Fed member state banks and thrifts
National Credit Union Administration (NCUA)	Federally chartered or insured credit unions

Source: CRS.

Capital and liquidity rules are important prudential regulation tools. Holding a high level of capital can make a bank's failure less likely, because capital can be written down to absorb losses. For this reason, banks are generally required to maintain sufficient levels of capital to ensure solvency and protect bank depositors and taxpayers. Banks need liquidity to meet short-term obligations. Thus, banks are generally required to hold liquid assets or use stable funding to ensure adequate liquidity.

Consumer compliance. Consumer compliance regulations seek to ensure that banks conform to applicable consumer protection and fair-lending laws. The Consumer Financial Protection Bureau (CFPB), created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203), is primarily responsible for issuing the rules that all banks must comply with. The CFPB is the primary supervisor for consumer compliance at banks with more than $10 billion in assets. Prudential regulators are the primary supervisors for consumer compliance at banks with $10 billion or less in total assets.

Recent Banking Legislation

Congress passed Dodd-Frank in response to the 2007-2009 financial crisis. This was arguably the most comprehensive financial reform legislation since the 1930s.

Debates have arisen over whether the benefits generated by the changes implemented under the act (e.g., greater financial stability and consumer protections) justify the costs (e.g., compliance costs to banks and reduced credit availability). To address concerns related to a perceived regulatory burden imposed on banks by Dodd-Frank, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174) in 2018, which modified certain aspects of Dodd-Frank and bank regulation.

Policy Issues

Congress continues to debate whether policy responses to the 2007-2009 financial crisis and subsequent reform through P.L. 115-174 and regulation are appropriate. Congress also debated reforms to banking regulation as a consequence of the bank failures in 2023. Some of these policy issues of interest to Congress are highlighted below.

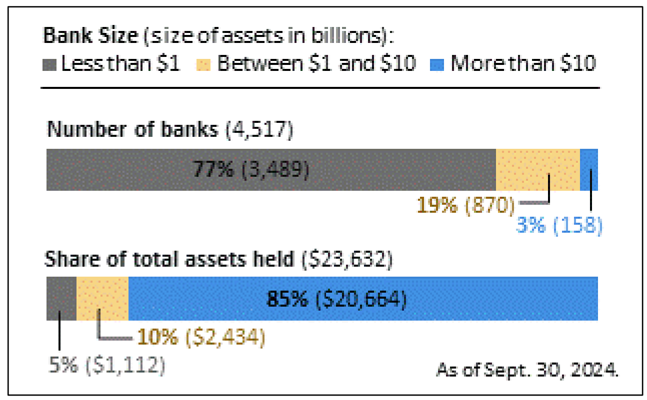
Large bank regulation. Dodd-Frank required the Fed to apply enhanced prudential standards (EPS) to BHCs with assets of $50 billion or more. P.L. 115-174 raised that threshold to $250 billion and granted the Fed discretion to determine which EPS are applicable to BHCs with $100 billion to $250 billion in assets.

Market concentration and community banks. The term *community bank* generally refers to a small bank that services the needs of a local area. *Small* usually refers to the amount of assets a bank owns falling below a certain threshold, though different thresholds are used in different contexts. (Some commonly used thresholds are $1 billion, $3 billion, and $10 billion.) Congress has shown considerable interest in the status of community banks and credit unions (which typically share more characteristics with and compete with small banks than with large banks). Bank consolidation has led to a high concentration of bank assets in a small number of larger banks, as shown in **Table 1**. The number of banks has been in decline for decades. As of September 2024, there were 4,517 insured banks in the United States, down from a peak of 18,083 in 1986. The industry holds $24,210 billion in assets, 85% of which is held by 158 of the largest banks, each of which had more than $10 billion in assets. (The top 14 banks hold 58% of all assets.)

Several factors have contributed to bank consolidations in the past 35 years. The significant deregulation of interstate branch and banking restrictions in the 1980s and early 1990s played a role. Technological advances may have increased economies of scale in banking. Some have argued that small bank regulatory burden is another factor, as smaller banks might have fewer resources to dedicate to compliance. Small banks are subject to fewer regulations than large banks are, and P.L. 115-174 included provisions providing targeted relief to banks below certain asset sizes. Some observers argue that tailoring regulations does not go far enough to relieve regulatory burden on small banks.

Mergers. Many in Congress and in the executive branch have raised concerns with the bank merger approval process in recent years. In the 118th Congress, bills were introduced to facilitate more scrutiny over bank mergers, particularly with respect to the impact a merger might have on consumers or the banks' ability to comply with the Community Reinvestment Act (P.L. 95-128), which Congress passed to address a lack of lending in low-income neighborhoods. The act requires regulators to evaluate how well banks are meeting credit needs in the areas where they function and consider those evaluations when banks want to operate in new areas. In 2024, Capital One and Discover, two very large banks with significant credit card and debit card businesses, announced their intention to merge. Regulators are currently considering their application.

Figure 1. Asset Concentration by Bank Size



Source: Created by CRS with information from FDIC's Quarterly Banking profile. Any differences are due to rounding.

Fintech. *Financial technology*, or "fintech," usually refers to technologies with the potential to alter the way certain financial services are performed. Banks may enter into contracts with fintech companies to reach new markets or improve efficiency. Alternatively, banks may face potential competition from those companies, which may offer similar products but may not be subject to the same regulations as banks are. Regulators are considering the extent to which nonbank fintech firms can participate in the banking system, with a focus on protecting the financial backstops of deposit insurance and central bank liquidity from market instability.

CRS Resources

CRS Report R47014, *An Analysis of Bank Charters and Selected Policy Issues*

CRS Report R45073, *Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174) and Selected Policy Issues*

Raj Gnanarajah, Analyst in Financial Economics
Andrew P. Scott, Specialist in Financial Economics

IF10035

Disclaimer