

Profit Persistence in Large U.S. Bank Holding Companies: An Empirical Investigation

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Abstract

If the regulations imposed by federal agencies to ensure the safety and soundness of the financial system result in a system-wide reduction of competition, persistent economic profits may be more common in the banking industry than in other industries. BHCs that generate persistent positive abnormal profits are, by definition, -efficient; BHCs that post persistent negative abnormal profits are -inefficient. This paper advances extant research on profit persistence and bank efficiency by developing a two-dimensional measure of persistence, by using this measure to document profit efficiency and inefficiency in the U.S. banking industry, and by identifying the sources of efficiency. The evidence supports two conclusions: (1) -inefficient banks outnumber -efficient banks, and (2) -efficient banks generate more underwriting revenue, produce more fee revenue, and post lower overhead expense than -inefficient banks.

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