Wholesale financing: Regular deposits are only one source of funding for banks. Today, banks rely heavily on other types of borrowing. Banks issue various types of securities that are bought by pension funds and other institutions. Often, this is short-term borrowing that is 'rolled over' every three months or so. When it is time to repay loans, the bank must issue new securities in order to finance its lending. Note that this borrowing is not covered by deposit insurance.

Quasi-banks: In the decades before the financial crisis in 2008, so-called quasi-banks increased in importance. These are institutions that perform similar roles to banks, but which are not commercial banks and hence are not subject to the same regulation. Such institutions are sometimes said to make-up a *shadow banking system*. Before the crisis, a large industry of quasi-banks had developed outside of the regular banking system, especially in the U.S. Prominent examples of such institutions were the American investment banks, which have now either gone bankrupt, merged with commercial banks or themselves became commercial banks. These institutions do not take regular deposits and are involved in the issuing, buying and selling of housing bonds and other securities and when doing so they hold inventories of securities. For their funding, they rely heavily on short-term borrowing and typically have very low capital requirements - often as low as 4-5% of total assets.

Securitization: This is where various types of loans held by the banks are packaged together and sold off as securities to other institutions. This is the process through which CDOs are created.

Preview from Notesale.co.uk
Page 5 of 5