



Fifth Edition

Principles of Banking

Paul A. Carrubba



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ABOUT THE AUTHOR

Paul A. Carrubba is one of the founders of CHW & Associates, Inc., a bank consulting firm specializing in bank operations, payment system issues, and bank litigation support. Before starting his consulting practice, he was senior vice president and manager of operations for Deposit Guaranty National Bank, where he gained extensive experience in all facets of operations during his 20-year banking career.

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Mr. Carrubba received his B.S. degree from the University of Southern Mississippi and a J.D. degree from the Mississippi College School of Law (cum laude), and he is a graduate of the School of Banking of the South. He is the author of several books, including *A Practical Guide to UCC Article 4A-Funds Transfer*, *The Bank Operations Consolidation Manual*, and *Revised UCC Articles 3 and 4: A Banker's Guide to Checks, Drafts, and Other Negotiable Instruments*. He was a contributing author to *Expedited Funds Availability: Regulation CC Compliance Manual*.

PREFACE

This fifth edition of *Principles of Banking* is a revision of the text written by Eric N. Compton and published in 1991. In the commercial banking industry, new approaches, techniques, and services are created in response to new laws, improved technology, and changing customer demands. In this environment, knowledge of basic principles must be applied to a rapidly changing industry. This text, therefore, was developed to introduce students who are new to banking to both basic principles and current issues. It takes a practical approach and presents an overview of commercial banking from colonial times to the present day, leading students from the fundamentals of negotiable instruments to the contemporary issues and developments critical to an understanding of banking today.

Bankers who represent their institutions in the challenging years ahead must master basic communication and sales skills, gain a firm understanding of the basic principles of banking, display an understanding of the importance of change, and adapt to change quickly. This text is designed to help students develop a firm foundation on which to build and improve these abilities.

CHANGES IN THIS EDITION

Based on reviews of the 1991 edition, chapters in this edition were reorganized, topic coverage was made more concise, and more attention was given to contemporary industry concerns about customer service, sales, marketing, and competition from other financial institutions. The following specific changes were made to improve student comprehension of the material:

New Features

- Each chapter ends with a series of exercises that require students to apply concepts in the chapter to their own banks.
- A new chapter, Marketing and the Sales Support Function, was added.
- A new chapter, Current Issues and Future Trends, was added.
- Key terms important to understanding banking principles are boldfaced in the text and defined in the glossary.

Organizational Changes

- The Federal Reserve is covered in a separate chapter.
- Material in chapter 3 of the last edition, on the language and documents of banking, was integrated with other chapters so concepts are explained as they apply to basic principles.

- Accounting fundamentals are presented later in the text, after students have studied the banking context in which accounting methods are applied.
- Bank regulations are discussed as they apply to the principles of banking, rather than in a separate chapter.

Concise Topic Coverage

- Credit topics are now covered in two chapters instead of three.
- Discussion of asset-based lending, leveraged buyouts, and private placements was eliminated.
- Text was reduced from 14 to 13 chapters.
- Coverage of specialized products and services was streamlined.

TEXT ORGANIZATION

The text is divided into 13 chapters. Chapter 1, The History of Banking, reviews early banking regulations and goes on to discuss deregulation and the savings and loan crisis. Bank organizational structure, including bank departments, line and staff functions, and employee responsibilities, is discussed in chapter 2. Chapter 3 covers the creation and organization of the Federal Reserve System, its monetary and credit policy, its regulatory policy, and its impact on the banking system.

Chapter 4, The Deposit Function, discusses types of deposits, authority to open accounts, and types and ownership of accounts. Negotiable instruments are covered in chapter 5, which also includes a discussion of holder in due course. Payments are covered in chapters 6 and 7: Chapter 6 addresses the process by which a check flows from receipt at a teller's window to presentment of the check through the collection process; chapter 7 addresses receipt of the check by the paying bank, functions performed by the paying bank, and statement processing.

The next two chapters explain the credit function: Chapter 8 discusses funds management and loan categories, and chapter 9 covers policy, credit principles, and bank investments. Chapter 10, Measuring and Reporting Financial Performance, explains the importance of accurate accounting and describes basic accounting records and methods, performance ratios, financial planning, and cost allocation and pricing of services.

Chapter 11 covers specialized products and services, such as trust services, cash management, international banking, and brokerage services. Chapter 12, Marketing and the Sales Support Function, describes how marketing as an organizational philosophy fits into an overall bank organization and how a sales environment is created.

The text closes with chapter 13, an overview of current issues and future trends that will affect the future of banking. Topics covered are banking powers, new technology, and payment system risk.

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