Bank transactions and balance sheet tracking

The following information demonstrates how bank transactions are tracked and their impact on the bank's balance sheet.

1. Beginning scenario – a de novo bank (Bank A) with an initial capital infusion of $15 million wherein $5 million was used to purchase the building and setup the entire bank's infrastructure (computers, software systems, ATM machine, office furnishings et al.), leaving $10 million in cash. Here is a simplified balance sheet

*Cash**	*-0-*		
Fed Funds Sold	*10,000,000*		
Fixed Assets	*5,000,000*	*15,000,000*	*Capital*
Total Assets	*15,000,000*	*15,000,000*	*Total Liabilities & Capital*

*** The bank would not want to keep cash except for the purpose of serving customers and would rather have the funds in an earning asset such as fed funds sold, as low as the yield may be in today's market.***

2. First transaction – Bank A lends $100,000 to a local business. The transaction is recorded as a debit to loans and a credit to checking. Here is the impact of those transactions on the above initial balance sheet.

Cash	*-0-*		
Reserve Account	*10,000*		
Fed Funds Sold	*9,990,000*	*100,000*	*Checking Account**
Loans	*100,000*		
Fixed Assets	*5,000,000*	*15,000,000*	*Capital*
Total Assets	*15,100,000*	*15,100,000*	*Total Liabilities & Capital*

*** Assumption that proceeds from loan are deposited in the de novo Bank as a checking account***

3. Second transaction – borrower writes a check of $25,000 to another party, who deposits that check in another bank (Bank B) unaffiliated with Bank A. Bank A receives notification electronically initially with item to follow from Bank B. Here is the impact of those transactions on the above revised balance sheet.

Cash	***-0-***		
Reserve Account	***7,500***		
Fed Funds Sold	***9,967,500***	***75,000***	***Checking Account***
Loans	***100,000***		
Fixed Assets	***5,000,000***	***15,000,000***	***Capital***
Total Assets	***15,075,000***	***15,075,000***	***Total Liabilities & Capital***

Nothing occurs on the balance sheet of the bank until the check "clears" through the system, which in today's environment is electronically presented to the bank for payment. This will normally be a 1 to 2 day time period depending on where the check is deposited and the efficiency of the presenting bank.

4. Third transaction – borrower writes a second check of $50,000 to another party, who opens a demand deposit account with Bank A and deposits that check in it. The transaction is recorded as a debit and a credit to fed funds sold and a credit and a debit to checking. There is no net impact to Bank A. Here is the impact of those transactions on the above revised balance sheet.

Cash	***-0-***		
Reserve Account	***7,500***		
Fed Funds Sold	***9,967,500***	***75,000***	***Checking Account***
Loans	***100,000***		
Fixed Assets	***5,000,000***	***15,000,000***	***Capital***
Total Assets	***15,075,000***	***15,075,000***	***Total Liabilities & Capital***

Everything stays the same as Example Step 3 if the check is merely deposited back into the de novo Bank

5. Fourth transaction – a new depositor opens a demand deposit account and deposits $10,000 in Bank A. The transaction is initially recorded as debit to the float account and a credit to checking. Once the check cleared the depositor's original bank, float is credited, fed funds sold and the reserve accounts are debited. Here is the impact of those transactions on the above revised balance sheet.

Cash	*-0-*		
Float	*10,000*		
Reserve Account	*7,500*		
Fed Funds Sold	*9,967,500*	*85,000*	*Checking Account*
Loans	*100,000*		
Fixed Assets	*5,000,000*	*15,000,000*	*Capital*
Total Assets	*15,085,000*	*15,085,000*	*Total Liabilities & Capital*

Until the check is cleared back to the bank it is drawn upon, the deposit shows up as float

Cash	*-0-*		
Reserve Account	*8,500*		
Fed Funds Sold	*9,976,500*	*85,000*	*Checking Account*
Loans	*100,000*		
Fixed Assets	*5,000,000*	*15,000,000*	*Capital*
Total Assets	*15,085,000*	*15,085,000*	*Total Liabilities & Capital*

6. Fifth transaction – the new depositor writes a check for $5 K to a party who banks with Bank C. When Bank A is notified of the $5K check, it credits the reserve and fed funds sold accounts and debits the checking account. Here is the impact of those transactions on the above revised balance sheet.

Cash	*-0-*		
Reserve Account	*8,000*		
Fed Funds Sold	*9,972,000*	*80,000*	*Checking Account*
Loans	*100,000*		
Fixed Assets	*5,000,000*	*15,000,000*	*Capital*
Total Assets	*15,080,000*	*15,080,000*	*Total Liabilities & Capital*