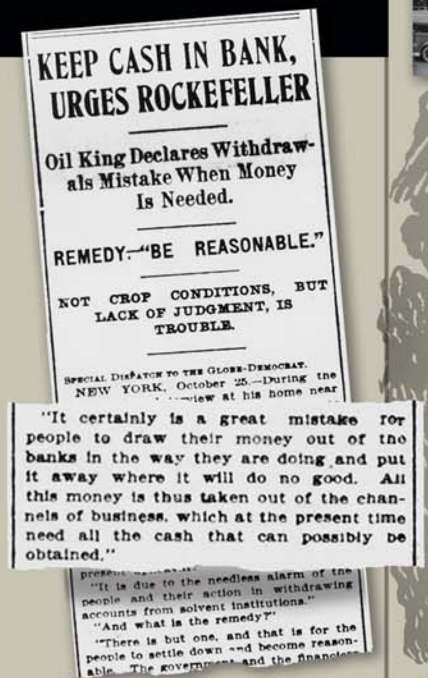
CROSS SECTION of U.S. Financial Crises and Reforms

1863-64

The National Banking Acts of 1863 and 1864. Created a national bank charter and the Office of the Comptroller of the Currency to regulate nationally chartered banks. These acts tried unsuccessfully to drive state-chartered banks out of business.

1873, 1884, 1890, 1893, 1907, 1914, 1930-33

Major banking disruptions.



KEEP CASH IN BANK, URGES ROCKEFELLER

Oil King Declares Withdrawals Mistake When Money Is Needed.

REMEDY—"BE REASONABLE."

NOT CROP CONDITIONS, BUT LACK OF JUDGMENT, IS TROUBLE.

SPECIAL DISPATCH TO THE GLOBE-DEMOCRAT.
NEW YORK, October 25.—During the ...view at his home near

"It certainly is a great mistake for people to draw their money out of the banks in the way they are doing and put it away where it will do no good. All this money is thus taken out of the channels of business, which at the present time need all the cash that can possibly be obtained."

"It is due to the needless alarm of the people and their action in withdrawing accounts from solvent institutions."

"And what is the remedy?"

"There is but one, and that is for the people to settle down and become reasonable. The government and the financiers ...

1913

The Federal Reserve Act of 1913 was signed by President Woodrow Wilson. Created the Federal Reserve System. This was the first central bank in the United States, although its structure and functioning were quite decentralized.

1927

The McFadden Act of 1927. In effect, barred interstate banking and branching by requiring national banks to follow the same laws that applied to state banks.

1929-39

The Great Depression 1929-1939. Nearly 30 percent of banks fail. Unemployment hits 25 percent.

1930s

Early 1930s: Fed tightens monetary policy to defend gold standard rather than injecting liquidity to contain banking panic.

1933

The Banking Acts of 1933 (Glass-Steagall) **and 1935** (part of FDR's New Deal reforms, which stretched out throughout the 1930s). Created federal deposit insurance for commercial banks (FDIC) and savings institutions (FSLIC). Separated commercial banking from investment banking and insurance underwriting. Restructured the Federal Reserve System, focusing more authority in Washington. Created the Federal Open Market Committee (FOMC). Created a true central bank with a unified decision-making structure.

1956, 1970

The Bank Holding Company Acts of 1956 and 1970. Defined and created regulation for bank holding companies, an organizational form with little economic rationale other than to arbitrage regulation. The Federal Reserve was given authority to regulate bank holding companies, regardless of the charter(s) held by banks owned by the holding companies.

1970

1970: Penn Central commercial-paper crisis, which threatened to draw the Fed (via the discount window) into a non-banking financial crisis. The Fed refused a request by the Nixon administration to lend money to a non-bank.

1974

When Franklin National Bank of Long Island, N.Y., failed in October 1974, it was the largest bank failure to date. Franklin had $5 billion in assets. Federal Reserve discount-window lending to Franklin peaked at $1.8 billion just six days before the bank's failure. Noting "the severe deterioration of confidence at home and abroad that would have resulted from an abrupt failure," the Fed was inadvertently laying the groundwork for a "too-big-to-fail" policy, which later would hamper efforts to instill market discipline in banking.

1973-74

STOCK MARKET

1973-74: Worst bear market since the Great Depression.

1970s, 1980s

The S&L crisis of the late 1970s and 1980s. By the time all the doors were closed and depositors paid off, the crisis cost U.S. taxpayers at least $150 billion.

The Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980. Abolished Regulation Q, which put ceilings on deposit interest rates. Broadened access by banks to the Federal Reserve's discount window and extended reserve requirements to all depository institutions.

1984

"Too big to fail"

1984: "Too big to fail" is inadvertently acknowledged as policy by the Comptroller of the Currency when it says Continental Illinois and 10 other major banks cannot be allowed to fail for fear of bringing the entire financial system down.

1987

1989

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989. Tightened regulation of commercial banks and savings institutions. Appropriated funds and created government-sponsored entities to administer the resolution (bailout) of the savings and loans' insolvent deposit-insurance corporation (FSLIC). Moved deposit insurance of savings institutions to the FDIC.

1991

The Federal Deposit Insurance Corp. Improvement Act (FDICIA) of 1991. Made changes to the FDIC and to the deposit insurance provided to depository institutions. Addressed the "too-big-to-fail" problem by specifying how systemically important depository institutions could be treated when insolvent.

1994

The Riegle-Neal Interstate Bank Branching Act of 1994. Permitted interstate branching by all commercial banks. States subsequently passed laws to permit state-chartered banks to branch across state lines.

1998

1998: Long-Term Capital Management, a hedge fund, collapses, pushing the world's financial system to the brink of collapse.

1999

The Financial Modernization Act (Gramm-Leach-Bliley) of 1999. Repealed much, but not all, of the Glass-Steagall Act that had separated commercial banking from investment banking and insurance underwriting. Created the financial holding company designation to permit financial organizations to engage in different financial activities within the same corporate entity. Reaffirmed the role of the Federal Reserve as the lead (or "umbrella") supervisor of complex financial institutions (both bank holding companies and financial holding companies). Preserved the role of functional supervisors at the subsidiary level to oversee each line of financial business separately.

2000

STOCK MARKET

2000: Stock market meltdown begins.

2001

Sept. 11, 2001: Terrorists attack New York City and Washington, D.C. New York Stock Exchange closes for four days, the longest interruption of trading since 1914. Federal Reserve undertakes extraordinary measures to protect the payments system. Financial stability is maintained.