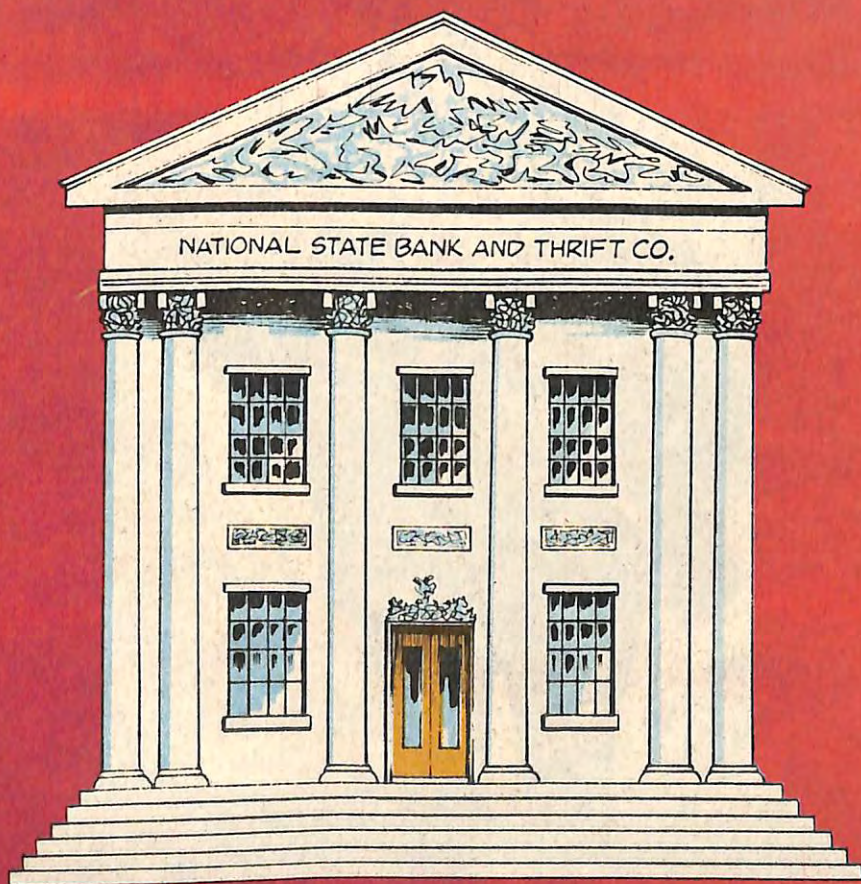
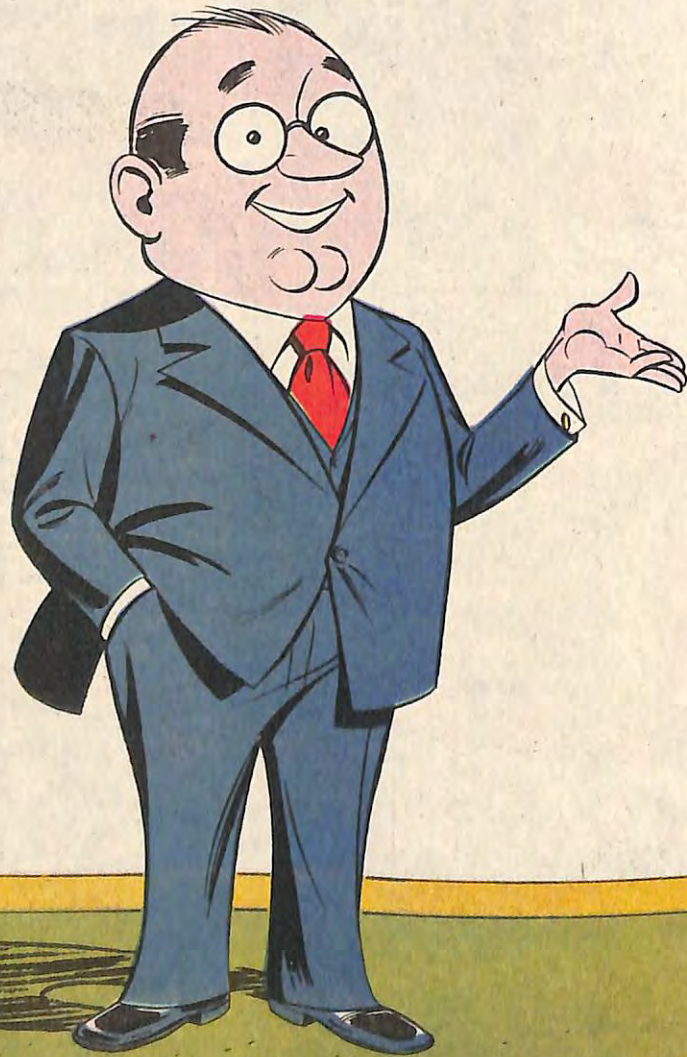


THE STORY OF BANKS AND THRIFTS



**FEDERAL RESERVE BANK
OF NEW YORK**

MOST OF US TEND TO VIEW BANKS AND THRIFTS AS THEY ARE PORTRAYED HERE... AS FINANCIAL SUPERMARKETS SERVICING OUR INDIVIDUAL FINANCIAL NEEDS. BUT THEY PLAY A MORE IMPORTANT ROLE IN OUR ECONOMY BY ACTING AS FINANCIAL INTERMEDIARIES... GO-BETWEENS LINKING SAVERS AND BORROWERS AND, AT THE SAME TIME, PERFORMING A VARIETY OF SERVICES FOR PEOPLE AND BUSINESSES PAYING AND RECEIVING MONEY.



ART BY AL WENZEL



I'D LIKE IT IN ONES!

CAN I EXCHANGE MY LEFT-OVER PESOS FOR DOLLARS?



WHAT DO YOU MEAN NO LOANS FOR MONKEY BUSINESS?

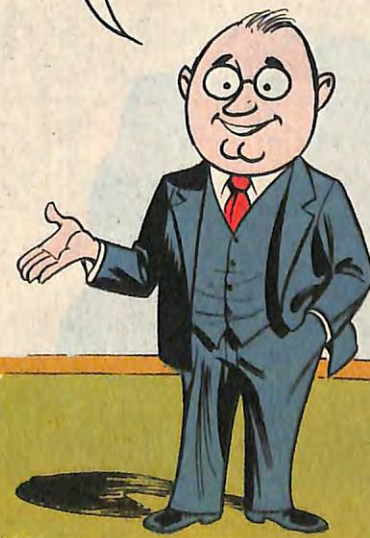
ENJOY YOUR NEW HOME.



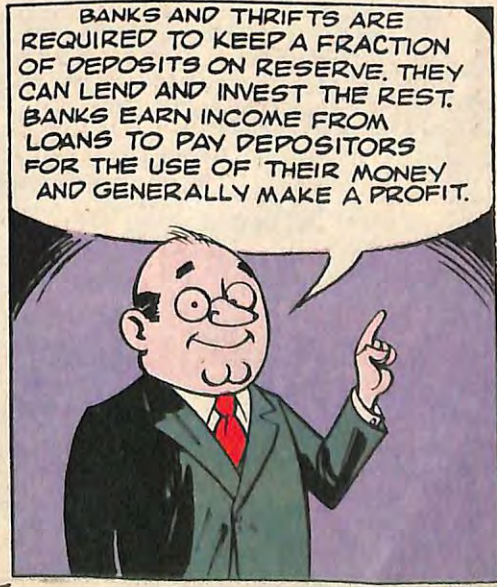
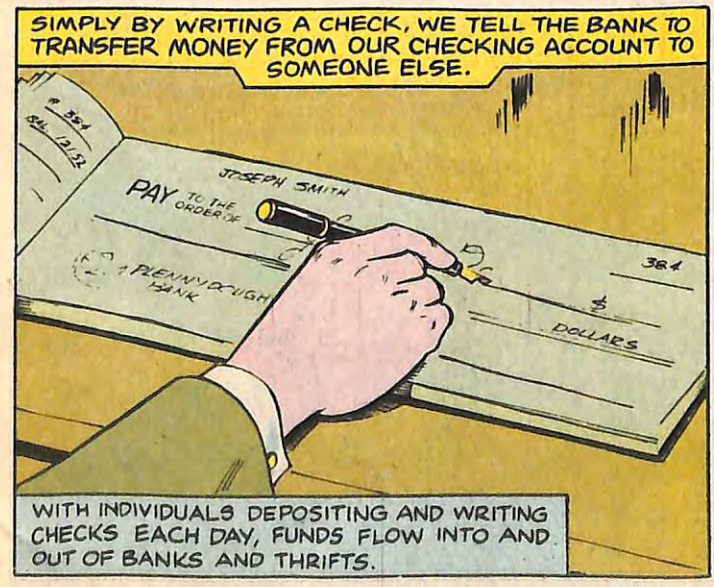
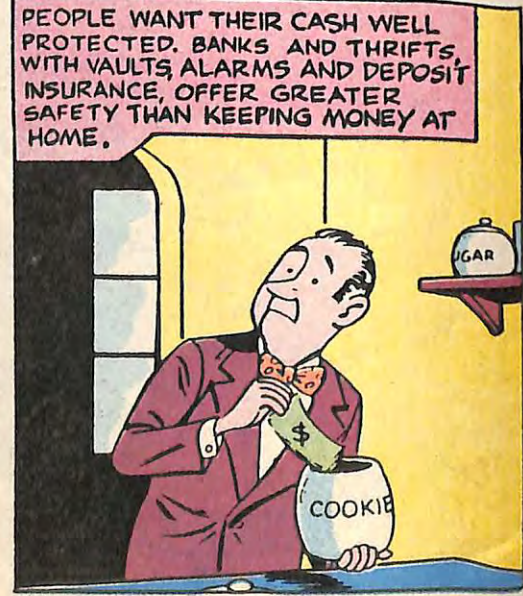
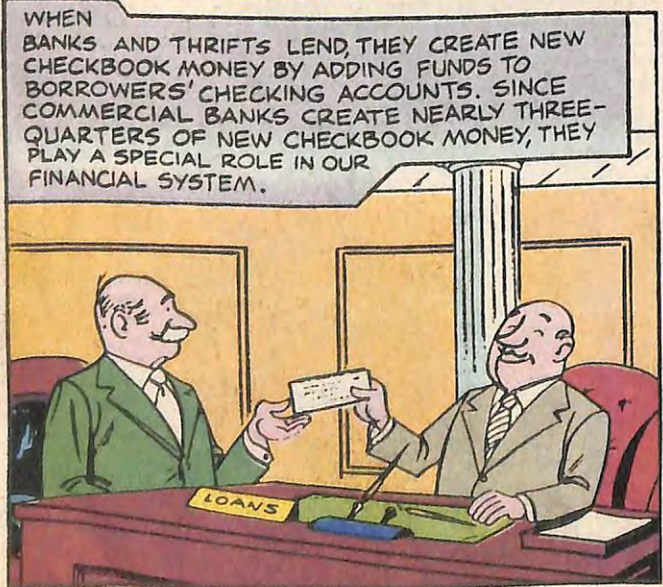
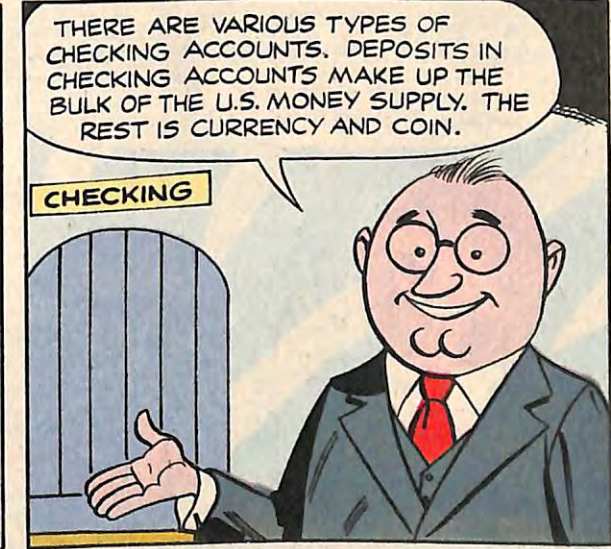
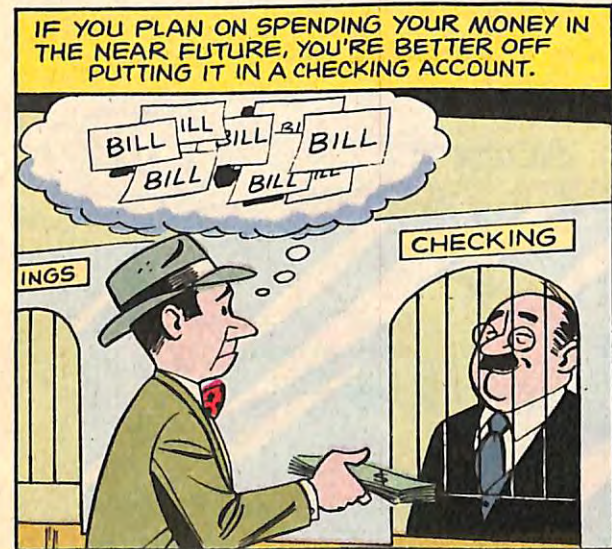
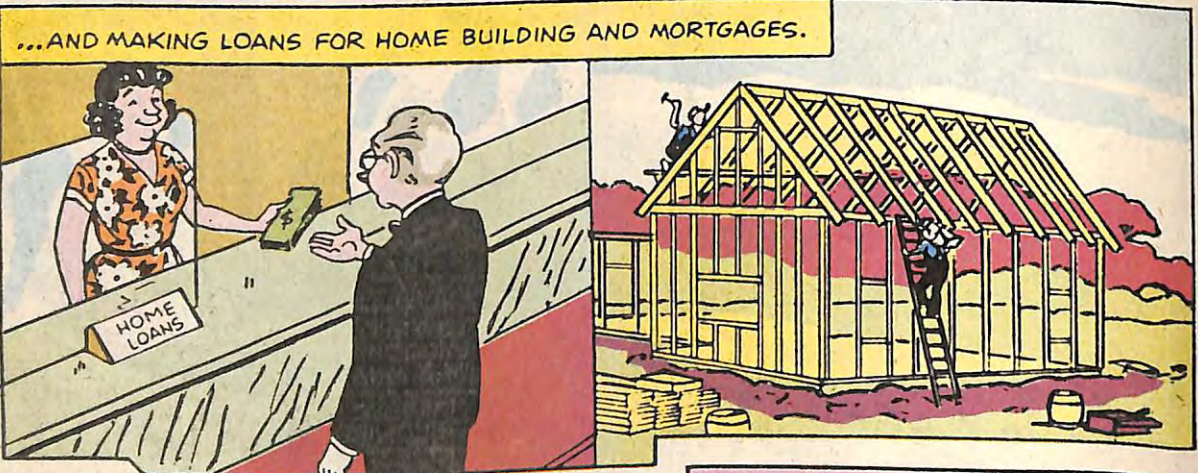
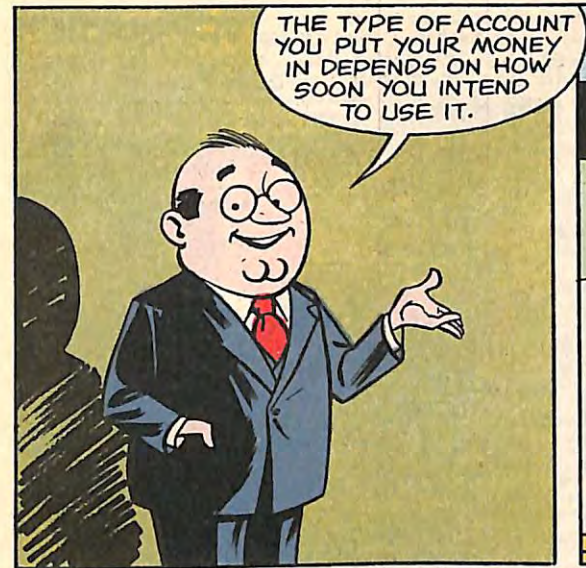
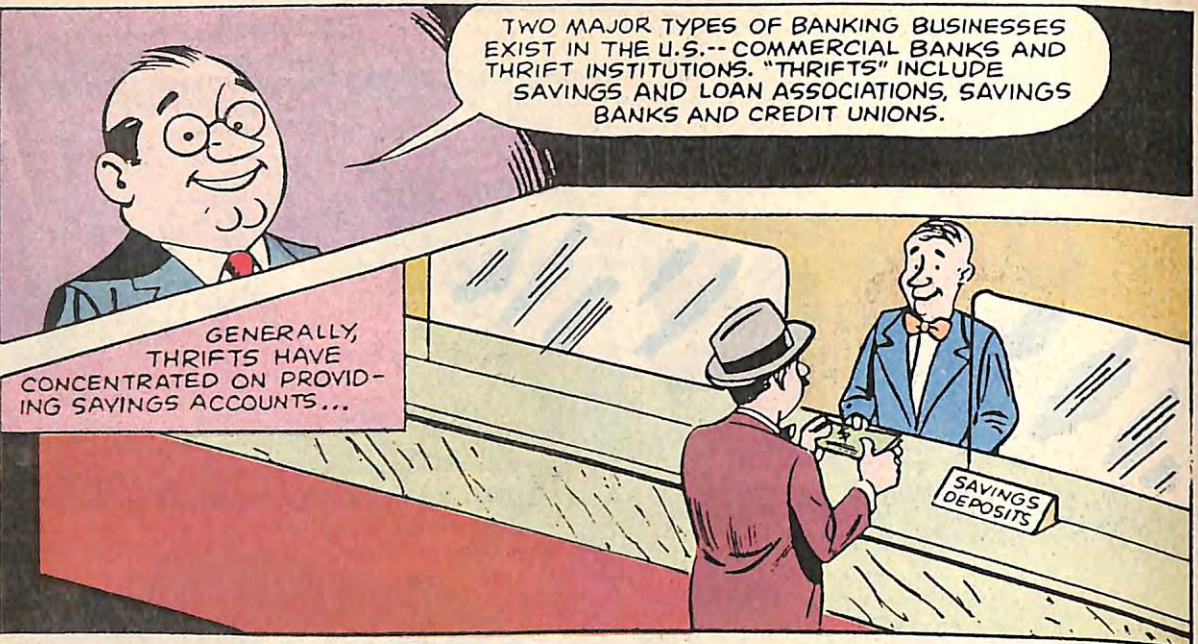
LET'S LOOK AT WHERE BANKS CAME FROM, HOW THEY OPERATE NOW AND WHERE THEY SEEM TO BE HEADING.

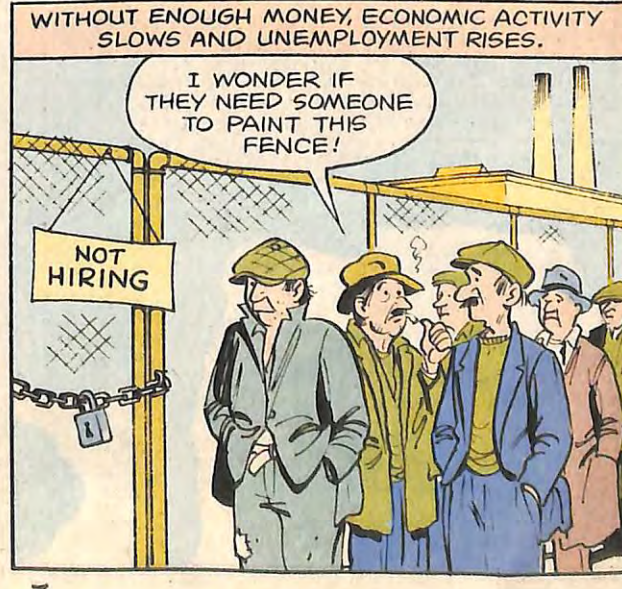
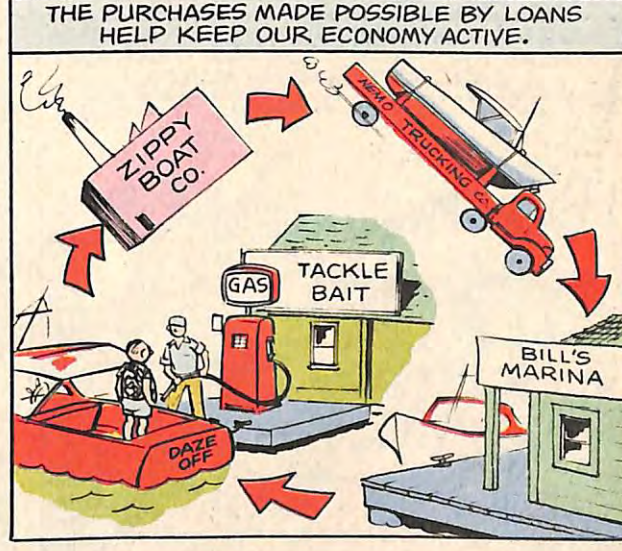
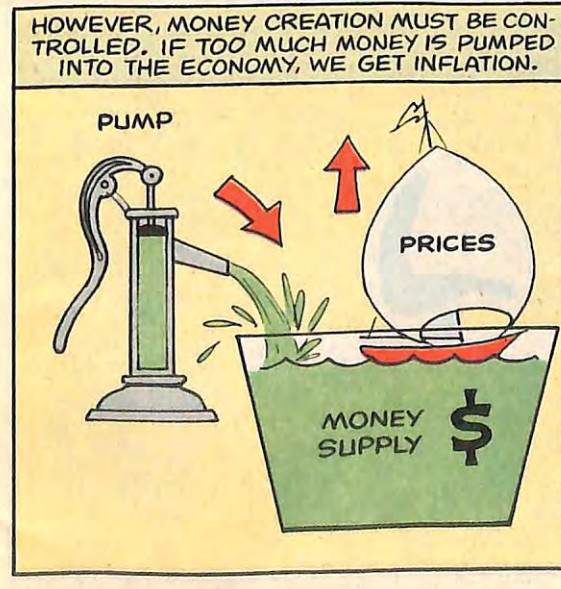
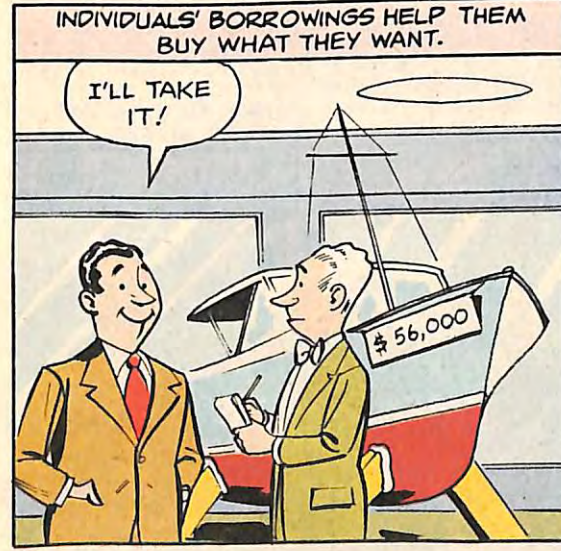
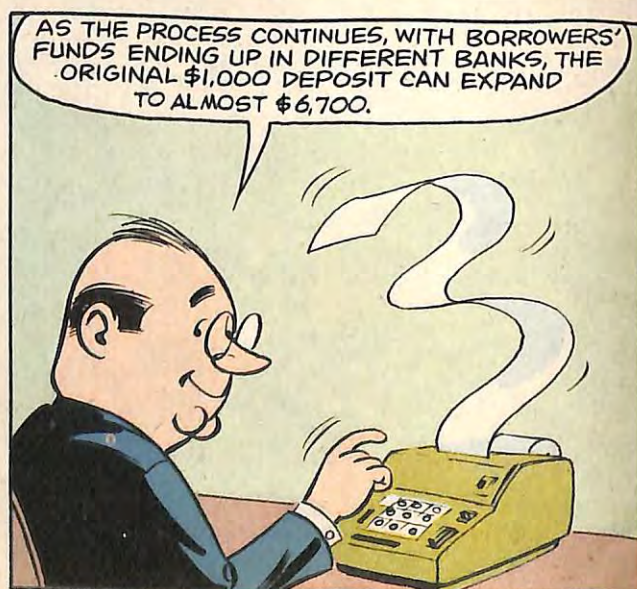
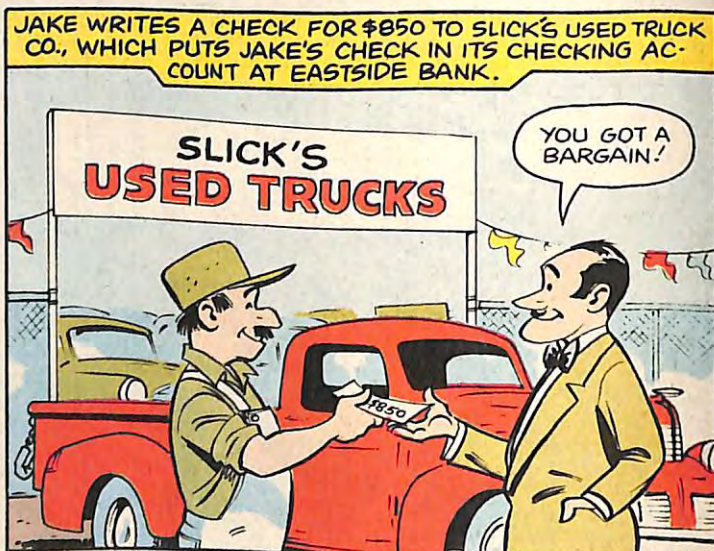
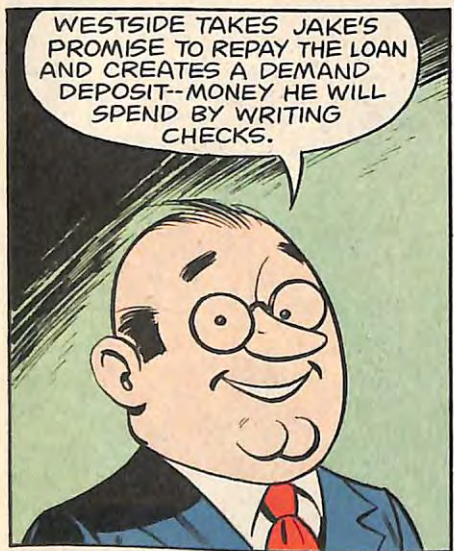


THERE--SAFE AND SOUND.



TWO MAJOR TYPES OF BANKING BUSINESSES EXIST IN THE U.S.-- COMMERCIAL BANKS AND THRIFT INSTITUTIONS. "THRIFTS" INCLUDE SAVINGS AND LOAN ASSOCIATIONS, SAVINGS BANKS AND CREDIT UNIONS.





BANK RESERVES ARE USED TO HELP CONTROL THE GROWTH OF BANK CREDIT. WE'LL LOOK MORE CLOSELY AT HOW CREDIT IS CONTROLLED LATER, BUT, FIRST, LET'S SEE HOW BANKING EVOLVED.

BANKING BEGAN THOUSANDS OF YEARS AGO. THE ASSYRIANS, BABYLONIANS AND ANCIENT GREEKS ALL PRACTICED SIMPLE FORMS OF BANKING--SAFE-KEEPING, EXCHANGING FOREIGN COINS AND MAKING LOANS--MAINLY IN CONNECTION WITH TRADE.

BUT THE CLERKS OFTEN STOLE OR SECRETLY BORROWED THE MERCHANTS' MONEY AND LENT IT TO GOLDSMITHS.

PSST. HAVE IT BACK BY FRIDAY AND I'LL ONLY CHARGE YOU 2%!

IT'S A DEAL.

THE GOLDSMITHS BORROWED AT AN INTEREST RATE LOWER THAN THE INTEREST RATE AT WHICH THEY LENT.

DON'T FORGET-- I'LL NEED IT FRIDAY, AND IT'LL COST YA 4%!

GOT'CHA!

ANCIENT ROME HAD TWO TYPES OF BANKERS--THOSE WHO MADE LOANS AND THOSE WHO EXCHANGED FOREIGN MONIES.

BANKING GREW RAPIDLY IN THE MIDDLE AGES, WHEN TRADE BEGAN TO FLOURISH. ONE OF THE OLDEST BANKING SYSTEMS WAS IN ITALY WHERE BANKS WERE ESTABLISHED IN VENICE IN 1171, AND IN GENOA IN 1320.

BORROWING AND LENDING THIS WAY WAS SO PROFITABLE, THE GOLDSMITHS EXPANDED THEIR OPERATIONS BY SOLICITING MONEY FROM THE PUBLIC.

I'LL HOLD YOUR STASH AND PAY YOU CASH.

I WANT YOUR GOLD!

THEY PROMISED SAFETY AND AN INTEREST PAYMENT.

BESIDES, WHY TAKE A CHANCE ON GETTING MUGGED?

BRITISH BANKING BEGAN ALMOST BY ACCIDENT IN THE MID-1600'S WHEN KING CHARLES I HELPED HIMSELF TO THE MONEY THAT MERCHANTS LEFT IN HIS PROTECTION IN THE TOWER OF LONDON.

I COULD USE THIS. IT'S JUST LYING AROUND ANYWAY!

ALTHOUGH THE KING LATER RETURNED THE MONEY, THE MERCHANTS DIDN'T TRUST HIM AND HAD THEIR CLERKS PROTECT THE MONEY.

BUT, BOYS, I BROUGHT IT ALL BACK.

BUT THREE WEEKS LATE!

THE GOLDSMITHS GAVE DEPOSITORS RECEIPTS FOR THEIR FUNDS. THESE RECEIPTS, WHICH COULD BE USED AS MONEY, WERE THE BEGINNING OF MODERN-DAY CHECKS.

I'M OUTA GOLD. WILL YOU TAKE THIS RECEIPT?

GOOD AS GOLD.

SUNDIALS REPAIRED

SINCE THE RECEIPTS WERE ACCEPTED AS MONEY, THE GOLDSMITHS SOON MADE LOANS WITH RECEIPTS INSTEAD OF GOLD. THEY WERE "CREATING MONEY," A JOB WHICH MADE THEM BANKERS RATHER THAN GOLDSMITHS.

HERE'S A RECEIPT FOR 20 GOLD PIECES TO TIDE YOU OVER, MOE.

THANKEE.

W W W W
H T I M S D J O G
G O L D S M I T H

BANKING AS WE KNOW IT TODAY STARTED IN AMERICA WHEN THE BANK OF NORTH AMERICA WAS FORMED IN PHILADELPHIA IN 1781 TO HELP FINANCE THE REVOLUTION.

WE NEED GUNS, POWDER AND WAGONS!

BUT WHERE WILL WE GET THE MONEY?

LET'S START A BANK!

IN COLONIAL TIMES, BANKS ISSUED NOTES WHEN THEY MADE LOANS.

GET UP--YOU'RE GOING TO WORK!

RATS!

CONGRESS APPROVED THE IDEA AND CHARTERED THE BANK OF THE UNITED STATES IN 1791, DESPITE STRONG OPPOSITION FROM THOSE WHO FEARED CENTRALIZED POWER OVER MONEY.

TOO POWERFUL!

UNCONSTITUTIONAL!

LET'S GIVE IT A CHANCE. IF IT DOESN'T WORK AFTER TWENTY YEARS, WE'LL SCRAP IT!

THE LOANS WERE GENERALLY BACKED BY LAND.

I PLAN TO DIVIDE MY LAND INTO SMALL LOTS AND BUILD A BUNCH OF HOUSES!

HMM--IT MIGHT WORK!

OTHER BANKS GRADUALLY SPRANG UP AROUND THE COUNTRY. THE BANK OF NEW YORK WAS ONE OF THE FIRST, OPENING IN 1784 WITH A CHARTER DRAWN UP BY ALEXANDER HAMILTON.

THE BANK ISSUED A MUCH NEEDED PAPER CURRENCY AND HELPED SUPPLY THE CREDIT NEEDED BY BUSINESS AND THE GOVERNMENT, BUT CRITICS DEFEATED ATTEMPTS TO RENEW ITS CHARTER, AND THE BANK CLOSED.

CLOSED UNTIL MONDAY FOR GOOD!

CONGRESS APPROVED A SECOND BANK OF THE UNITED STATES IN 1816 BECAUSE OF ECONOMIC PROBLEMS AFTER THE WAR OF 1812, BUT IT, TOO, LAPSED AFTER 20 YEARS.

2ND BANK OF THE UNITED STATES

GRAND OPENING

FREE BUTTER CHURNS!

\$500 DEPOSIT--CHOICE OF SPINNING WHEEL OR BED WARMER

HAMILTON BELIEVED AMERICA'S HOPE FOR THE FUTURE WAS INDUSTRIALIZATION, AND THAT THE COUNTRY NEEDED A STRONG BANKING SYSTEM TO HELP BUILD INDUSTRIES.

WE DEPEND TOO MUCH ON FOREIGN IMPORTS. WE OUGHT TO HAVE OUR OWN FACTORIES.

HE PROPOSED THAT CONGRESS CHARTER A BANK PATTERNED AFTER THE BANK OF ENGLAND.

HMM--THAT PLAN LOOKS FAMILIAR, ALEX.

THIS IS NO TIME FOR ORIGINALITY, BEN.

LIKE ALL BANKS BACK THEN, THE TWO BANKS OF THE UNITED STATES ISSUED THEIR OWN PAPER CURRENCY AND EXCHANGED CURRENCY FOR SILVER OR GOLD.

DANIEL BOONE?

WHEN CUSTOMERS DEPOSITED NOTES ISSUED BY STATE CHARTERED BANKS, THESE NOTES WERE QUICKLY RETURNED TO THE ISSUING BANK AND REDEEMED FOR PRECIOUS METAL.

I HAVE STATE NOTES. CAN I HAVE IT IN GOLD?

SURE.

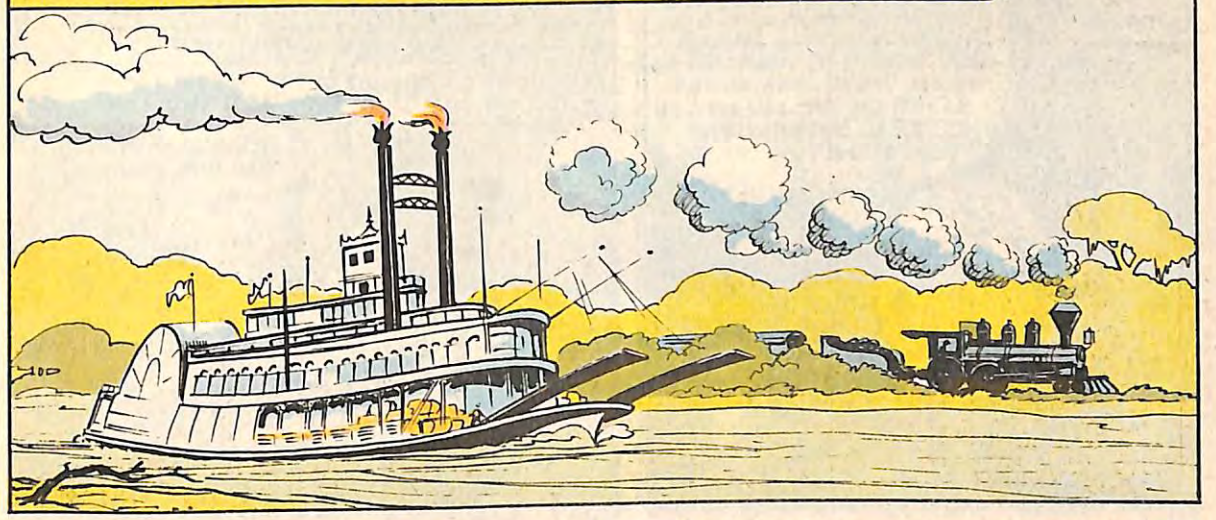
EASTERNSERS WERE PLEASED WITH THIS REDEMPTION POLICY BECAUSE IT HELPED LIMIT THE AMOUNT OF PAPER CURRENCY CIRCULATING AND AVOIDED INFLATION.



WESTERNERS IN FRONTIER STATES, SUCH AS KENTUCKY AND TENNESSEE, FELT THAT STATE BANK NOTES WERE REDEEMED TOO QUICKLY, LEAVING TOO LITTLE MONEY FOR THEIR EXPANDING ECONOMY.



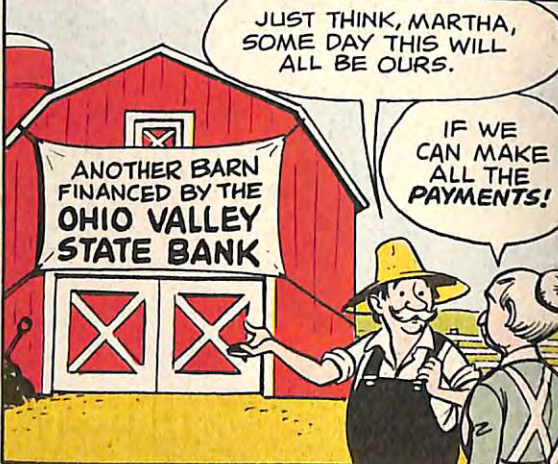
BANKS ALSO HELPED FINANCE THE RAILROADS AND STEAMBOATS THAT BROUGHT FARM PRODUCTS TO THE CITIES AND MANUFACTURED GOODS TO THE FARMS.



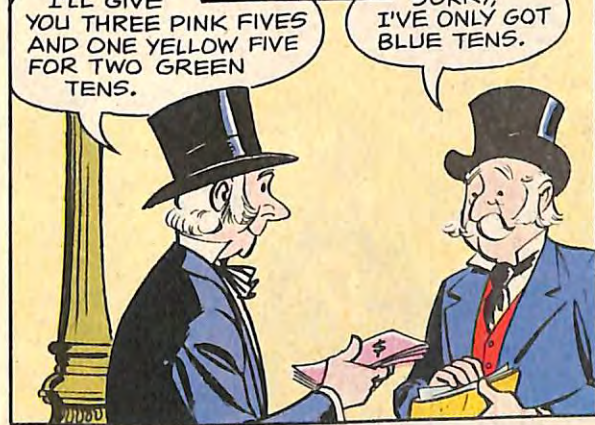
PRESIDENT ANDREW JACKSON FORCED THE CLOSING OF THE SECOND BANK OF THE U.S. IN 1836. THE NUMBER OF STATE BANKS, AND THE AMOUNT OF NOTES THEY ISSUED, EXPANDED STEADILY AFTERWARDS.



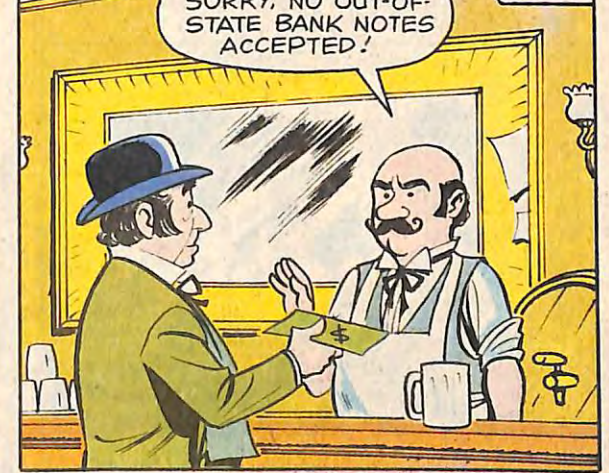
THESE BANKS PLAYED AN IMPORTANT ROLE IN AMERICA'S RAPID GROWTH. STATE BANK LOANS HELPED FINANCE THE PURCHASE OF FARM LAND, SEEDS, TOOLS AND LIVESTOCK.



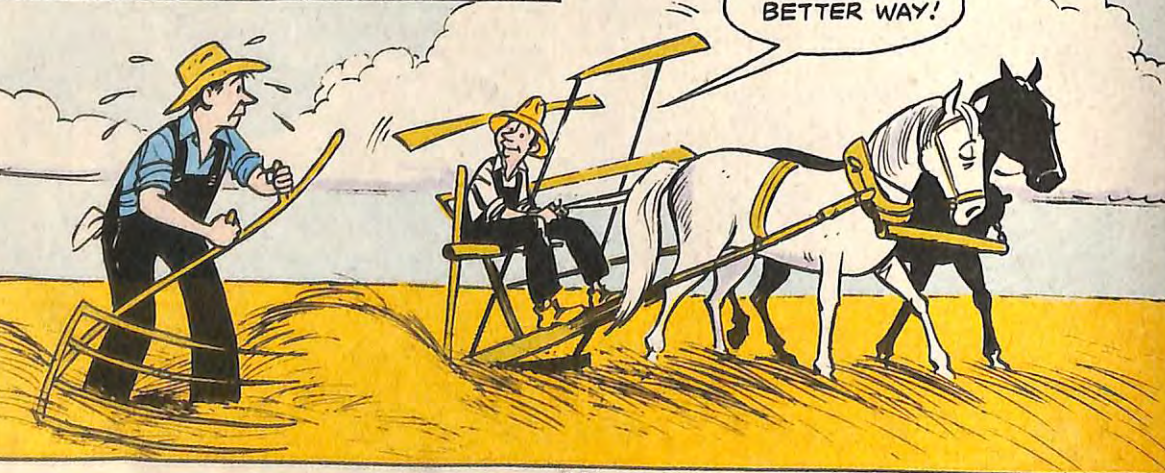
WHEN THE CIVIL WAR STARTED, AMERICA DIDN'T HAVE A UNIFORM NATIONAL CURRENCY. SEVERAL THOUSAND DIFFERENT NOTES CIRCULATED. THEY WERE DIFFERENT SIZES, COLORS AND DESIGNS.



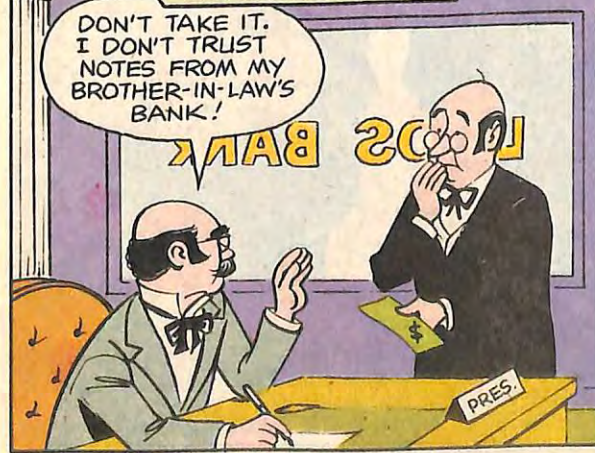
THE VALUE OF THESE NOTES DEPENDED ON HOW MUCH TRUST PEOPLE HAD IN THE ISSUING BANK.



THEY ALSO HELPED BUILD FACTORIES PRODUCING SUCH NEW TOOLS AS THE COTTON GIN, THE STEEL PLOW AND THE REAPER.

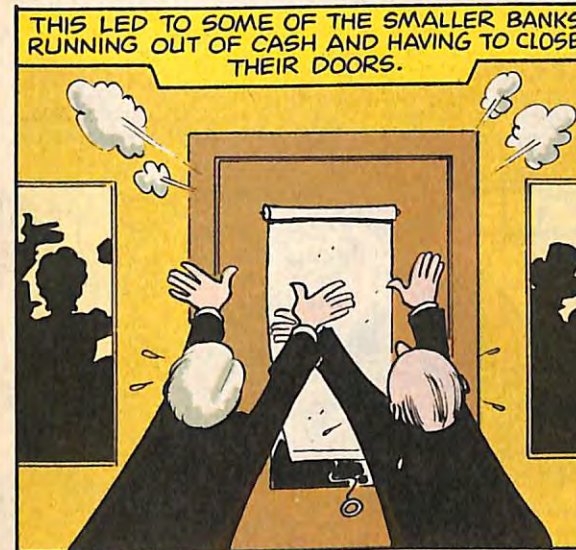
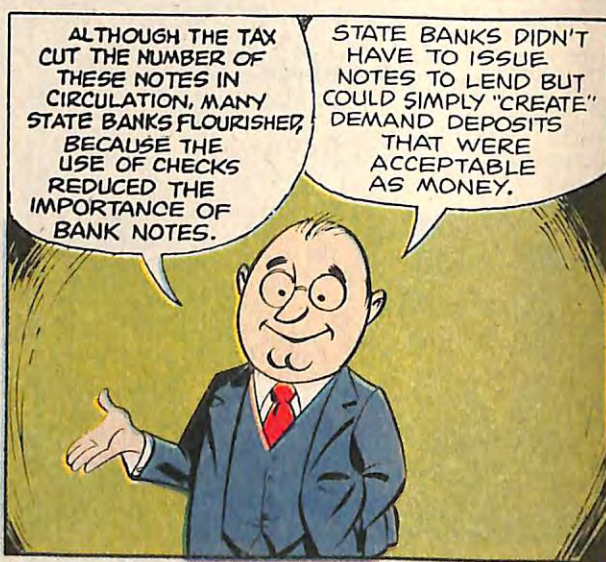
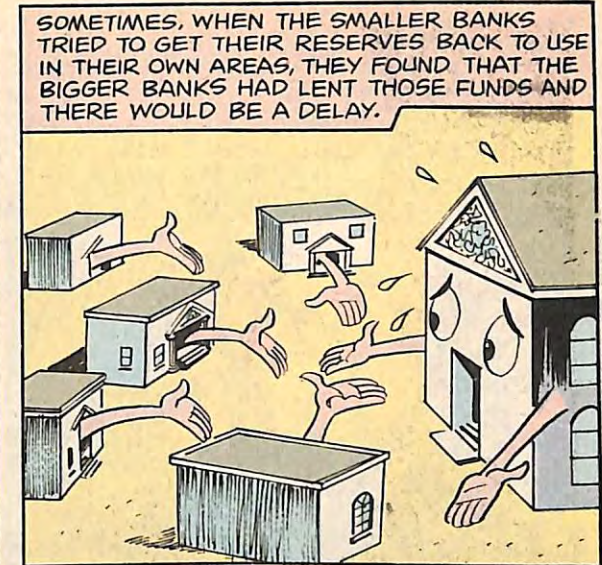
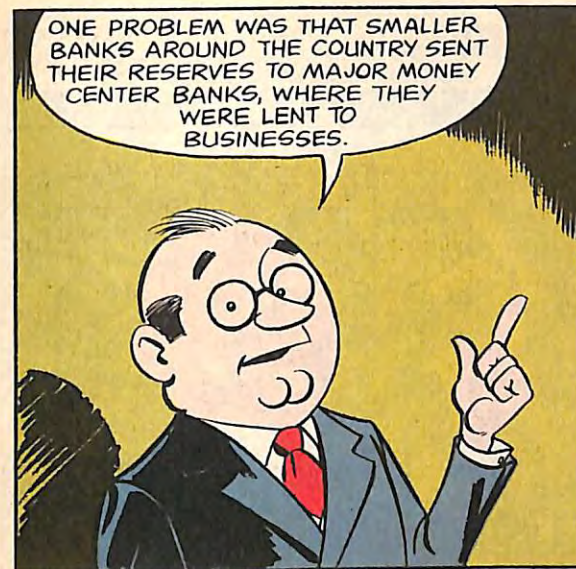
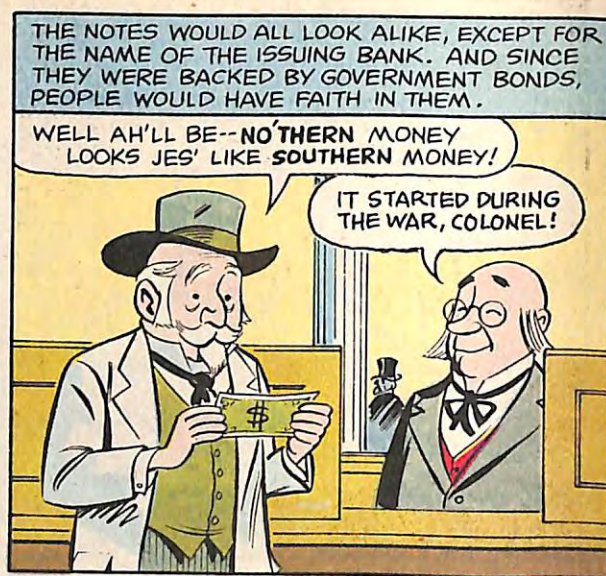
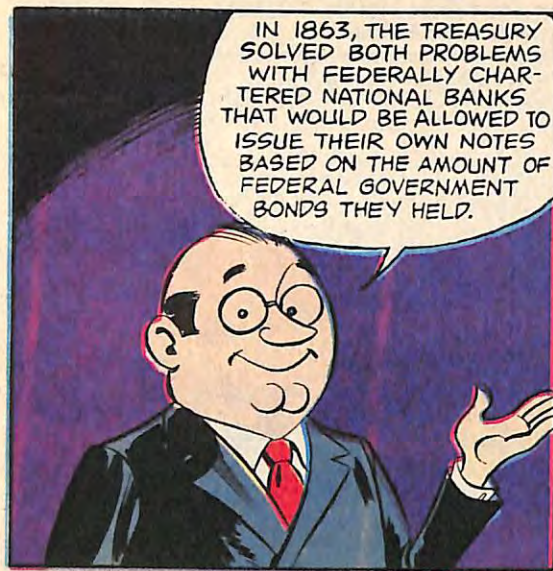


TRUST WAS ALSO A PROBLEM FOR BANKS. THEY WANTED TO BE SURE THEIR NOTES WERE ACCEPTED AT FACE VALUE, AND THAT ANY NOTES THEY ACCEPTED FROM OTHER BANKS WERE WORTH FACE VALUE.

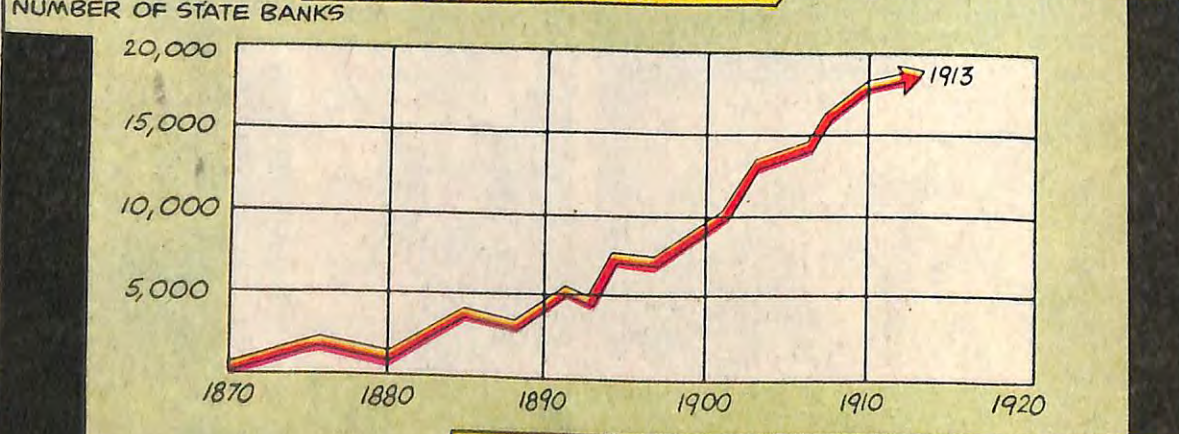


AROUND THIS TIME, THE GOVERNMENT WAS HAVING TROUBLE GETTING INVESTORS-- MAINLY BANKS-- TO BUY BONDS BEING SOLD TO FINANCE THE WAR.

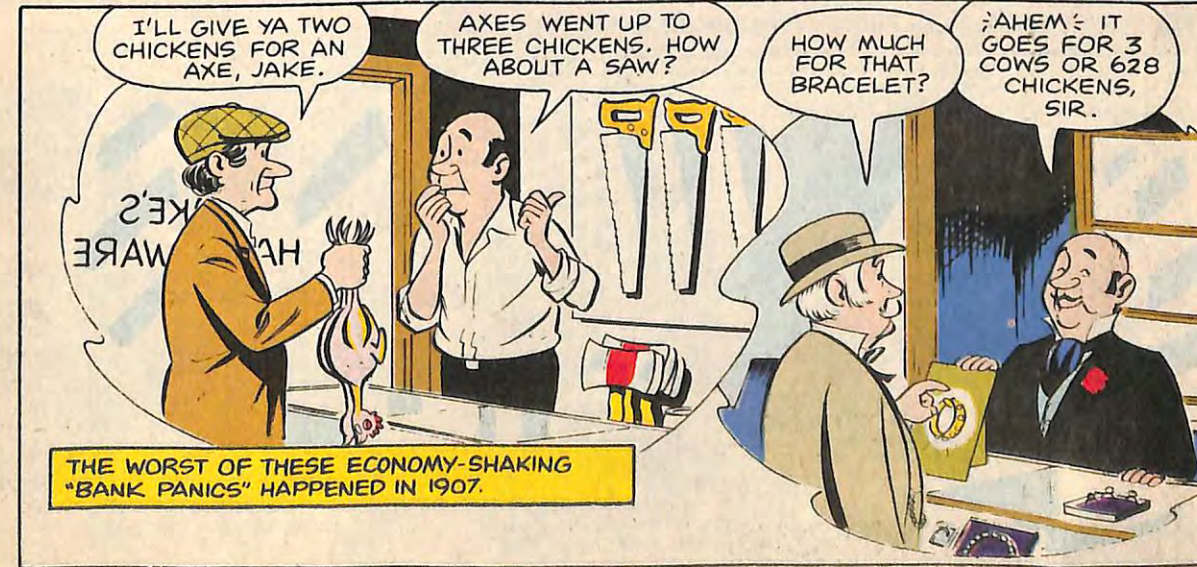




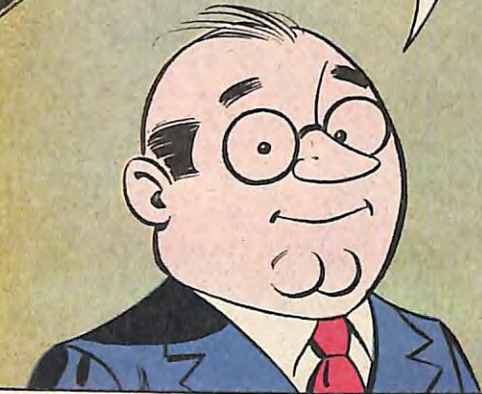
INDEED, UNDER THIS "DUAL" SYSTEM OF BOTH STATE AND FEDERALLY CHARTERED BANKS, THE NUMBER OF STATE BANKS CLIMBED.



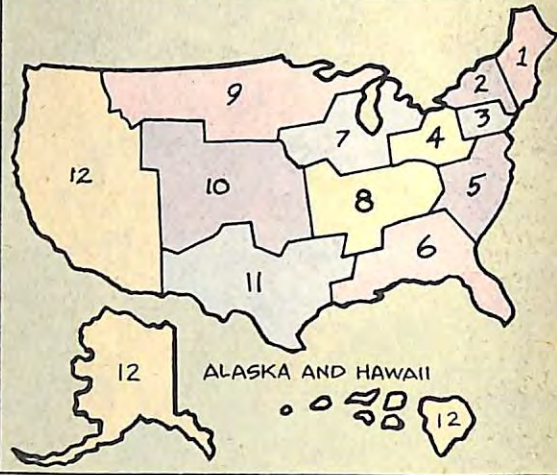
NATIONAL BANKS HELPED STRENGTHEN OUR BANKING SYSTEM AND CREATED A NATIONAL CURRENCY, BUT THERE WERE STILL WEAKNESSES.



CONGRESS, AFTER LONG STUDY AND DEBATE, ESTABLISHED THE FEDERAL RESERVE SYSTEM IN 1913 TO DEAL WITH THE CAUSES OF THESE PANICS.



THE SYSTEM WAS TO INCLUDE 12 REGIONAL RESERVE BANKS AND A BOARD OF GOVERNORS IN WASHINGTON, D.C.

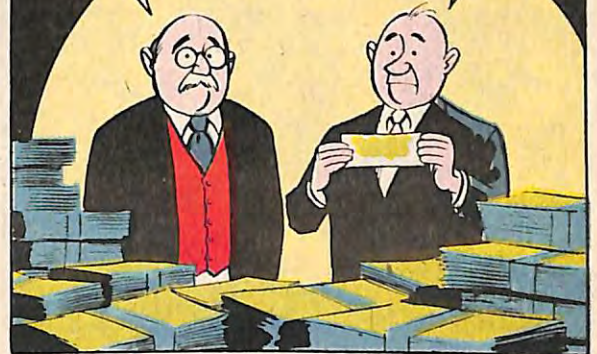


THEY WOULD ALSO ISSUE A NEW CURRENCY—FEDERAL RESERVE BANK NOTES.



THE NOTES SOON MADE UP THE BULK OF THE NATION'S PAPER CURRENCY.

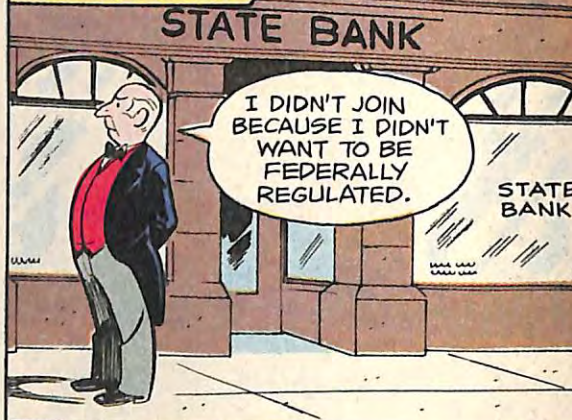
I WONDER IF THESE WILL REPLACE GOLD CERTIFICATES? MAYBE EVEN THESE GREENBACKS?



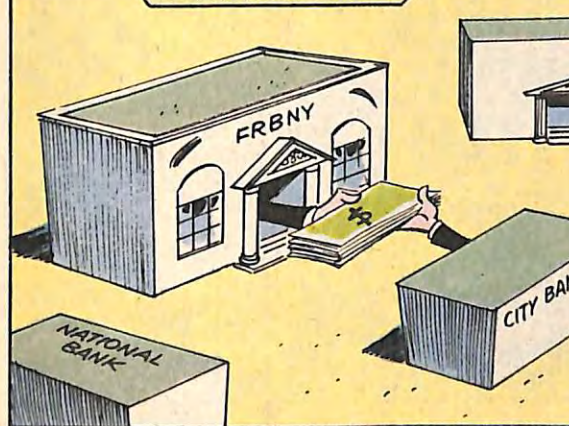
CONGRESS DECIDED THAT, SINCE NATIONAL BANKS WERE CHARTERED BY THE FEDERAL GOVERNMENT, THEY WOULD HAVE TO JOIN THE SYSTEM.



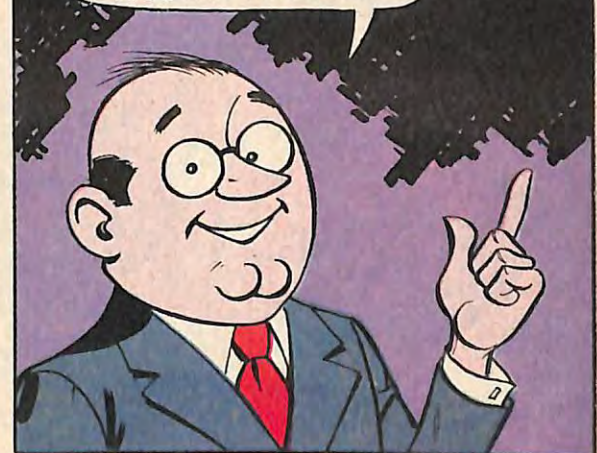
STATE-CHARTERED BANKS, BECAUSE THEIR AUTHORITY CAME FROM THE STATES, WOULDN'T BE REQUIRED TO JOIN BUT COULD BECOME MEMBERS IF THEY WERE QUALIFIED.



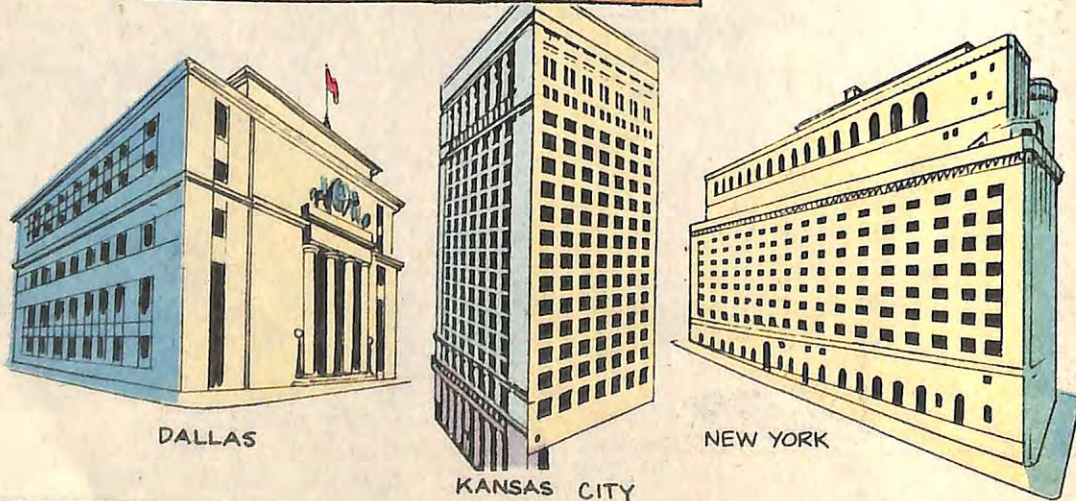
THE FEDERAL RESERVE WOULD ALSO SUPERVISE ITS MEMBER BANKS, ISSUE REGULATIONS AIMED AT PROMOTING SOUND BANKING PRACTICES AND MAKE LOANS TO BANKS IN TEMPORARY NEED.



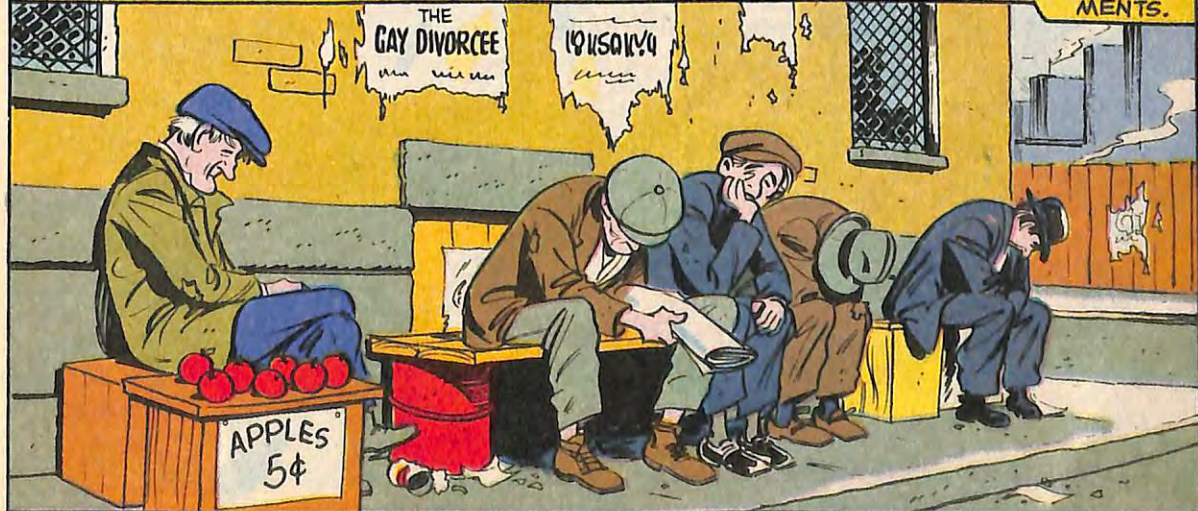
AMERICA WAS NOW ON ITS WAY TO A REASONABLY SOUND BANKING SYSTEM. BUT ANOTHER HARDSHIP FOLLOWED.



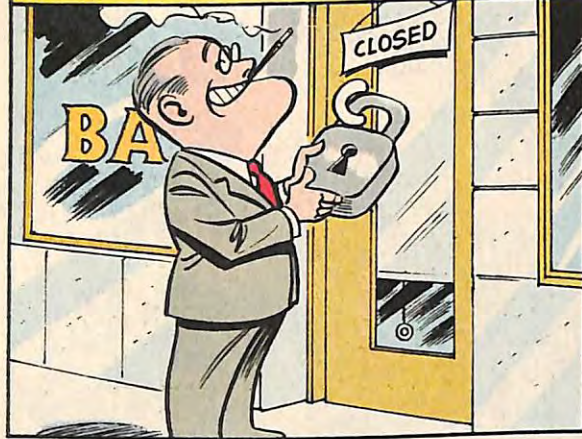
RESERVE BANKS WOULD HOLD MEMBER BANKS' RESERVES.



THE GREAT DEPRESSION OF THE 1930'S BROUGHT THE U.S. TO ITS KNEES. IT ALSO BADLY DAMAGED THE NATION'S BANKS, WHICH SUFFERED ENORMOUS LOSSES ON LOANS AND INVESTMENTS.



AS THE EVER DEEPENING DEPRESSION THREATENED EVEN SOUNDLY MANAGED BANKS, NEWLY ELECTED PRESIDENT FRANKLIN D. ROOSEVELT, IN MARCH, 1933, CLOSED THE NATION'S BANKS UNTIL ORDER WAS RESTORED.



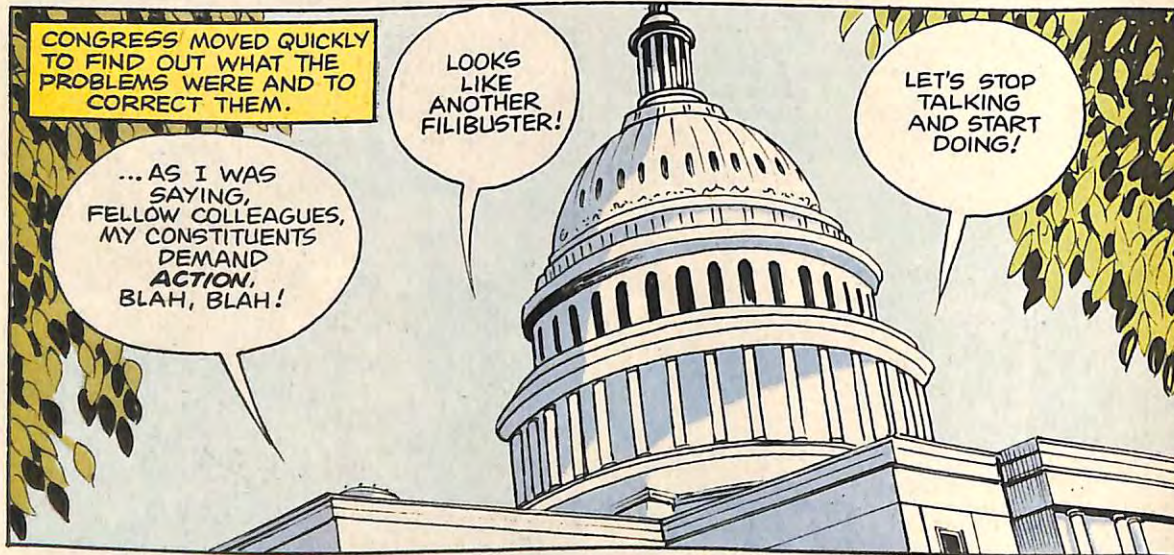
MANY BANKS DIDN'T REOPEN AND THOUSANDS OF PEOPLE LOST THEIR LIFE SAVINGS.



MY LIFE SAVINGS... GONE!

I HAD A CHRISTMAS CLUB GOIN'!

CONGRESS MOVED QUICKLY TO FIND OUT WHAT THE PROBLEMS WERE AND TO CORRECT THEM.



LOOKS LIKE ANOTHER FILIBUSTER!

LET'S STOP TALKING AND START DOING!

...AS I WAS SAYING, FELLOW COLLEAGUES, MY CONSTITUENTS DEMAND ACTION. BLAH, BLAH!

A MAJOR STEP WAS THE ESTABLISHMENT OF THE FEDERAL DEPOSIT INSURANCE CORPORATION TO INSURE CUSTOMERS' DEPOSITS, UP TO A CERTAIN AMOUNT, AND REPAY THEM IF A BANK FAILED.



DEPOSIT INSURANCE - WHAT A FINE IDEA!

I WONDER IF THEIR "TOASTERS" ARE INSURED?

THAT'S A CRUMMY QUESTION.

FREE TOASTER WITH EVERY NEW ACCOUNT

AFTER WORLD WAR II, CONGRESS SPELLED OUT THE NATION'S ECONOMIC OBJECTIVES IN THE EMPLOYMENT ACT OF 1946. THESE GOALS HAVE EVOLVED INTO...



...ENCOURAGING ECONOMIC GROWTH...

...RESISTING INFLATIONARY PRESSURES...

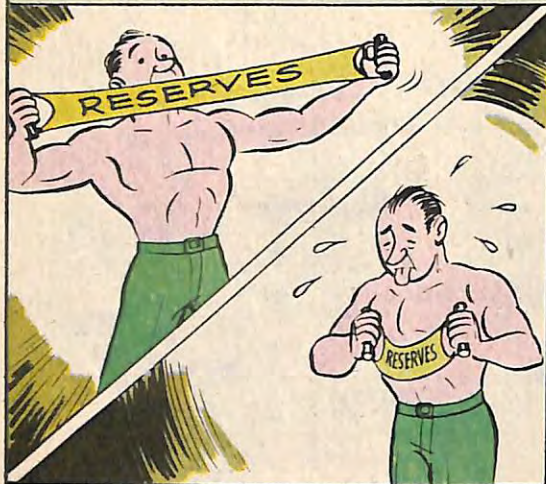
...PROMOTING HIGH EMPLOYMENT...

THE AMOUNT OF MONEY "CREATED" BY BANKS HAS A MAJOR INFLUENCE ON THE ECONOMY. MONETARY POLICY INFLUENCES THE TOTAL AMOUNT OF CREDIT AND ITS COST. BECAUSE THE FEDERAL RESERVE SYSTEM CAN AFFECT BANKS' ABILITY TO CREATE MONEY, CONGRESS GAVE THE SYSTEM THE JOB OF RELATING "MONETARY POLICY" TO NATIONAL ECONOMIC GOALS.

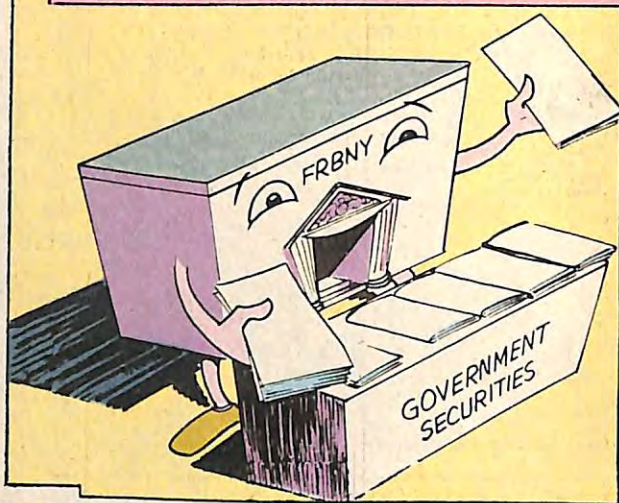
...SUSTAINING BALANCE IN OUR TRADE AND FINANCIAL DEALINGS WITH OTHER NATIONS.



THE FEDERAL RESERVE DOES ITS JOB BY EXPANDING OR CONTRACTING THE AMOUNT OF RESERVES BANKS AND THRIFTS HOLD.

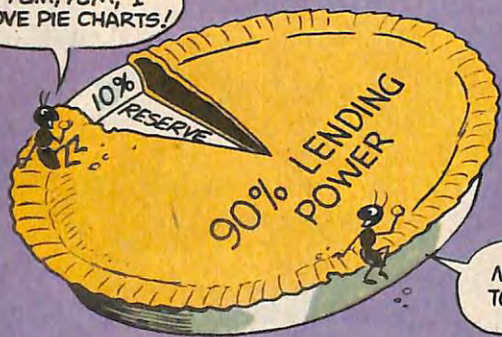


THE FEDERAL RESERVE BUYS AND SELLS U.S. GOVERNMENT SECURITIES. BUYING ADDS TO RESERVES. SELLING LOWERS RESERVES.



SUPPLYING MORE RESERVES ALLOWS THEM TO MAKE MORE LOANS. FEWER RESERVES MEAN LESS LENDING. FOR EXAMPLE, A BANK WITH A 10% RESERVE REQUIREMENT MUST HOLD \$10 OUT OF EVERY \$100 OF DEPOSITS. IT HAS \$90 OF LENDING POWER.

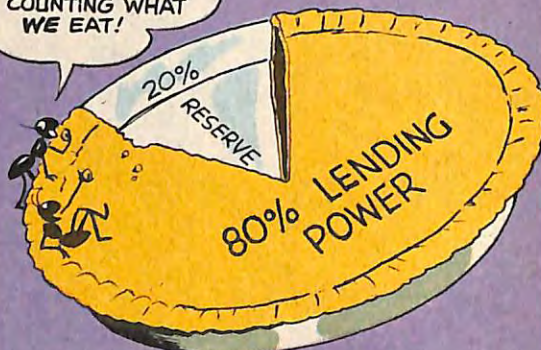
YUM, YUM, I LOVE PIE CHARTS!



ME, TOO!

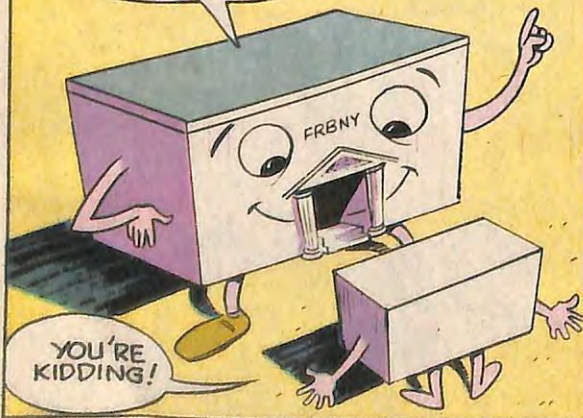
HOWEVER, IF THE RESERVE REQUIREMENT IS RAISED TO 20%, THE BANK MUST HOLD \$20 OUT OF EVERY \$100 OF DEPOSITS. IT THEN HAS ONLY \$80 OF LENDING POWER.

AND THAT'S NOT COUNTING WHAT WE EAT!



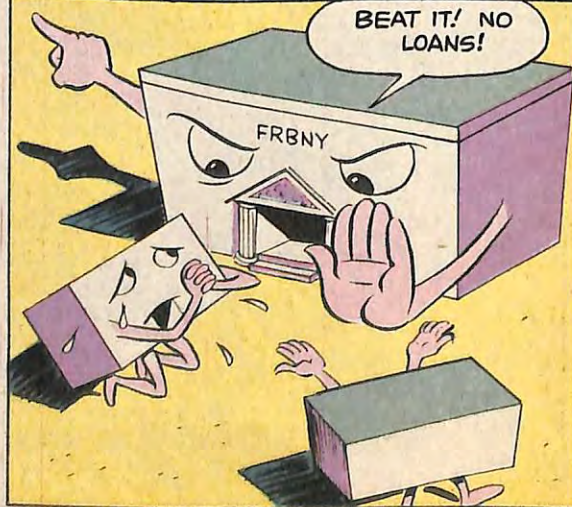
RESERVE BANKS CAN ALSO CHARGE A HIGHER OR LOWER INTEREST RATE ON THE TEMPORARY LOANS IT MAKES TO BANKS AND THRIFTS.

BORROWINGS COST LESS!

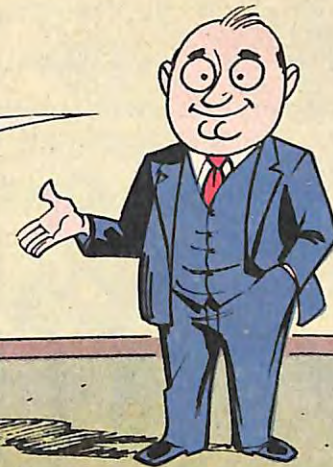


THE FED CAN ALSO MAKE IT EITHER EASIER OR MORE DIFFICULT FOR THEM TO GET LOANS.

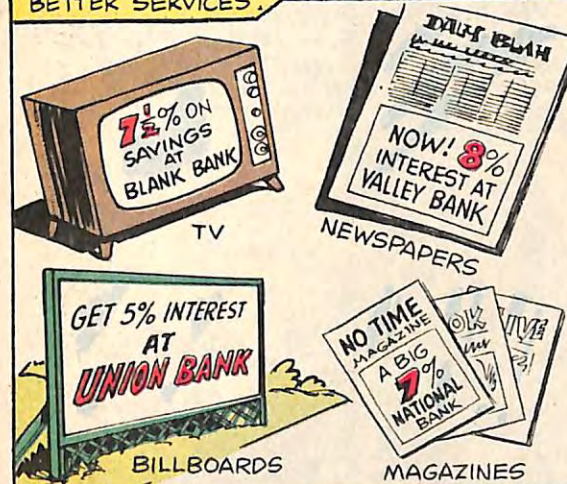
BEAT IT! NO LOANS!



BANKING TODAY IS VASTLY DIFFERENT THAN IT WAS 100 OR EVEN 50 YEARS AGO, WHEN BANKS SERVED ONLY THE BUSINESSMAN AND THE WEALTHY. TODAY, BANKS SERVE A WIDE RANGE OF PEOPLE FROM ALL ECONOMIC LEVELS, AGES AND OCCUPATIONS.



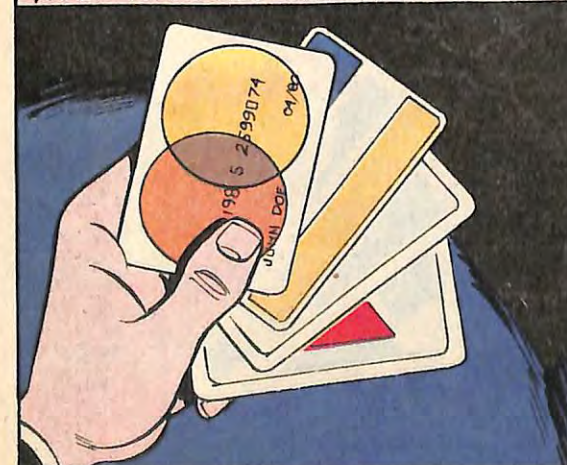
BANKS NO LONGER SIT BACK AND WAIT FOR FUNDS TO COME IN. THEY ACTIVELY COMPETE FOR BUSINESS AND CONSUMER DEPOSITS BY OFFERING COMPETITIVE INTEREST RATES AND BETTER SERVICES.



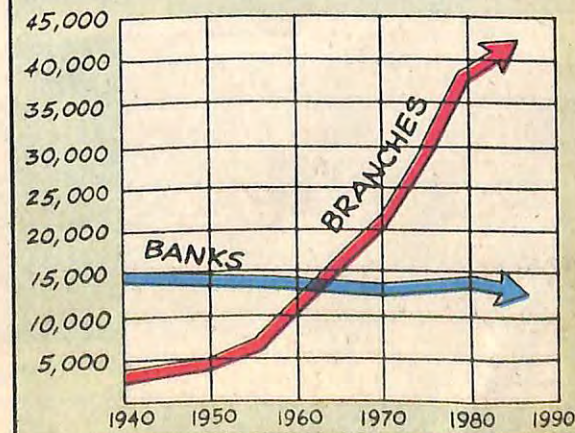
MORE ELECTRONIC DEVICES ARE BEING USED TO IMPROVE SERVICES. SOME BANKS USE COMPUTERS TO TRANSFER FUNDS INSTANTANEOUSLY BETWEEN SAVINGS AND CHECKING ACCOUNTS OF INDIVIDUALS AND BUSINESSES.



EVEN THE GRANTING OF CREDIT HAS CHANGED DRAMATICALLY. BANK CREDIT CARDS NOW GIVE IMMEDIATE CREDIT FOR AMOUNTS THAT A FEW YEARS AGO TOOK DAYS TO APPROVE.



THE STRUCTURE OF BANKS AND THE WAY THEY OPERATE HAVE ALSO CHANGED. ALTHOUGH THE NUMBER OF BANKS HAS FALLEN SINCE 1940, THE NUMBER OF BRANCHES HAS GROWN.



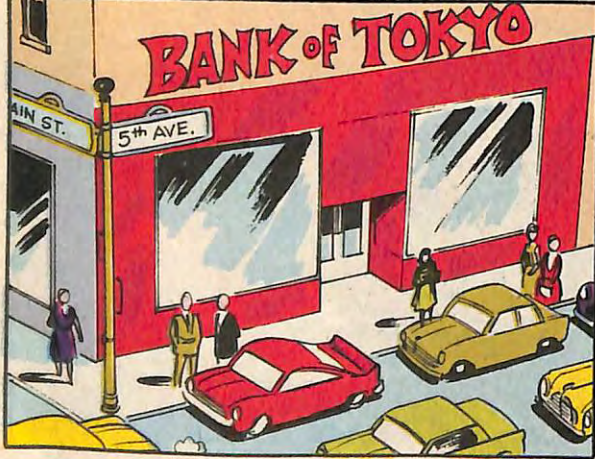
EACH STATE SETS ITS OWN RULES REGARDING BRANCHING WITHIN ITS BORDERS. MOST ALLOW SOME BRANCHING. A FEW ALLOW A BANK ONLY ONE OFFICE. GENERALLY, FEDERAL LAW PROHIBITS BANKING ACROSS STATE LINES.



SOME OF THE LARGER CITY BANKS OPENED OVERSEAS BRANCHES AS THEIR CUSTOMERS BECAME MORE ACTIVELY INVOLVED IN INTERNATIONAL TRADE. A FEW BANKS HAVE OFFICES AROUND THE GLOBE.



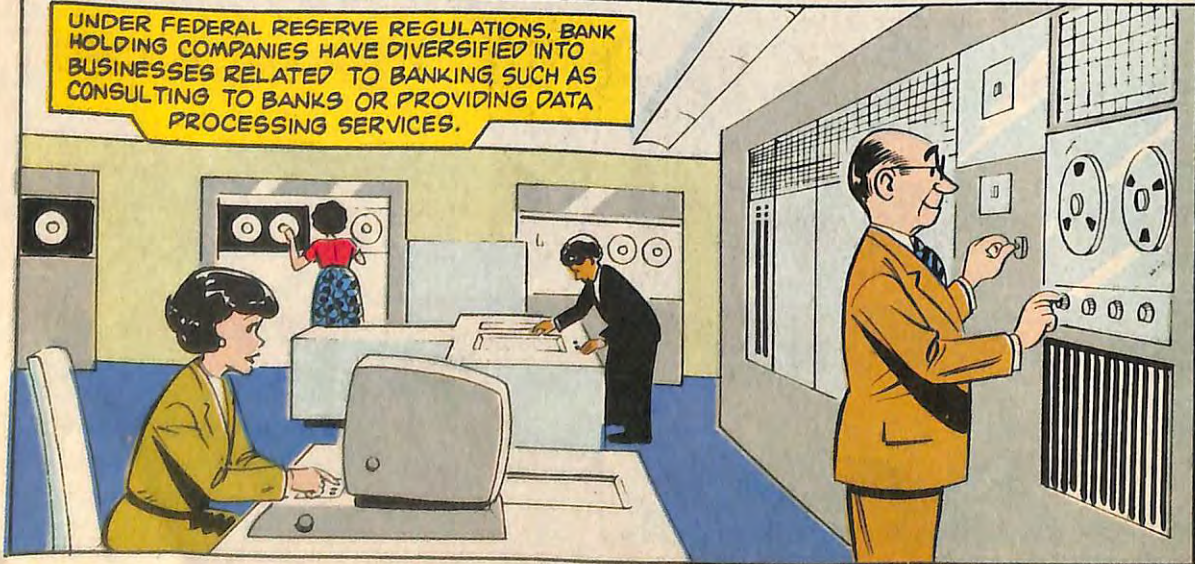
AT THE SAME TIME, LARGE FOREIGN BANKS HAVE OPENED U.S. OFFICES.



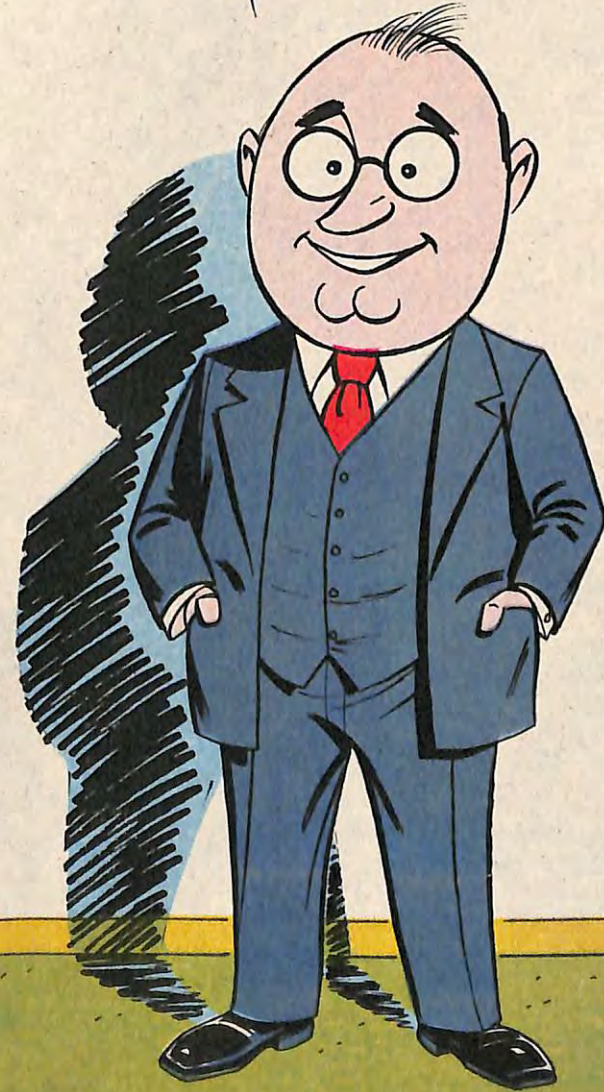
BANK HOLDING COMPANIES-- CORPORATIONS WHICH OWN ONE OR MORE BANKS-- ARE ALLOWED TO EXPAND THEIR ACTIVITIES WITHIN THEIR STATES AND ALSO NATIONWIDE.



UNDER FEDERAL RESERVE REGULATIONS, BANK HOLDING COMPANIES HAVE DIVERSIFIED INTO BUSINESSES RELATED TO BANKING SUCH AS CONSULTING TO BANKS OR PROVIDING DATA PROCESSING SERVICES.



BANKING HAS UNDERGONE VAST CHANGES IN RECENT YEARS IN TERMS OF ITS STRUCTURE, MARKETS, HARDWARE AND SERVICES. HOWEVER, DESPITE THESE CHANGES, AND THOSE THAT MIGHT COME IN THE FUTURE, BANKS AND THRIFTS WILL CONTINUE THEIR FUNDAMENTAL ROLE AS THE GO-BETWEEN FOR SAVERS AND BORROWERS, FOR THOSE PAYING AND THOSE RECEIVING MONEY, AND AS A TRANSMISSION BELT FOR MONETARY POLICY.



The following comic-style booklets also are available from the Federal Reserve Bank of New York:

The Story of Money
The Story of Consumer Credit (English)
The Story of Consumer Credit (Spanish)
The Story of Foreign Trade and Exchange
The Story of Inflation
The Story of Checks
and Electronic Payments

FEDERAL RESERVE BANK OF NEW YORK

Public Information Department

33 Liberty Street • New York, N.Y. 10045

1985