

Chapter 1 Introduction

“After all, there is an element in the readjustment of our financial system more important than currency, more important than gold, and that is the confidence of the people.”

These words were spoken by President Franklin D. Roosevelt in his first “fireside chat” to the people of the United States on March 12, 1933. In announcing an end to the bank holiday he had proclaimed six days earlier, President Roosevelt was exhorting the people to remain calm and avoid the panicked withdrawals that had crippled the nation’s banking system in the first months of 1933. However, despite the federal government’s newly adopted plans to reorganize many closed but viable banks, some 4,000 banks that had closed earlier in 1933 or during the bank holiday never reopened.

The confidence of the people still was shaken, and public opinion remained squarely behind the adoption of a federal plan to protect bank depositors. Opposition to such a plan had been voiced earlier by President Roosevelt, the Secretary of the Treasury and the Chairman of the Senate Banking Committee. They believed a system of deposit insurance would be unduly expensive and would unfairly subsidize poorly managed banks. Nonetheless, public opinion held sway with the Congress, and the Federal Deposit Insurance Corporation was created three months later when the President signed into law the Banking Act of 1933. The final frenetic months of 1933 were spent organizing and staffing the FDIC and examining the nearly 8,000 state-chartered banks that were not members of the Federal Reserve System. Federal deposit insurance became effective on January 1, 1934, providing depositors with \$2,500 in coverage, and by any measure it was an immediate success in restoring public confidence and stability to the banking system. Only nine banks failed in 1934, compared to more than 9,000 in the preceding four years.

In its seventh decade, federal deposit insurance remains an integral part of the nation’s financial system, although some have argued at different points in time that there have been too few bank failures because of deposit insurance, that it undermines market discipline, that the current coverage limit of \$100,000 is too high, and that it amounts to a federal subsidy for banking companies. Each of these concerns may be valid to some extent, yet the public appears to remain convinced that a deposit insurance program is worth the cost, which ultimately is borne by them. The severity of the 1930s banking crisis has not been repeated, but bank deposit insurance was harshly tested in the late 1980s and early 1990s. The system emerged battered but sound and, with some legislative tweaking, better suited to the more volatile, higher-risk financial environment that has evolved in the last quarter of the 20th century.

Chapter 2 of this document focuses on the antecedents to federal deposit insurance, and Chapter 3 relates developments in the 1930s leading to the establishment of the FDIC. Chapters 4 and 5 chronicle the early years of the FDIC and its experience during World War II and the prosperous decades of the 1950s and 1960s. Chapter 6 spans a 20-year period of fundamental changes in the banking industry that culminated with the worst banking crisis since the early 1930s and an insolvent deposit insurance fund. Chapter 7 describes the recovery of the banking industry in the 1990s, the rebuilding of its insurance fund and the legislative safeguards that were put in place to protect the fund in the future. The final chapter includes a discussion of some current deposit insurance issues facing the FDIC, the Congress and the banking industry. FDIC financial tables are found in the Appendix.

This document focuses on the insurance function of the FDIC. The agency also serves as the primary federal supervisor for state-chartered nonmember banks and has backup supervisory authority over all other insured depository institutions; and the FDIC manages the receiverships of failed insured banks and thrifts. These supervisory and receivership-management functions are not fully addressed here. The document also does not directly address the savings-and-loan crisis of the 1980s. The FDIC only began insuring the deposits of savings associations in 1989, as a result of the legislation that resolved the S&L crisis.