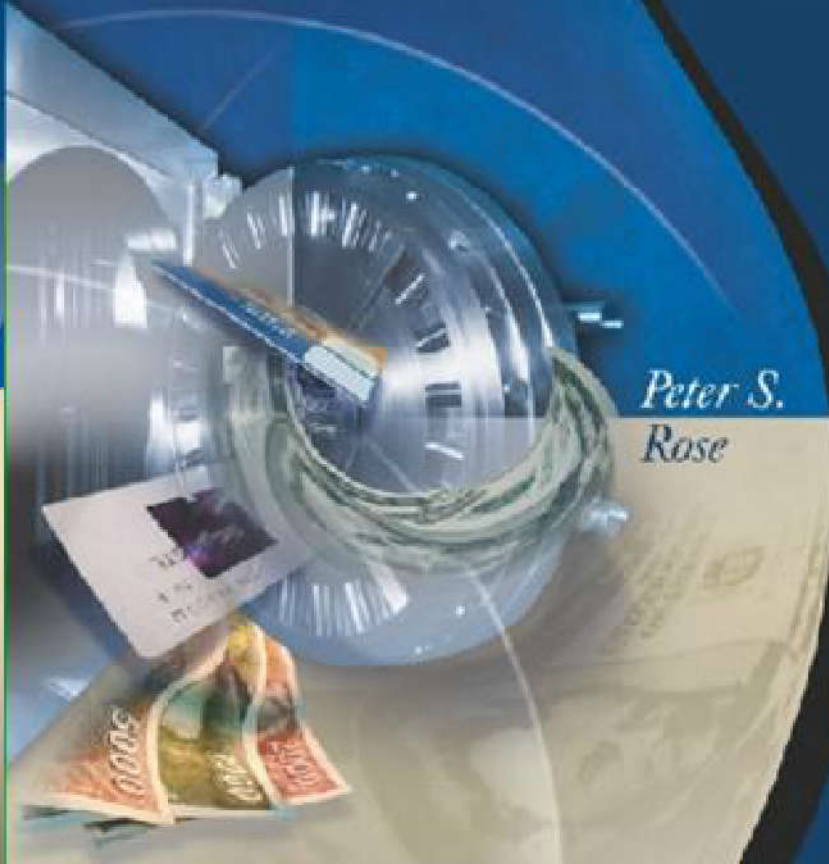


Commercial Bank *Management*

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The Impact of Government Policy and Regulation on Banking

The purpose of this chapter is to discover how the range of bank management decisions is limited by government regulation and to see how laws and regulations shape the services that banks can offer the public.

Reasons for the Regulation of Banks

- Protection of the Public's Savings
- Control of the Money Supply
- Adequate and Fair Supply of Loans
- Public Confidence
- Monopoly Powers
- Support of Government Activities
- Help for Special Segments of the Economy

Major Banking Laws

- National Currency and Banking Acts – 1863/64
- Federal Reserve Act – 1913
- McFadden-Pepper Act – 1927
- Glass-Steagall Act – 1933
- FDIC Act – 1935
- Bank Holding Company Acts – 1956, 1966, 1970
- Bank Merger Acts – 1960, 1966
- Social Responsibility Acts
- Depository Institution Deregulation and monetary Control Act (DIDMCA) - 1980

Major Banking Laws (cont.)

- Garn-St. Germain Act – 1982
- Competitive Equality in Banking Act – 1987
- Financial Institutions Reform and Recovery Act (FIRREA) – 1989
- FDIC Improvement Act (FDICIA) – 1991
- Riegle-Neal Interstate Banking and Branching Efficiency Act – 1994
- Riegle-Neal Community Development and Regulatory Improvement Act – 1994
- Gramm-Leach-Bliley Act - 1999

Federal Reserve and Monetary Policy

- The Discount Rate
- Open Market Operations
- Reserve Requirements
- Other Tools

European Central Bank

- Central Policy is to Maintain Price Stability
- Structure is Similar to the Federal Reserve
- Eleven Member States

National Banking Act (1863,1864)

- Passed During the Civil War to Help Fund the War
- Created the Treasury and the Comptroller of the Currency
- Created National Banks with a Federal Charter

Federal Reserve Act of 1913

- Passed After a Series of Financial Panics at the Beginning of the Century
- Created the Federal Reserve System
- Gave the Fed the Authority to Act as the Lender of Last Resort
- Created to Provide a Number of Services to Member Banks
- Today the Fed Controls the Money Supply

McFadden-Pepper Act 1927

- Prevented Banks from Expanding Across State Lines
- Made National Banks Subject to the Branching Laws of Their State

Glass-Steagall Act 1933

- Passed During the Great Depression
- Separated Investment and Commercial Banking
- Created the FDIC
- Fed Given the Power to Set Margin Requirements
- Prohibited Interest to be Paid on Checking Accounts

FDIC Act 1935

- Addressed the Issues Left Out of the Glass-Steagall Act
- Gave the FDIC the Power to Examine Banks and Take Necessary Action

Bank Holding Company Acts

- Federal Reserve Given the Power to Regulate Bank Holding Companies - 1956
- Amendment Reduced the Tax Burden of Bank Holding Companies - 1966
- Amended the Definition of Bank Holding Companies to Include One-Bank Holding Companies - 1970

Bank Merger Acts

- All Mergers Must be Approved by the Appropriate Regulating Body
- Mergers Must be Evaluated in Three Areas
 - Effect on Competition
 - Effect on the Convenience and Needs of the Community
 - Effect on the Financial Condition of the Banks

Social Responsibility Acts

- 1968 – Full Information on Terms of Loans Must be Given
- 1974 – Cannot Be Denied a Loan Based on Age, Sex, Race, National Origin or Religion
- 1977 – Cannot Discriminate Based on the Neighborhood in Which Borrower Resides
- 1987 and 1991 – Banks Must Disclose Full Terms on Deposit and Savings Accounts

DIDMCA 1980

- First of Deregulation Acts
- Phased Out Interest Rate Ceilings
- Allowed Interest to be Paid on Checking Accounts (NOW Accounts)
- Term Transaction Account Created – All Institutions with These Accounts Subject to Reserve Requirements

Garn-St. Germain Act 1982

- Continued the Deregulation of DIDMCA
- Created Money Market Deposit Account
- FDIC Could Arrange Mergers Across State Lines if Needed
- Loan Limits were Liberalized
- Banks in Need of Capital Could Get It From the FDIC

Competitive Equality in Banking Act 1987

- Allowed Creation of Special Bridge Banks for Failed Institutions
- Bridge Banks Are Special National Banks Operated by the FDIC
- Bridge Banks Created When Bank is Essential to the Community

FIRREA 1989

- Created in Response to Large Number of Bank and S&L Failures
- Combined FDIC and FSLIC into the FDIC and Dismantled S&L Regulatory Body
- Created the RTC to Take on the Assets of Failed S&Ls
- \$50 Billion Authorized to Handle Failed Institutions (Later Increased)
- Allowed Bank Holding Companies to Purchase

FDICIA 1991

- Move Towards Reregulating the Industry
- Requires Regulators to Take Prompt Corrective Action When a Bank has Problems
- Prompt Corrective Action Based on the Capital Position of the Bank
- Requires Regulators to Develop New Standards for the Banks They Regulate

Riegle-Neal Acts 1994

- Bank Holding Company Can Acquire Banks Nationwide
- Consolidation of Interstate BHCs into Branches
- Smaller Well Managed Banks Only Examined Every 18 Months
- Community Development Fund Created to Promote Development of Depressed Local Communities

Gramm-Leach-Bliley Act 1999

- Permits Banking-Insurance-Securities Affiliations
- Consumer Protections for Consumers Purchasing Insurance Through a Bank
- Must Disclose Policies Regarding the Sharing of Customers' Private Information
- Customers are Allowed to 'Opt Out' of Private Information Sharing
- Fees for ATM Use Must be Clearly Disclosed
- It is a Federal Crime to Use Fraud or Deception to Steal Someone's Account or Personal Information