DUAL BANKING SYSTEM

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Commercial banks in America operate under a dual banking system which allows banks to charter under federal or state law. Federally-chartered banks are subject to federal laws and are regulated by federal agencies and state-chartered banks are subject to state laws and are regulated primarily by state agencies. Because state-chartered banks are required to carry deposit insurance through the Federal Deposit Insurance Corporation (FDIC) and have the option of joining the Federal Reserve System, each state-chartered bank is regulated by at least one federal agency.

The three federal agencies which oversee federally-chartered banks are: the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board, and the FDIC. Each of these agencies was formed in response to a national financial crisis.

Prior to the Civil War, bank charters were a function of the state, and state bank notes were used as currency. Around 1857 the value of state bank notes became unstable which lead to a recession followed by the failure of the Suffolk Banking System in 1858. The Suffolk Banking System existed in New England and was the first region-wide note clearing system for bank notes in the United States.

In 1861, the nation was preparing for what would become the Civil War, which would require financing. Due to the economic climate of the time, state banks were unable to provide the necessary financing for the Civil War. National notes were issued; the notes proved insufficient to fund the war, so the National Currency Act was passed in 1863. This Act established the dual banking system through the creation of a national currency, a system of nationally charted banks, and the OCC which regulates the safety and soundness of all nationally chartered banks.

This structure was in place until the panic of 1907 when there were a series of runs on banks and financial trusts. National banks experienced a severe liquidity crisis and another recession followed.

In 1910, a group of financiers, disguised as duck hunters, met on Jekyll Island and developed a plan for creating a central banking system controlled by private banks in order to prevent future financial crises. This plan became the basis of the Federal Reserve Act. The Federal Reserve Act, which received final passage in 1913, created a system of federally regulated bank reserves. The Federal Reserve Bank serves as a lender of last resort and is the central banking system of the United States.

National banks were required to join the Federal Reserve System; state-chartered banks had the option to join. National banks and state member banks purchase shares in one of the 12 regional Reserve Banks, and the entire System receives supervision and oversight by the Federal Reserve Board.

Any Georgia-chartered bank may choose to become a member bank of the Federal Reserve System. If a Georgia-chartered bank becomes a member bank, they will be under the supervision of the Georgia Department of Banking and Finance (Department) and the Federal Reserve Board.

The nation saw another round of bank runs during the Great Depression. By 1932, 25 percent of all banks in the United States had failed. When Franklin D. Roosevelt assumed office in 1933, he declared a bank holiday which completely shut down the banking system. During the bank holiday, banks were examined for solvency. The bank holiday was a success; banks reopened and public confidence increased. To ensure a complete financial recovery, the Banking Act of 1933, which established the FDIC, was passed. Also known as the Glass-Steagall Act, the Act required all national banks to obtain deposit insurance and granted state-chartered banks the ability to obtain deposit insurance.

Georgia requires all state-chartered banks to obtain deposit insurance through the FDIC thereby placing all Georgia-chartered banks under the supervision of the Department and the FDIC. Some banks, like Suntrust Bank, are under the supervision of three regulatory agencies: the Department, the Federal Reserve System, and the FDIC.

Regulatory agencies are required to perform periodic examinations to ensure compliance with all regulations and to assess an institution's safety and soundness. In Georgia, because all state-chartered banks are required to carry FDIC insurance, examinations are performed with both the Department and FDIC present. If an institution is determined to be in trouble, the Department and the FDIC make determinations based on that institution's needs. A troubled institution will have more frequent visitations by the Department and FDIC.

If a troubled bank cannot meet its obligations to depositor and other obligators, the FDIC and/or Department will close the bank and place it on the failed bank list. As mentioned above, Georgia-chartered banks are required to carry insurance through the FDIC.

Following a Georgia-chartered bank failure, the FDIC pays insurance to the depositors up to the standard insurance amount of $250,000 per depositor, per insured bank, for each ownership category. The FDIC also acts as the receiver of the bank and assumes the task of selling and collecting the assets of the failed bank and settling its debts, including claims for deposits in excess of the insured limit. Georgia also has the authority to act as the receiver of the failed bank should it wish to assume this role. After a bank failure, the Department provides information and documents related to the bank failure to the FDIC's Office of the Inspector General. The Office of the Inspector General provides an analysis review after each bank failure based on the information provided by the FDIC and the Department. This information can be found on the FDIC's website.

Congressman Lynn Westmoreland currently has a bill before Congress which requires the FDIC to conduct a study of its practices and procedures and the impact they may be having on banks in ten states with the highest number of bank failures. Georgia currently leads the nation in bank failures. The bill recently passed the House Financial Services Committee; the next step is to bring the bill to the House floor.