

National Banking Act 1863-1864

1864 → 1900

① Minimum Capital Requirements Set:

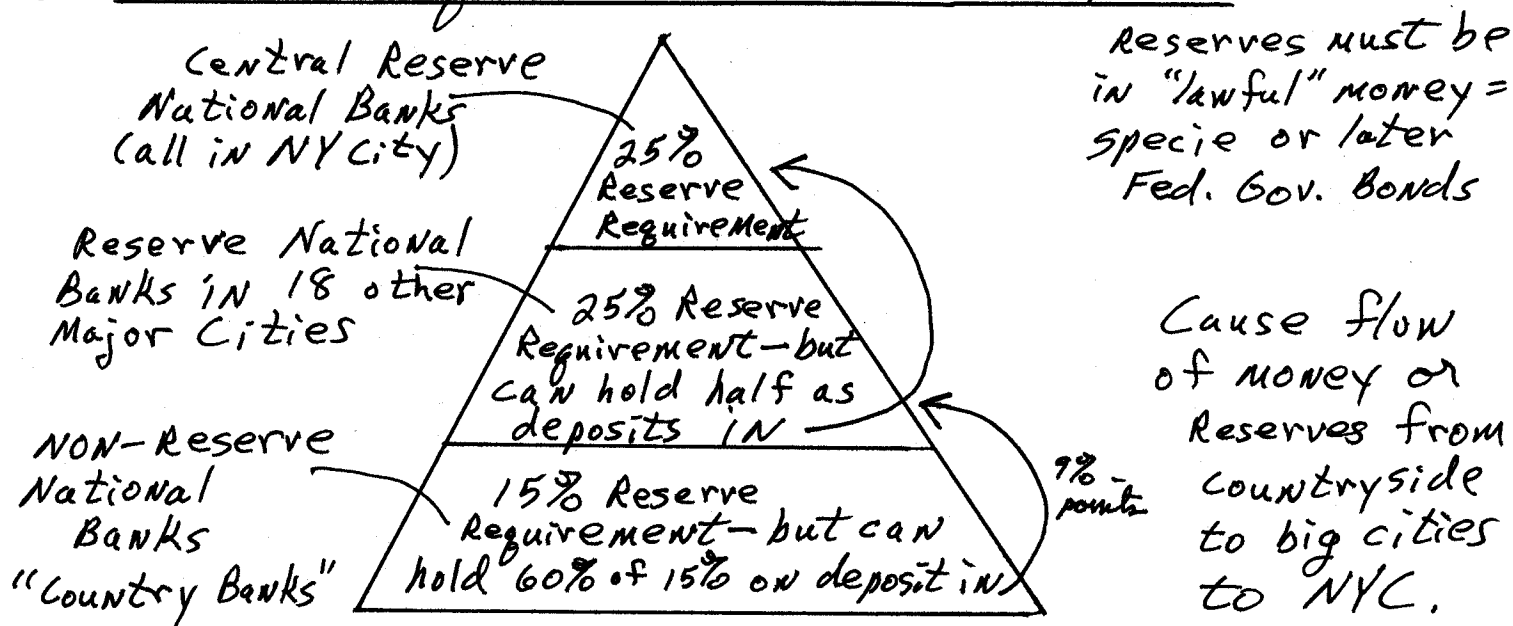
\$50,000 in towns with under 6,000 population

\$100,000 in towns between 6,000 & 50,000 population

\$200,000 in towns over 50,000 population

[?? are these barriers to entry in small towns??
 $\$50,000/6,000 = 8.3$; $\$100,000/50,000 = 2.0$; $\$200,000/100,000 = 2.0$]

② Reserve Requirements: 3 Tier System



③ 10% tax on State Bank Notes

drive state banks into checking; create national currency around National Bank Notes

④ National Bank Notes must be backed by Fed. Government Bonds (forced financing of Civil War)

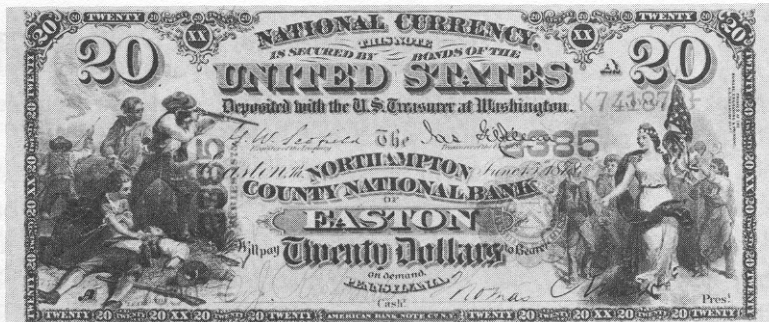
⑤ Cannot hold loan mortgages on real estate, (no loan assets over 5 years)

↑ substitute lending institutions

TABLE I
The Formation of National Banks, 1863-1866

Dates	New Establishments	State-Bank Conversions	Cumulative Conversions	Cumulative Grand Total
Feb. '63-Nov. '63	133	1	1	134
Nov. '63-Nov. '64	282	168	169	584
Nov. '64-Dec. '65	283	731	922	1,620
Dec. '65-Oct. '66	51	11	933	1,682

Source: U.S. Comptroller of the Currency, *Annual Reports* for 1864-1867.

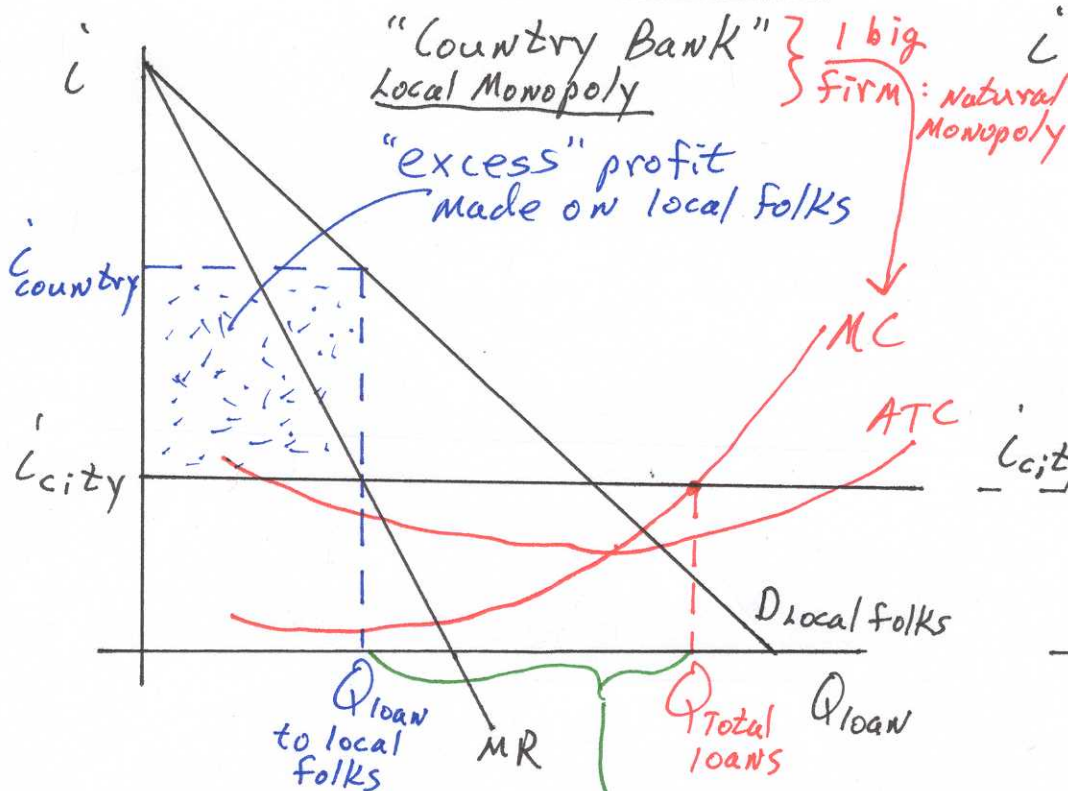


CHAPTER 8

National Bank note, 1865

Barriers to Entry Create Monopoly National Banking in Small Towns & Rural America ??

The Model



Big City
Competitive
Banking

Price Discriminating
Monopoly !!

deposits (loans) sent to Big City
Reserve National Bank correspondents

Predictions:

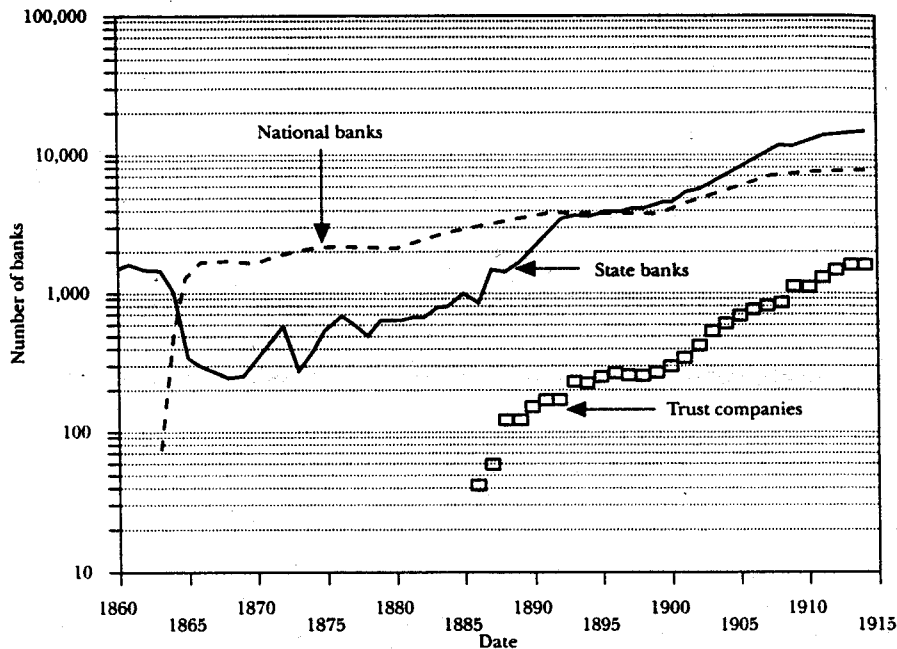
- ✓ yes (a) $i_{\text{rural areas}} > i_{\text{cities}}$
- ✓ yes (b) "excess" funds move from country to city

$$\frac{\text{Loan}}{\text{asset}}_{\text{country}} < \frac{\text{Loan}}{\text{asset}}_{\text{city}}$$

[Country banks holding "excess" reserve deposits in city banks]
- 7. No evidence (c) profits higher in country banks
- ✓ (d) as competition ↑ a, b, c abate.

But a & b could just reflect
Risk differentials & diversification
& seasonal volatility in liquidity demand

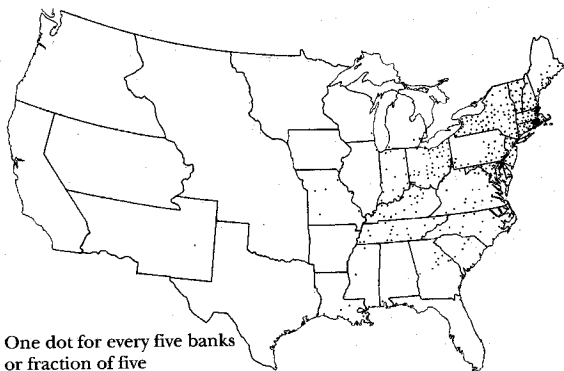
The Growth of Commercial Banking in America, 1860-1914



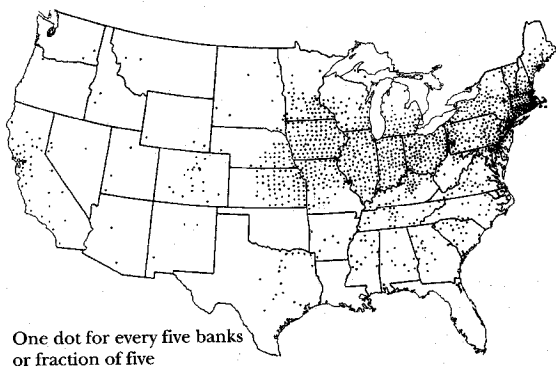
Source: Eugene N. White, *The Regulation and Reform of the American Banking System, 1900-1929* (Princeton: Princeton University Press, 1983): 12-13, 39.

FIGURE 18.5

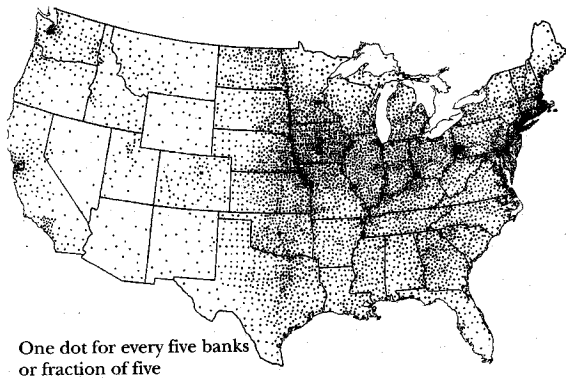
Geographic Distribution of Banks



PANEL A: 1850



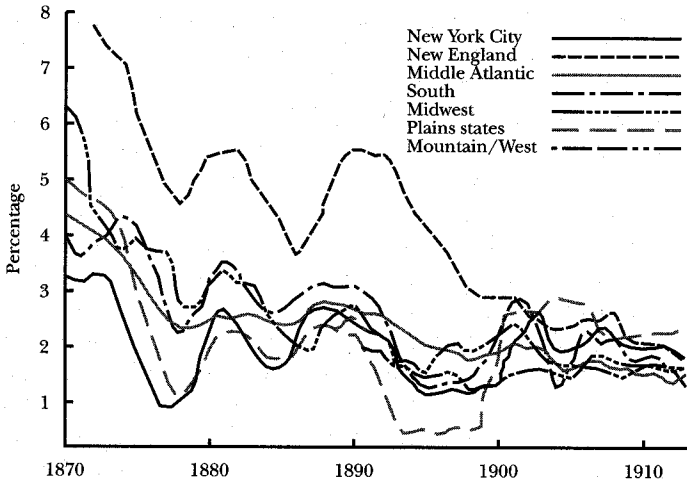
PANEL B: 1880



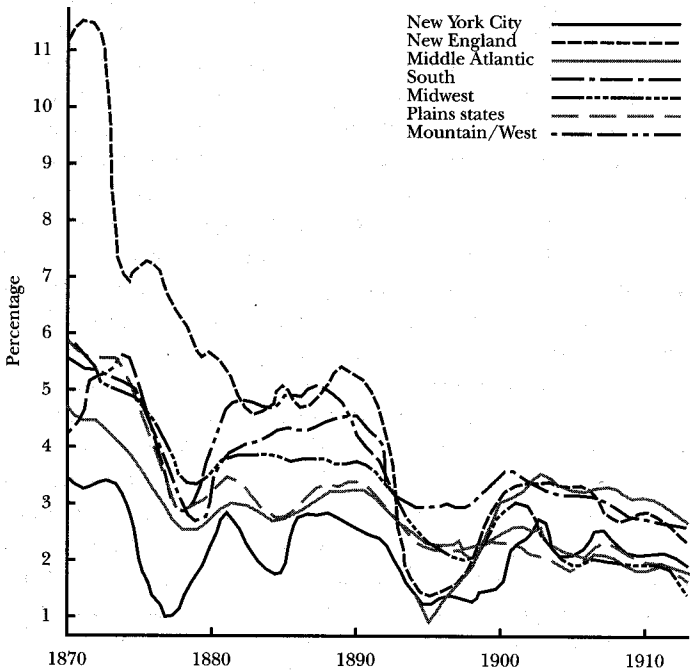
PANEL C: 1910

FIGURE 18.7

The Convergence of Regional Interest Rates 1870–1914



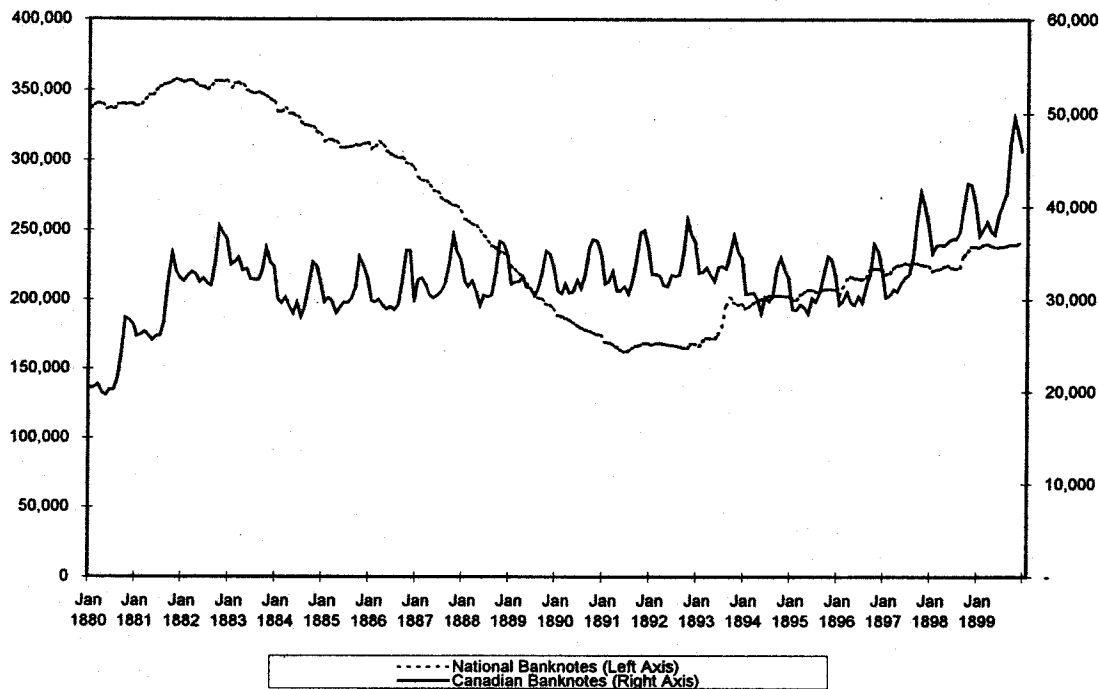
Regional Average Net Returns for Reserve City Banks



Regional Average Net Returns for Nonreserve City Banks

FIGURE 2

National and Canadian Banknotes Outstanding, 1880–1900, in Thousands of Dollars



Sources: National bank notes: U.S. National Monetary Commission 1910, Table 19, 43–50. Canadian banknotes: Curtis [1931, 20].