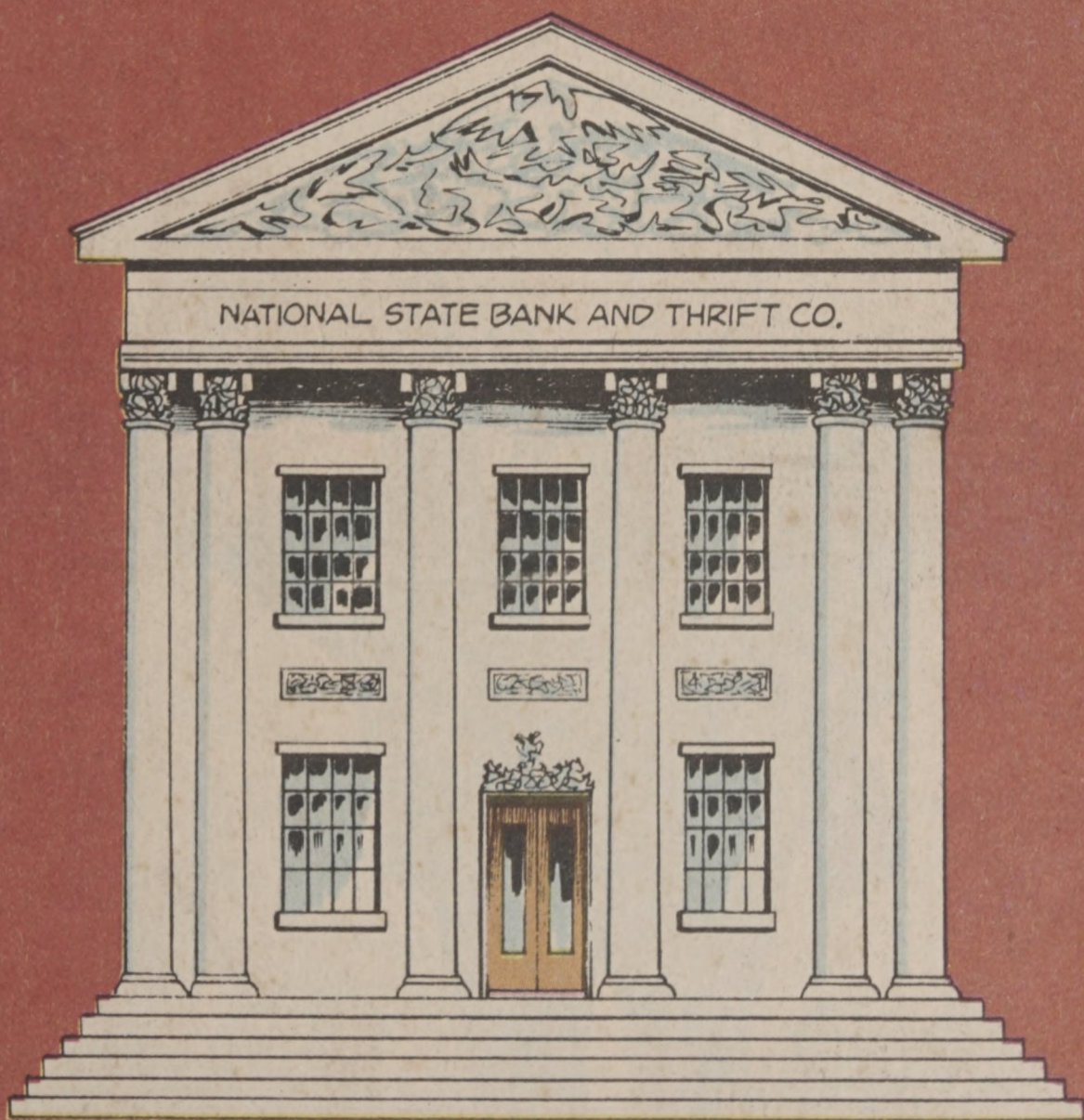


**THE STORY OF
BANKS
AND
THRIFTS**



**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.



THERE--
SAFE AND
SOUND.

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

The **24-HOUR** Bank



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.

GENERALLY, THRIFTS HAVE CONCENTRATED ON PROVIDING SAVINGS ACCOUNTS...

SAVINGS DEPOSITS

...AND MAKING LOANS FOR HOME BUILDING AND MORTGAGES.

HOME LOANS

WHEN BANKS AND THRIFTS LEND, THEY CREATE NEW CHECKBOOK MONEY BY ADDING FUNDS TO BORROWERS' CHECKING ACCOUNTS. SINCE COMMERCIAL BANKS CREATE NEARLY THREE-QUARTERS OF NEW CHECKBOOK MONEY, THEY PLAY A SPECIAL ROLE IN OUR FINANCIAL SYSTEM.

LOANS

PEOPLE WANT THEIR CASH WELL PROTECTED. BANKS AND THRIFTS, WITH VAULTS, ALARMS AND DEPOSIT INSURANCE, OFFER GREATER SAFETY THAN KEEPING MONEY AT HOME.

SUGAR

COOKIE

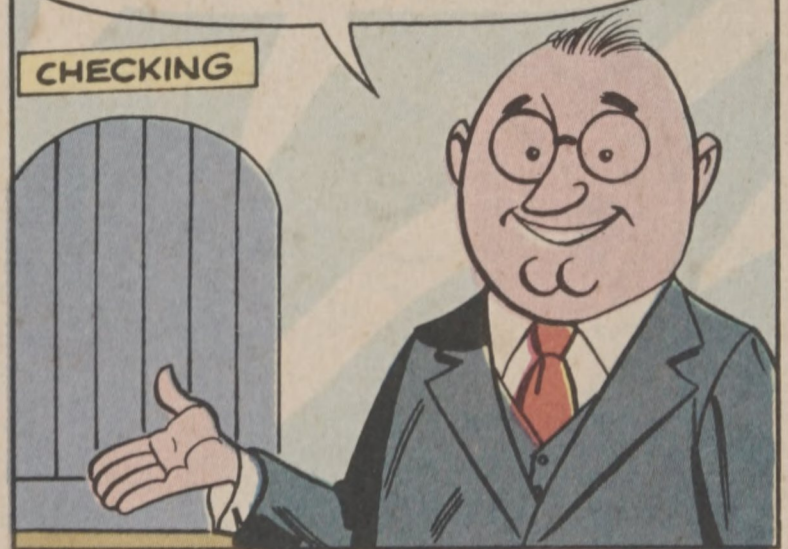
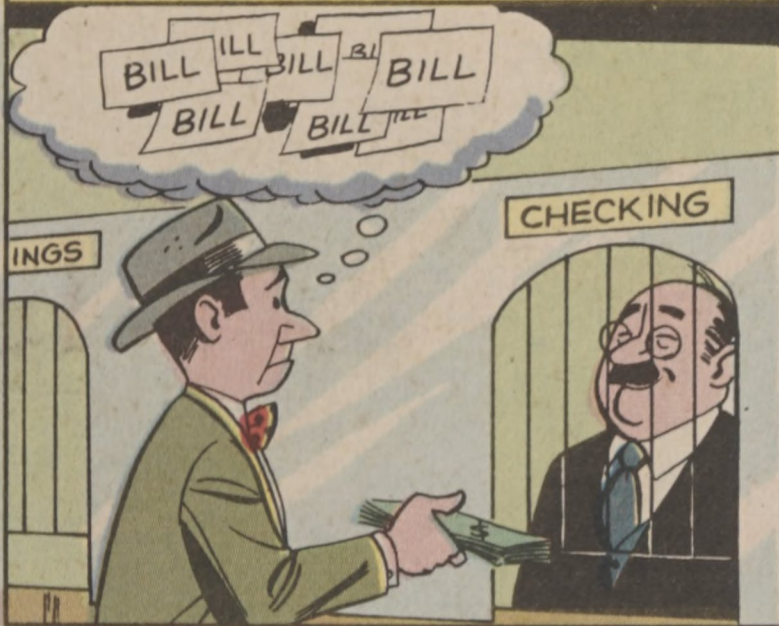
THE TYPE OF ACCOUNT YOU PUT YOUR MONEY IN DEPENDS ON HOW SOON YOU INTEND TO USE IT.

IF YOU'RE SAVING FOR A NEW CAR, YOU MIGHT NOT PLAN TO SPEND THE MONEY IMMEDIATELY. SO, A SAVINGS ACCOUNT IS WHAT YOU WANT.



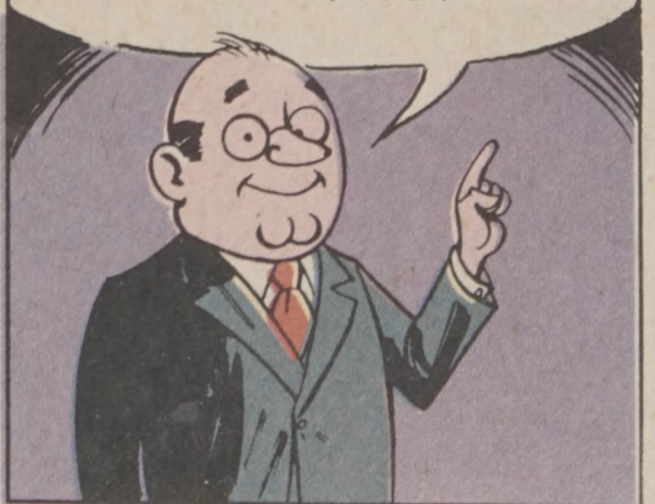
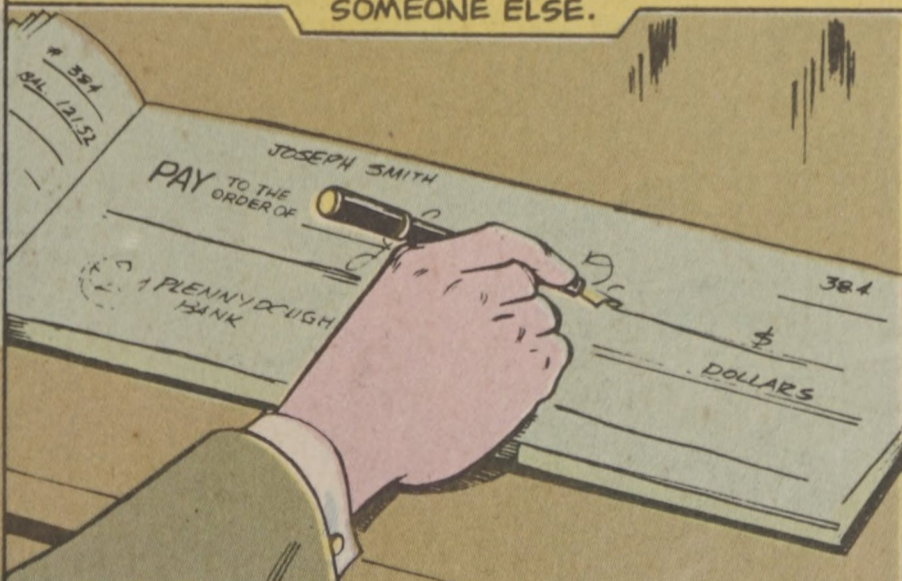
IF YOU PLAN ON SPENDING YOUR MONEY IN THE NEAR FUTURE, YOU'RE BETTER OFF PUTTING IT IN A CHECKING ACCOUNT.

THERE ARE VARIOUS TYPES OF CHECKING ACCOUNTS. DEPOSITS IN CHECKING ACCOUNTS MAKE UP THE BULK OF THE U.S. MONEY SUPPLY. THE REST IS CURRENCY AND COIN.



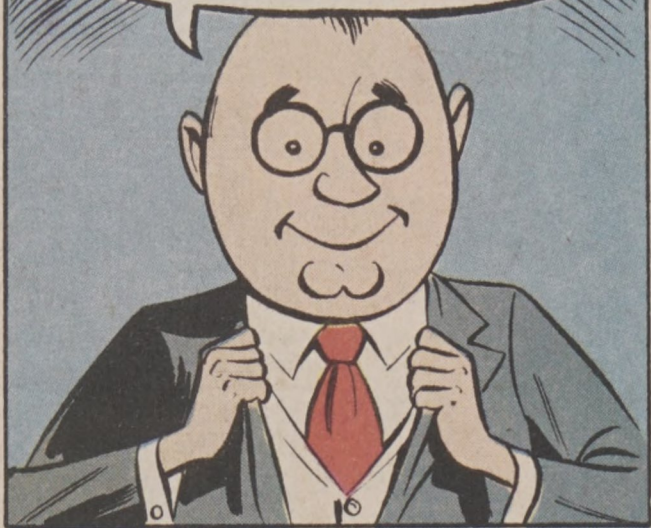
SIMPLY BY WRITING A CHECK, WE TELL THE BANK TO TRANSFER MONEY FROM OUR CHECKING ACCOUNT TO SOMEONE ELSE.

BANKS AND THRIFTS ARE REQUIRED TO KEEP A FRACTION OF DEPOSITS ON RESERVE. THEY CAN LEND AND INVEST THE REST. BANKS EARN INCOME FROM LOANS TO PAY DEPOSITORS FOR THE USE OF THEIR MONEY AND GENERALLY MAKE A PROFIT.



WITH INDIVIDUALS DEPOSITING AND WRITING CHECKS EACH DAY, FUNDS FLOW INTO AND OUT OF BANKS AND THRIFTS.

BECAUSE OF "FRACTIONAL" RESERVES, BANKS AND THRIFTS AS A WHOLE, CAN EXPAND CHECKBOOK MONEY SEVERAL TIMES--BY MAKING LOANS AND INVESTMENTS.

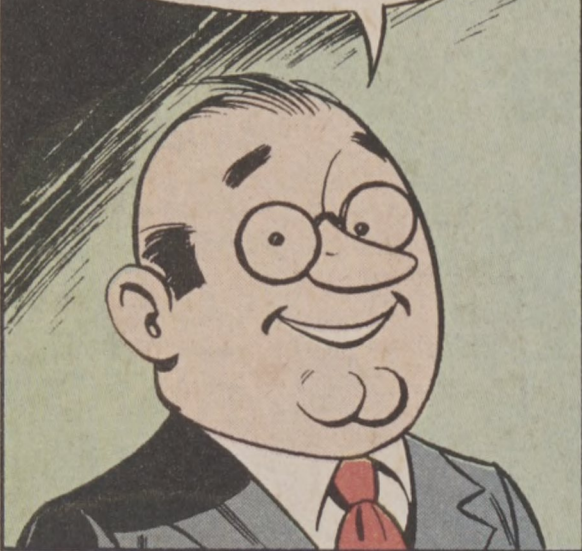


SUPPOSE WESTSIDE BANK GETS A DEPOSIT OF \$1000, KEEPS A RESERVE OF 15 PERCENT OR \$150. IT HAS THE DIFFERENCE--\$850--TO LEND.

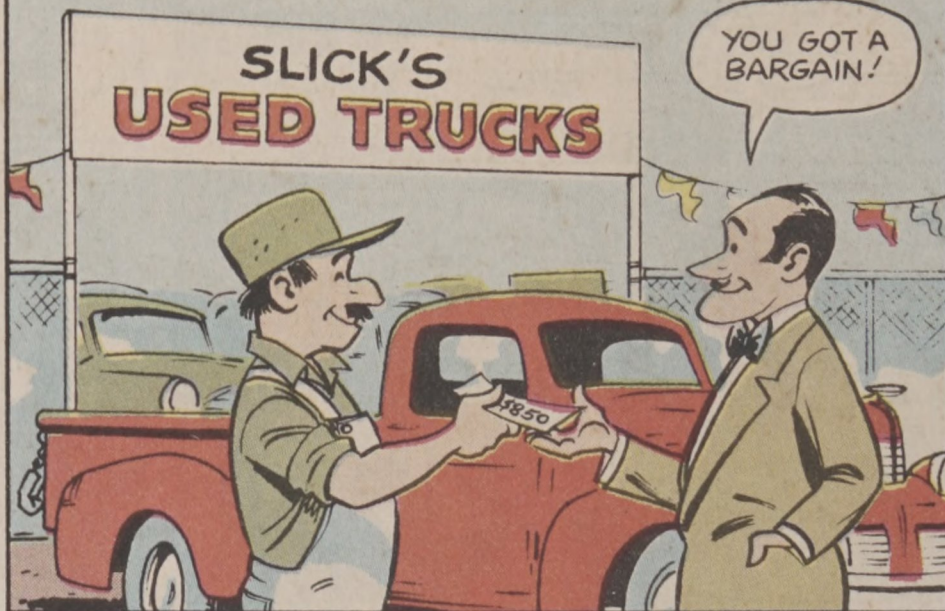


WHEN WESTSIDE LENDS JAKE THE PLUMBER \$850, THE FUNDS ARE PUT INTO A NEW OR EXISTING CHECKING ACCOUNT FOR JAKE.

WESTSIDE TAKES JAKE'S PROMISE TO REPAY THE LOAN AND CREATES A DEMAND DEPOSIT--MONEY HE WILL SPEND BY WRITING CHECKS.



JAKE WRITES A CHECK FOR \$850 TO SLICK'S USED TRUCK CO., WHICH PUTS JAKE'S CHECK IN ITS CHECKING ACCOUNT AT EASTSIDE BANK.



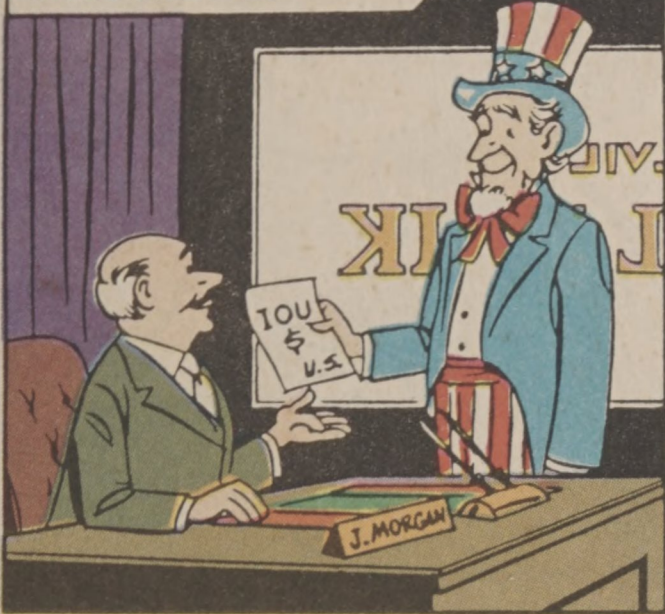
EASTSIDE GAINS \$850 IN DEPOSITS AND HOLDS A RESERVE OF 15% OR \$127.50, LEAVING \$722.50 TO LEND TO HELEN'S BEAUTY SPA.



AS THE PROCESS CONTINUES, WITH BORROWERS' FUNDS ENDING UP IN DIFFERENT BANKS, THE ORIGINAL \$1,000 DEPOSIT CAN EXPAND TO ALMOST \$6,700.



GOVERNMENTS BORROW WHEN THEY SELL NEW IOUs TO BANKS AND THRIFTS AS INVESTMENTS.



ACE DEPARTMENT STORES

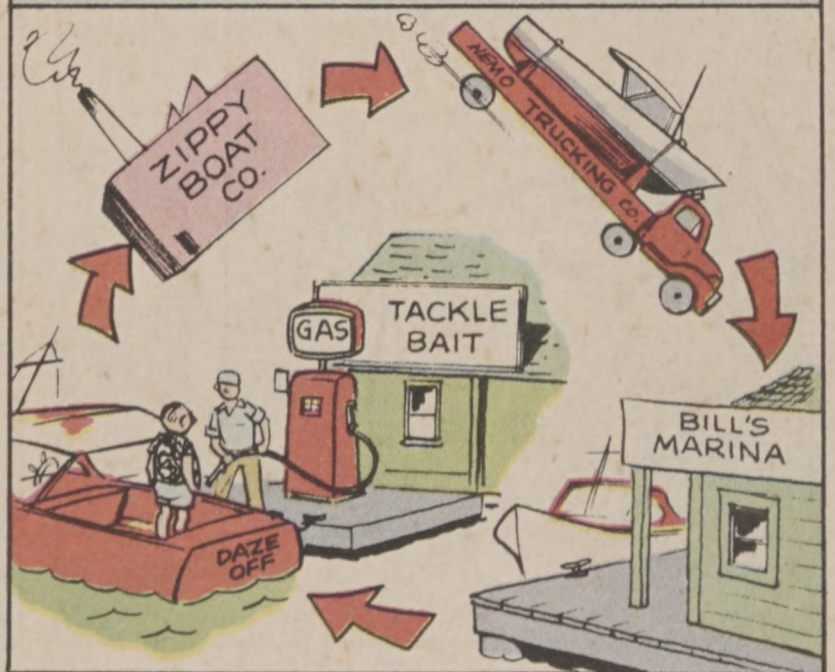


BUSINESS BORROWINGS HELP CREATE JOBS, STOCK SHELVES, BUILD FACTORIES AND BUY NEW EQUIPMENT.

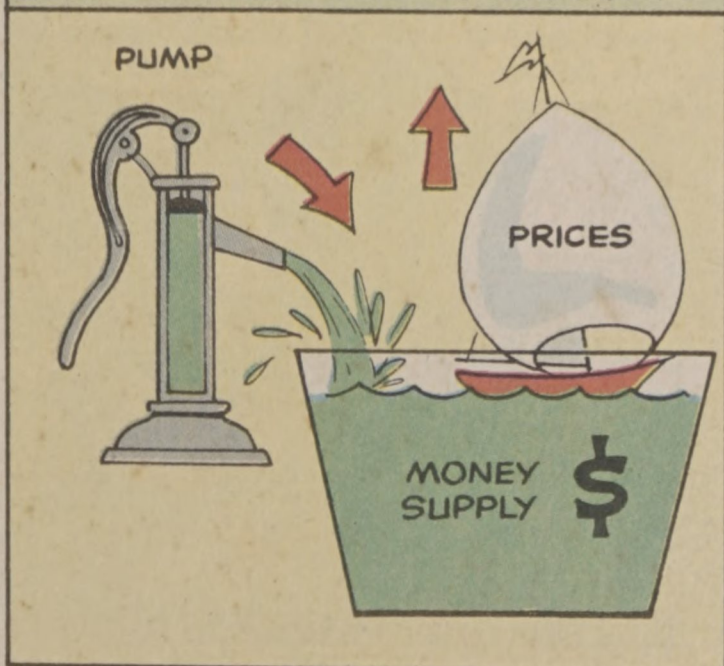
INDIVIDUALS' BORROWINGS HELP THEM BUY WHAT THEY WANT.



THE PURCHASES MADE POSSIBLE BY LOANS HELP KEEP OUR ECONOMY ACTIVE.



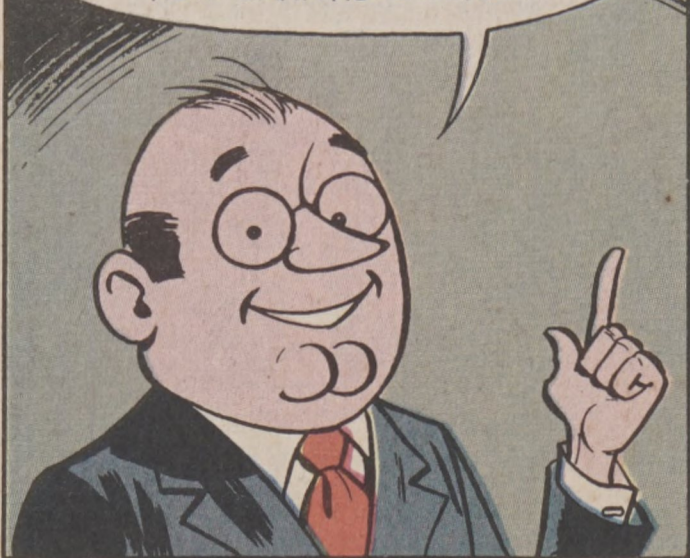
HOWEVER, MONEY CREATION MUST BE CONTROLLED. IF TOO MUCH MONEY IS PUMPED INTO THE ECONOMY, WE GET INFLATION.



WITHOUT ENOUGH MONEY, ECONOMIC ACTIVITY SLOWS AND UNEMPLOYMENT RISES.



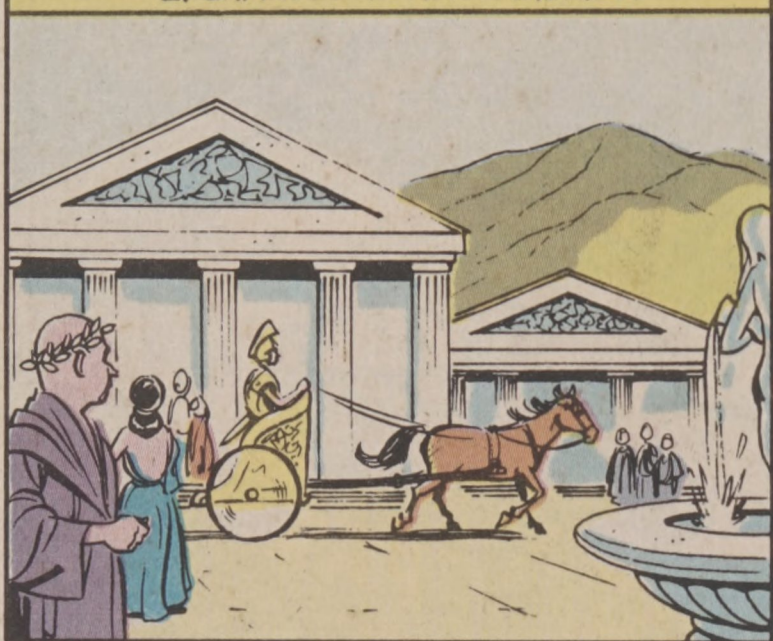
BANK RESERVES ARE USED TO HELP CONTROL THE GROWTH OF BANK CREDIT. WE'LL LOOK MORE CLOSELY AT HOW CREDIT IS CONTROLLED LATER, BUT, FIRST, LET'S SEE HOW BANKING EVOLVED.



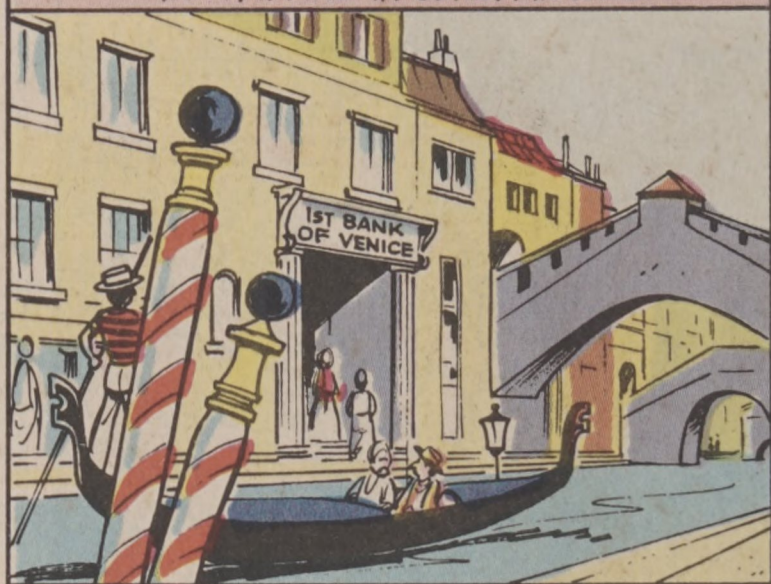
BANKING BEGAN THOUSANDS OF YEARS AGO. THE ASSYRIANS, BABYLONIANS AND ANCIENT GREEKS ALL PRACTICED SIMPLE FORMS OF BANKING -- SAFE-KEEPING, EXCHANGING FOREIGN COINS AND MAKING LOANS -- MAINLY IN CONNECTION WITH TRADE.



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.



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!



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!

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

I WANT YOUR GOLD!

I'LL HOLD YOUR STASH AND PAY YOU CASH.

THEY PROMISED SAFETY AND AN INTEREST PAYMENT.

BESIDES, WHY TAKE A CHANCE ON GETTING MUGGED?

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.

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 M W W
HTIM2DJOE
GOLDSMITH

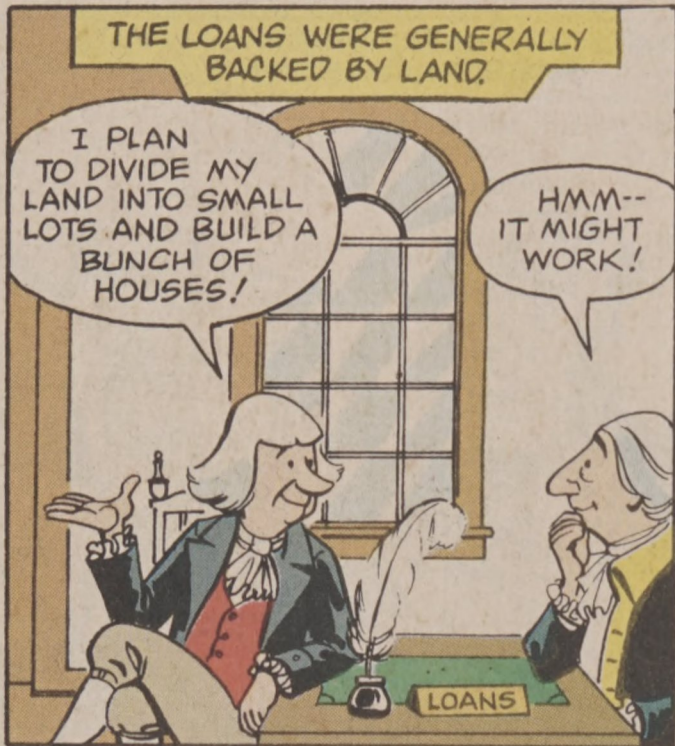
BANKING AS WE KNOW IT TODAY STARTED IN AMERICA WHEN THE BANK OF NORTH AMERICA WAS FORMED IN PHILADELPHIA IN 1781 TO HELP FINANCE THE REVOLUTION.



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



THE LOANS WERE GENERALLY BACKED BY LAND.



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.



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.



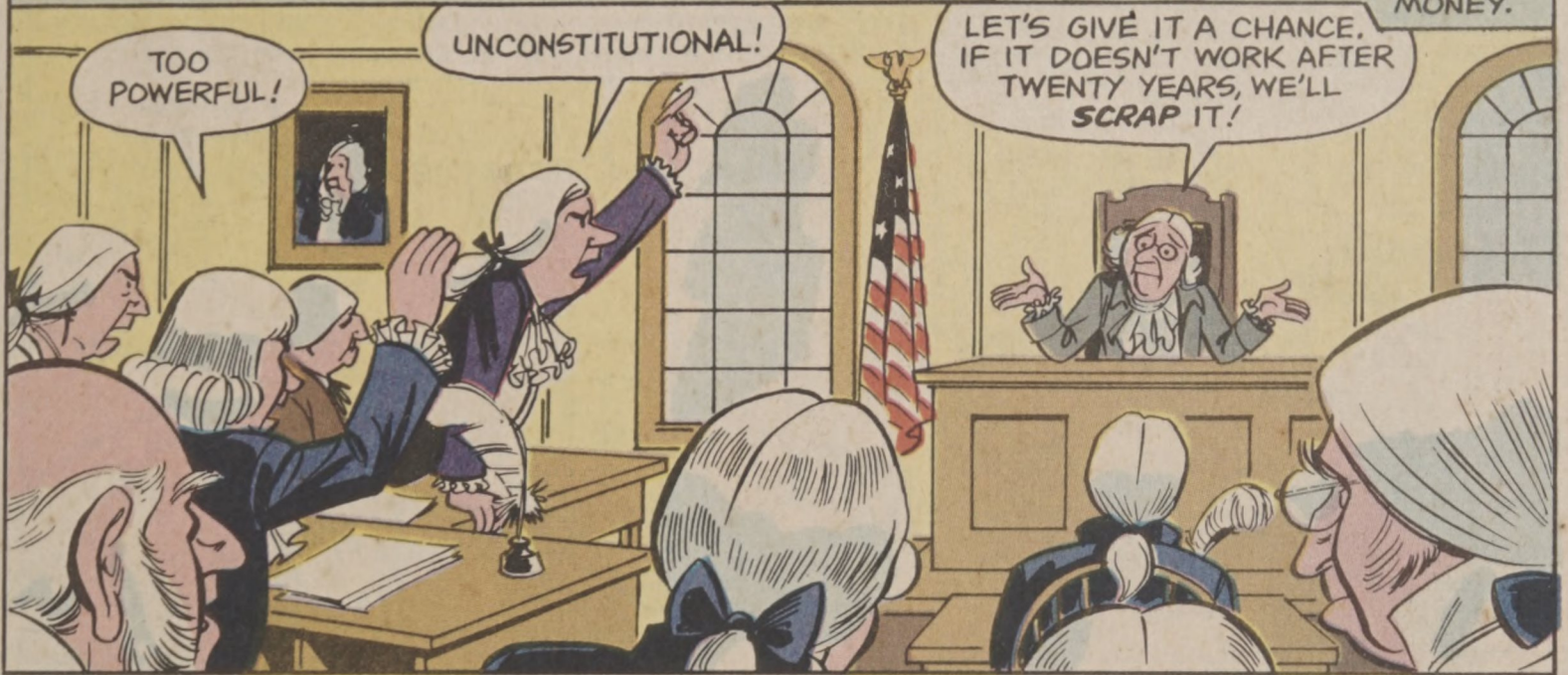
HE PROPOSED THAT CONGRESS CHARTER A BANK PATTERNED AFTER THE BANK OF ENGLAND.

HMM-- THAT PLAN LOOKS FAMILIAR, ALEX.

THIS IS NO TIME FOR ORIGINALITY, BEN.



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.



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.



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.



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



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



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



AMAZING... \$5 IN PAPER STILL BUYS \$5 IN GOLD!

WE'RE WELL STOCKED!

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.



I NEED A NEW HORSE.

I'VE GOT A HOT LAND DEAL!

I WANNA BUILD A FENCE!

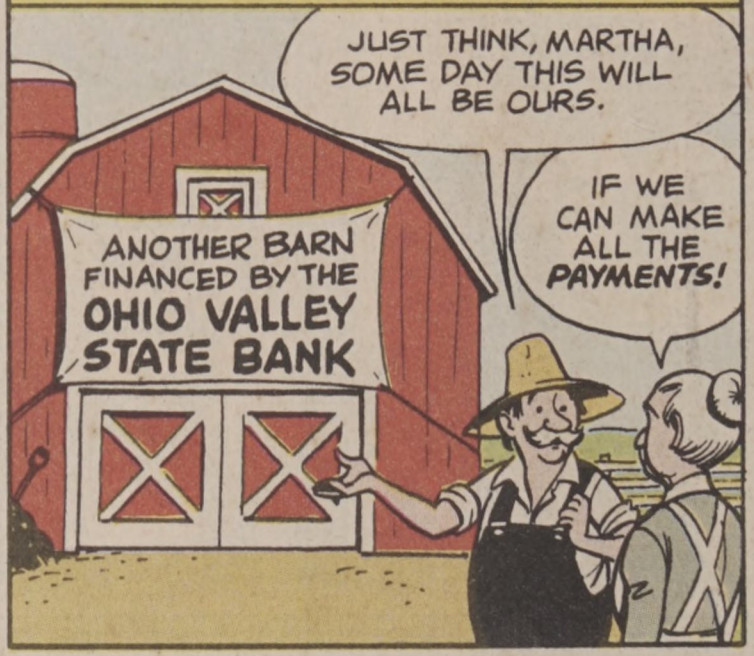
SORRY- WE'RE ALL OUT.

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.



FIRST TIME AH SHOT DOWN A BANK!

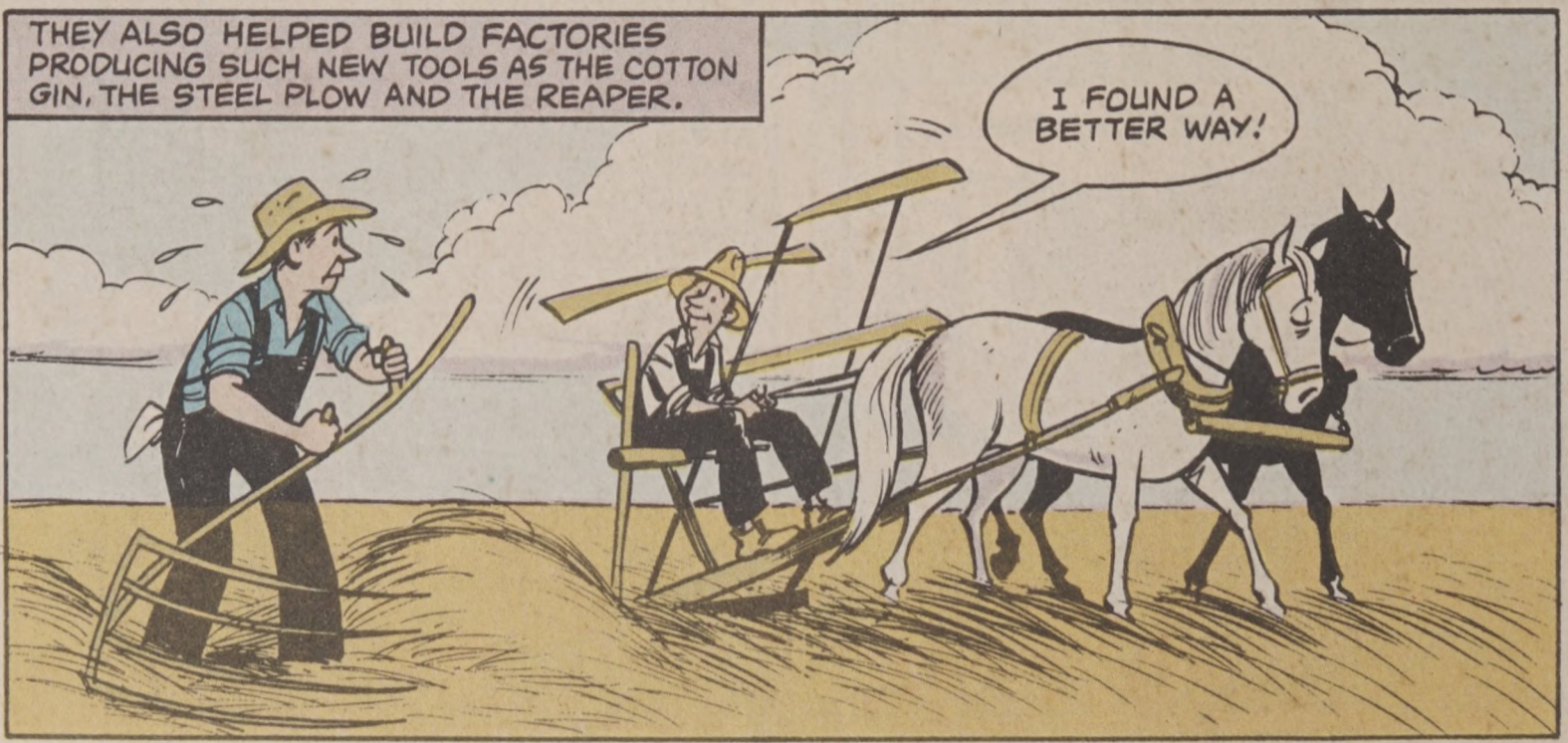
THESE BANKS PLAYED AN IMPORTANT ROLE IN AMERICA'S RAPID GROWTH. STATE BANK LOANS HELPED FINANCE THE PURCHASE OF FARM LAND, SEEDS, TOOLS AND LIVESTOCK.



JUST THINK, MARTHA, SOME DAY THIS WILL ALL BE OURS.

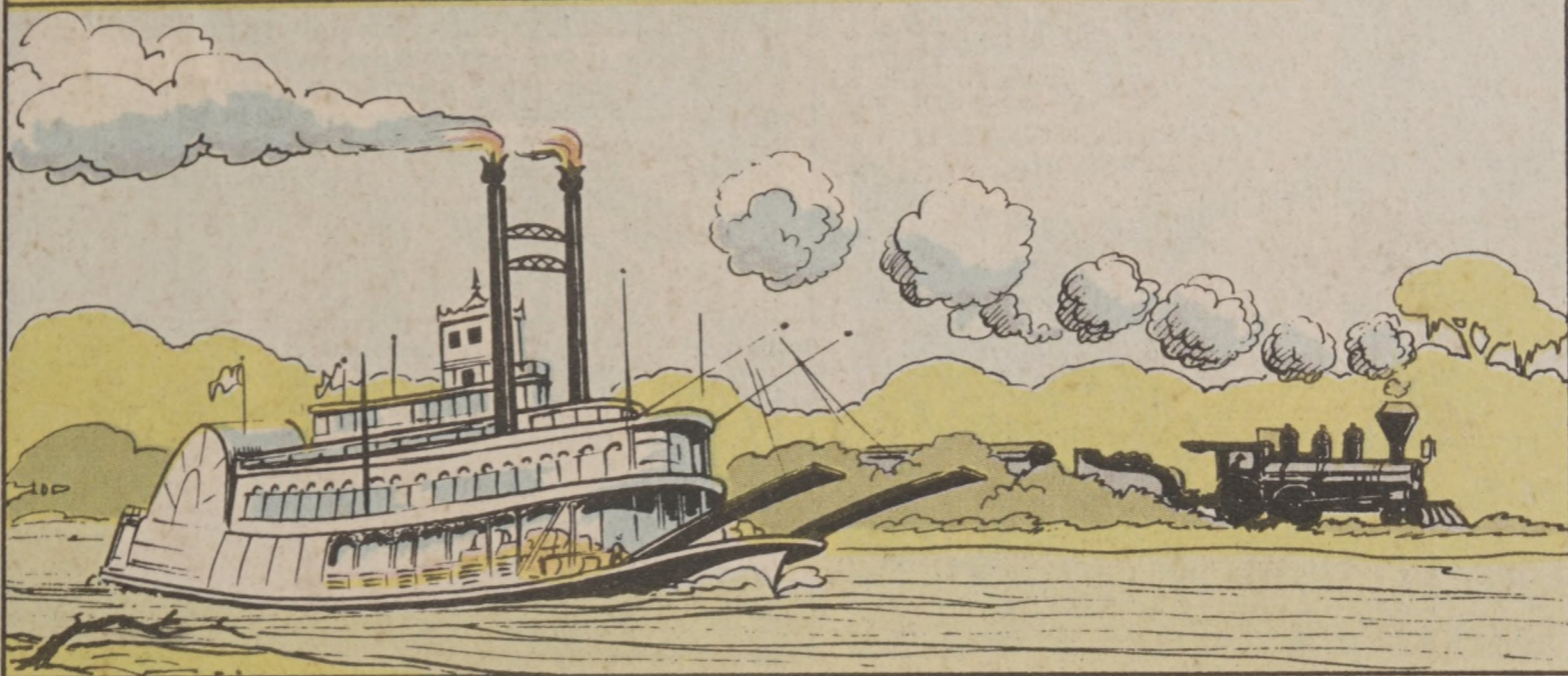
IF WE CAN MAKE ALL THE PAYMENTS!

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



I FOUND A BETTER WAY!

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



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.

I'LL GIVE YOU THREE PINK FIVES AND ONE YELLOW FIVE FOR TWO GREEN TENS.

SORRY, I'VE ONLY GOT BLUE TENS.



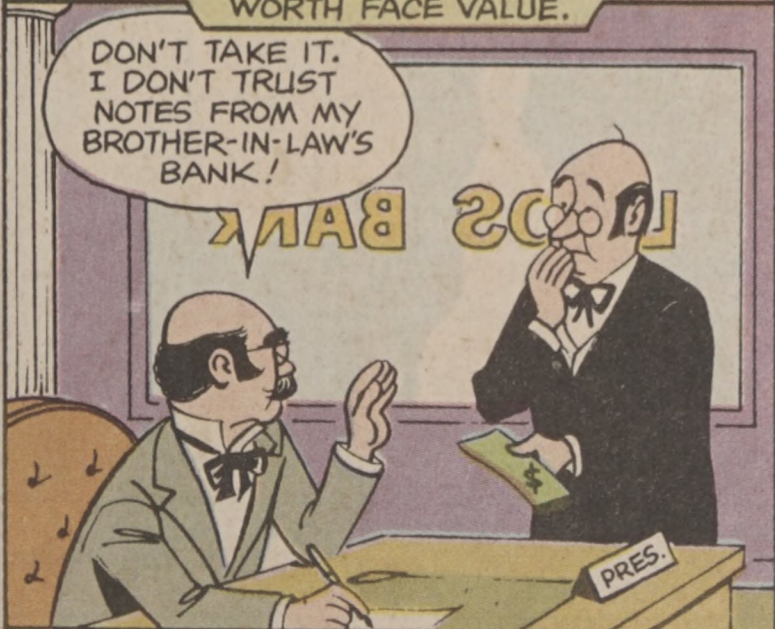
THE VALUE OF THESE NOTES DEPENDED ON HOW MUCH TRUST PEOPLE HAD IN THE ISSUING BANK.

SORRY, NO OUT-OF-STATE BANK NOTES ACCEPTED!



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.

DON'T TAKE IT. I DON'T TRUST NOTES FROM MY BROTHER-IN-LAW'S BANK!



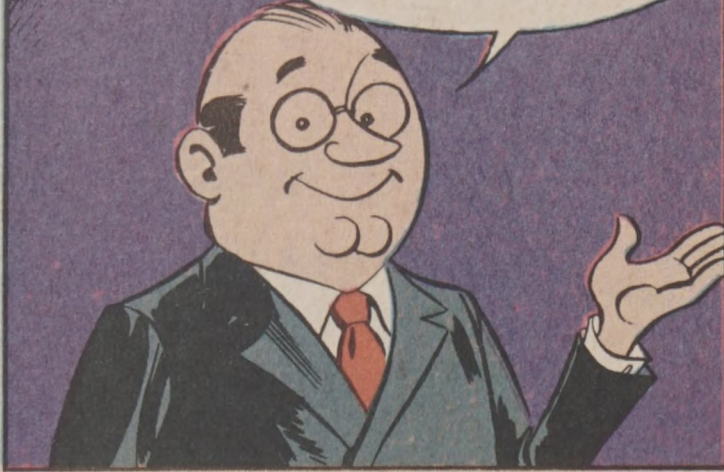
AROUND THIS TIME, THE GOVERNMENT WAS HAVING TROUBLE GETTING INVESTORS--MAINLY BANKS--TO BUY BONDS BEING SOLD TO FINANCE THE WAR.

PLEASE BUY SOME WAR BONDS.

SORRY, I'VE GOT A VAULT FULL.

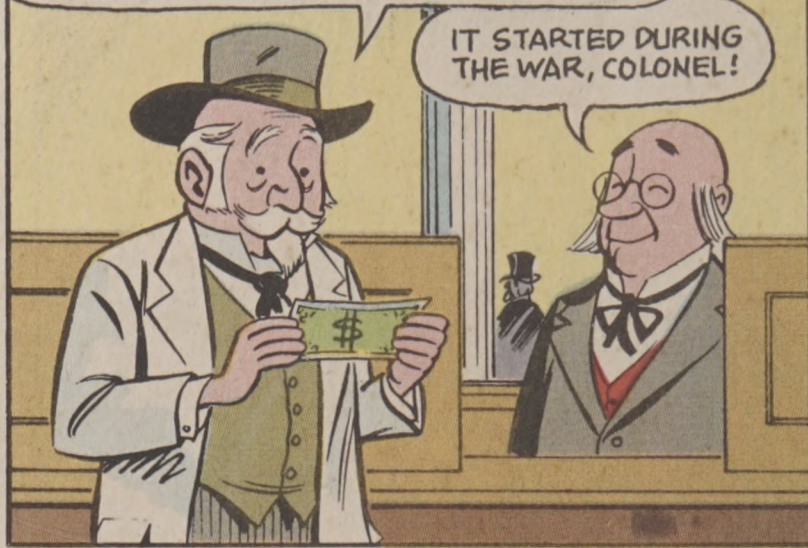


IN 1863, THE TREASURY SOLVED BOTH PROBLEMS WITH FEDERALLY CHARTERED NATIONAL BANKS THAT WOULD BE ALLOWED TO ISSUE THEIR OWN NOTES BASED ON THE AMOUNT OF FEDERAL GOVERNMENT BONDS THEY HELD.



THE NOTES WOULD ALL LOOK ALIKE, EXCEPT FOR THE NAME OF THE ISSUING BANK. AND SINCE THEY WERE BACKED BY GOVERNMENT BONDS, PEOPLE WOULD HAVE FAITH IN THEM.

WELL AH'LL BE-- NO'THERN MONEY LOOKS JES' LIKE SOUTHERN MONEY!



IT STARTED DURING THE WAR, COLONEL!

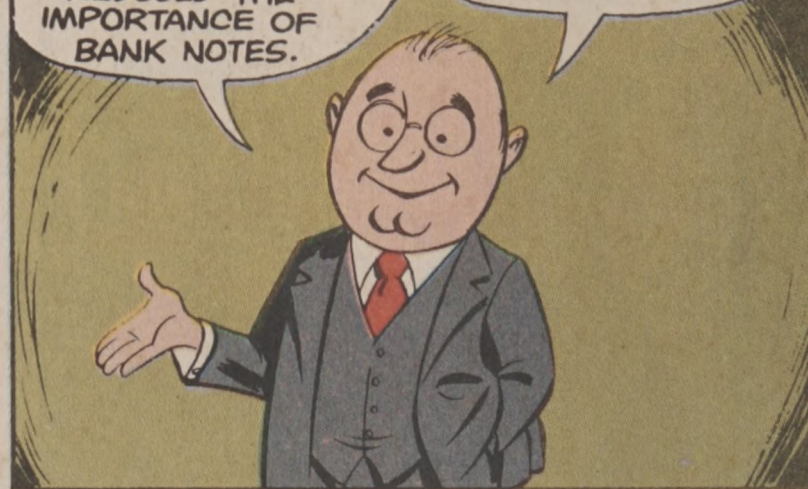
AT FIRST, SOME STATE BANKS WERE INDIFFERENT TO THE IDEA, BUT SOME SIGNED UP AS NATIONAL BANKS WHEN CONGRESS INCREASINGLY TAXED STATE NOTES.

TAXES, TAXES!
OKAY, I'LL SIGN UP!



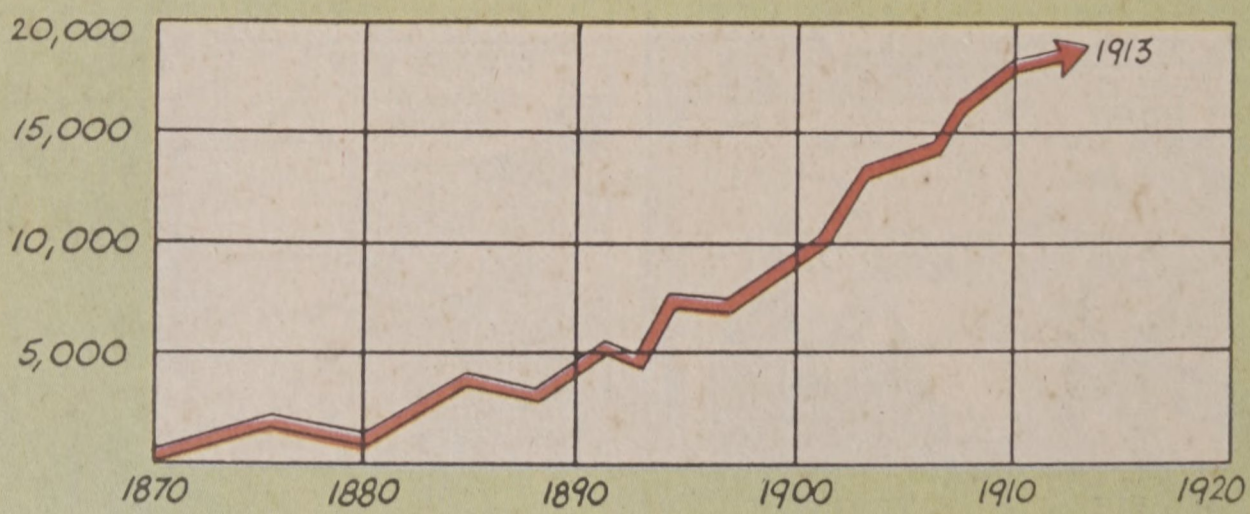
ALTHOUGH THE TAX CUT THE NUMBER OF THESE NOTES IN CIRCULATION, MANY STATE BANKS FLOURISHED, BECAUSE THE USE OF CHECKS REDUCED THE IMPORTANCE OF BANK NOTES.

STATE BANKS DIDN'T HAVE TO ISSUE NOTES TO LEND BUT COULD SIMPLY "CREATE" DEMAND DEPOSITS THAT WERE ACCEPTABLE AS MONEY.



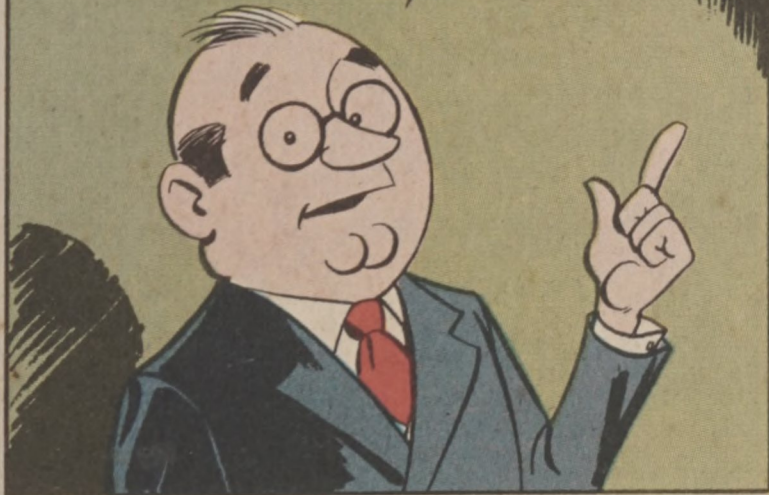
INDEED, UNDER THIS "DUAL" SYSTEM OF BOTH STATE AND FEDERALLY CHARTERED BANKS, THE NUMBER OF STATE BANKS CLIMBED.

NUMBER OF STATE BANKS

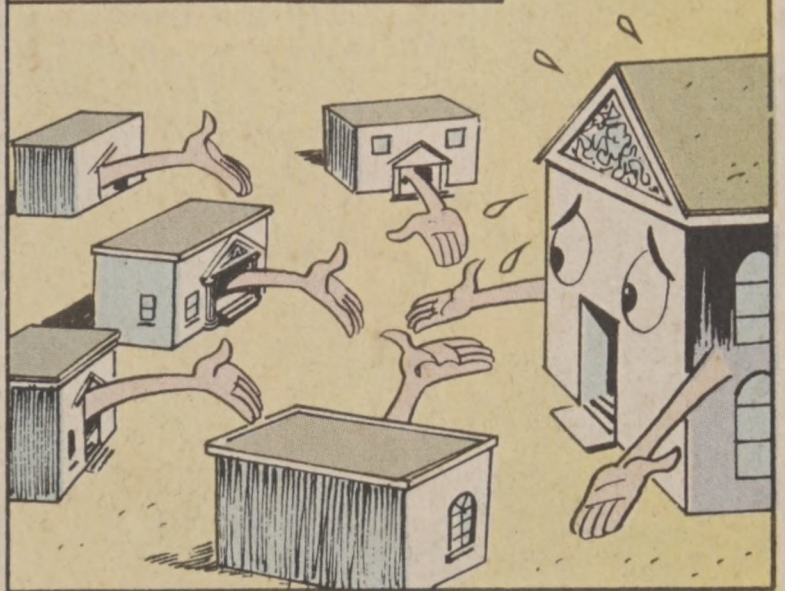


NATIONAL BANKS HELPED STRENGTHEN OUR BANKING SYSTEM AND CREATED A NATIONAL CURRENCY, BUT THERE WERE STILL WEAKNESSES.

ONE PROBLEM WAS THAT SMALLER BANKS AROUND THE COUNTRY SENT THEIR RESERVES TO MAJOR MONEY CENTER BANKS, WHERE THEY WERE LENT TO BUSINESSES.



SOMETIMES, WHEN THE SMALLER BANKS TRIED TO GET THEIR RESERVES BACK TO USE IN THEIR OWN AREAS, THEY FOUND THAT THE BIGGER BANKS HAD LENT THOSE FUNDS AND THERE WOULD BE A DELAY.



THIS LED TO SOME OF THE SMALLER BANKS RUNNING OUT OF CASH AND HAVING TO CLOSE THEIR DOORS.



THE CLOSING OF ONE BANK SOMETIMES LED DEPOSITORS AT OTHER BANKS TO DEMAND THEIR MONEY, FORCING YET ANOTHER CLOSING. SOON MANY BANKS CLOSED.



I'LL GIVE YA TWO CHICKENS FOR AN AXE, JAKE.

AXES WENT UP TO THREE CHICKENS. HOW ABOUT A SAW?

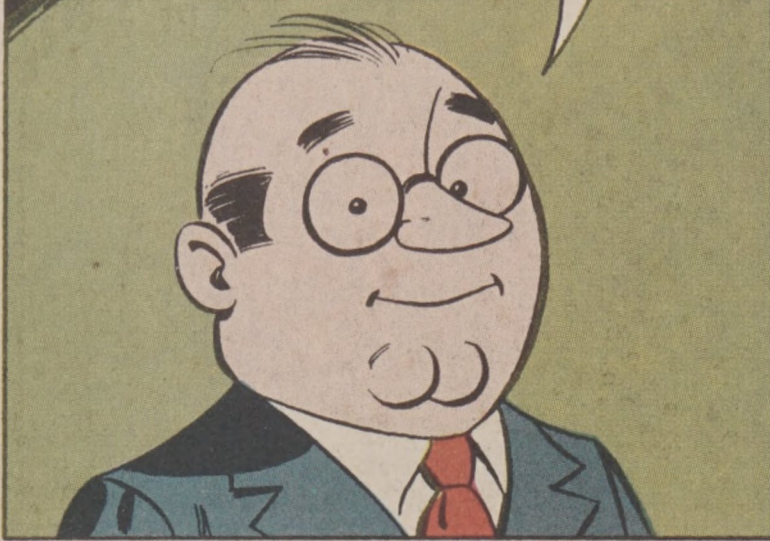
HOW MUCH FOR THAT BRACELET?

AHEM: IT GOES FOR 3 COWS OR 628 CHICKENS, SIR.

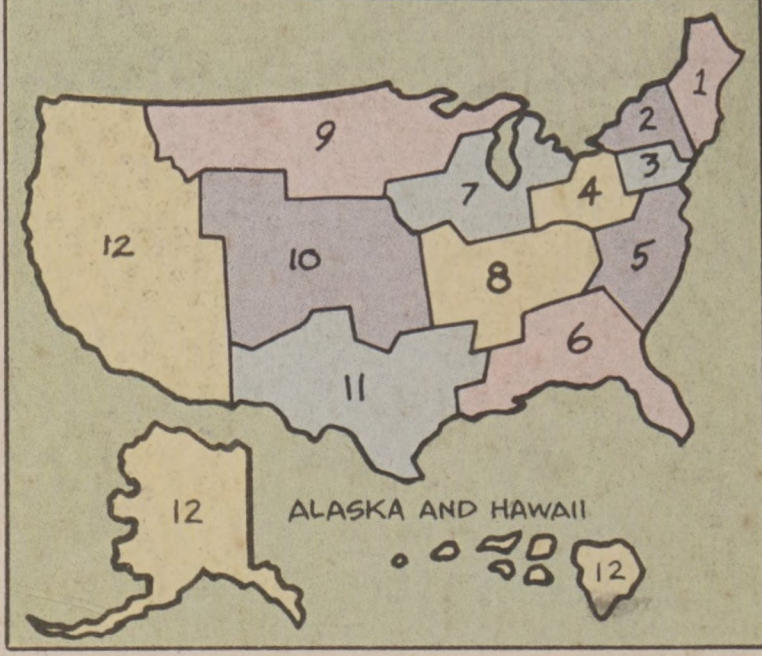
HA
WARE
KE'S

THE WORST OF THESE ECONOMY-SHAKING "BANK PANICS" HAPPENED IN 1907.

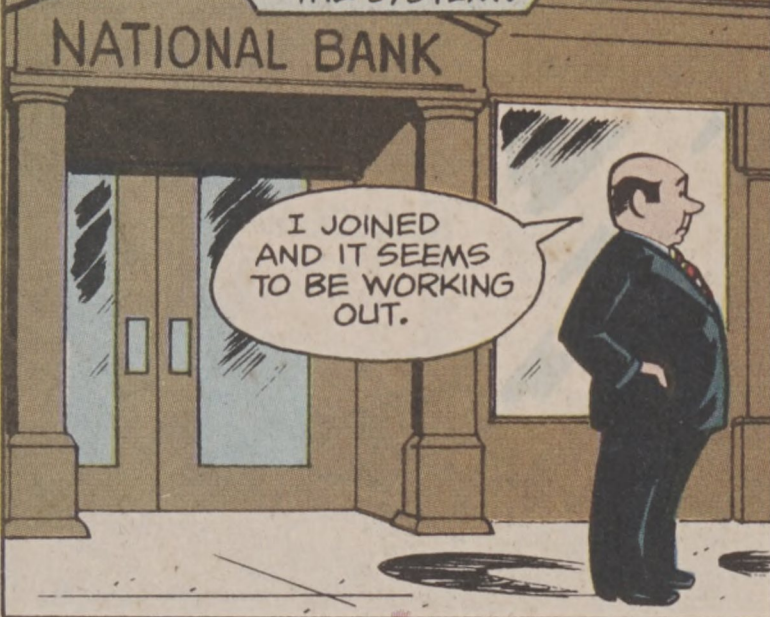
CONGRESS, AFTER LONG STUDY AND DEBATE, ESTABLISHED THE FEDERAL RESERVE SYSTEM IN 1913 TO DEAL WITH THE CAUSES OF THESE PANICS.



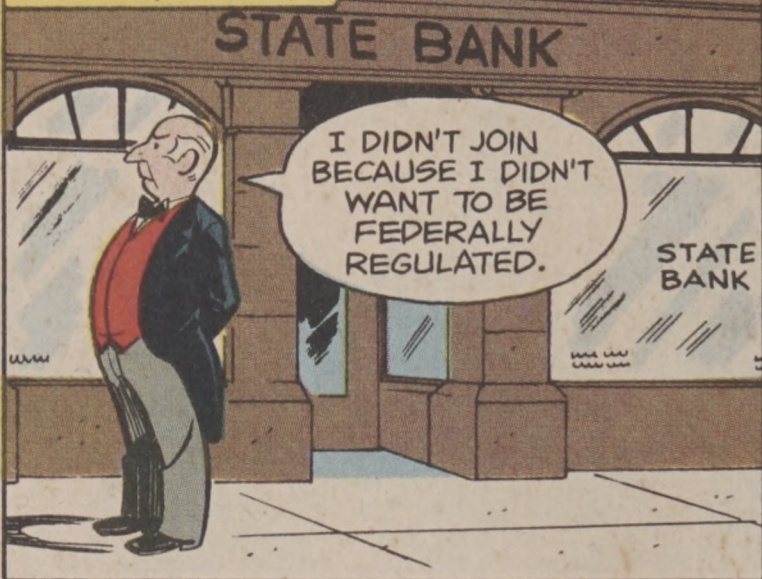
THE SYSTEM WAS TO INCLUDE 12 REGIONAL RESERVE BANKS AND A BOARD OF GOVERNORS IN WASHINGTON, D.C.



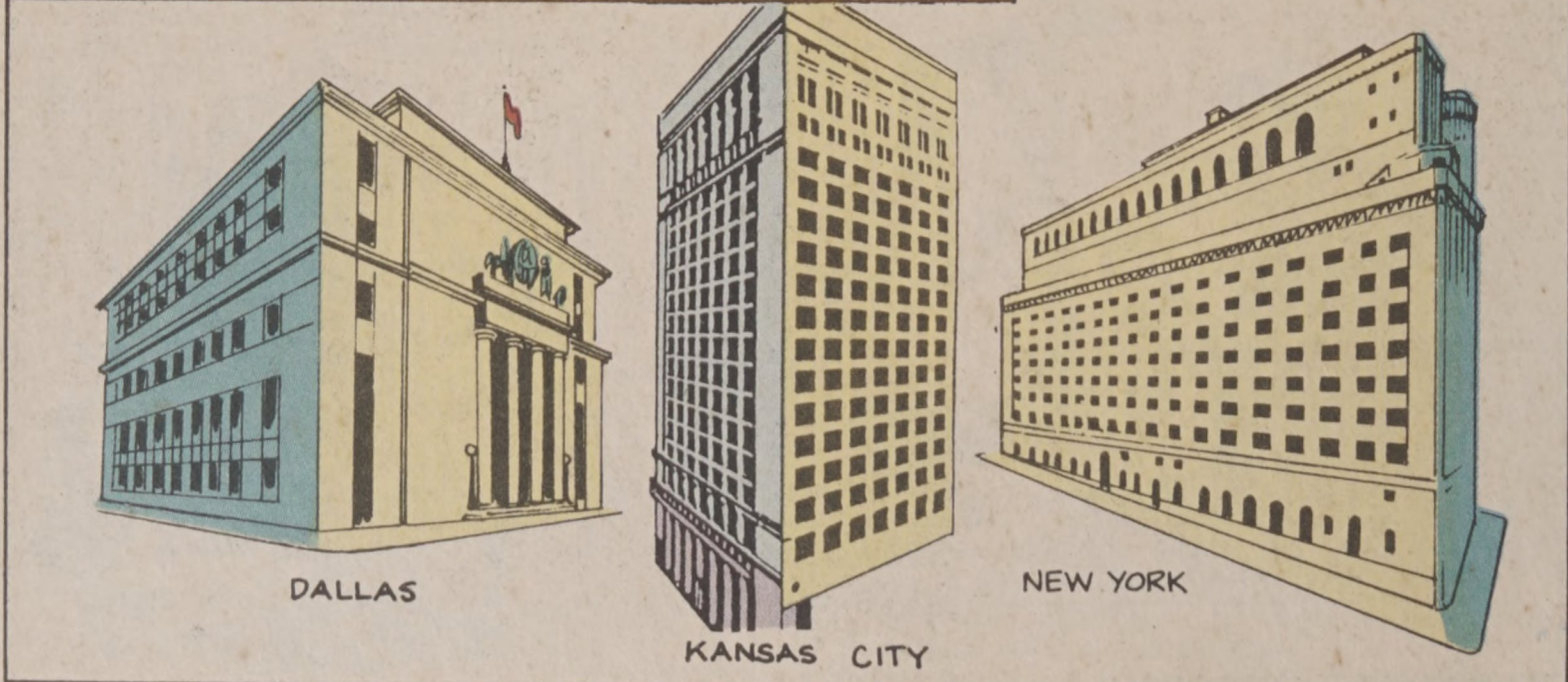
CONGRESS DECIDED THAT, SINCE NATIONAL BANKS WERE CHARTERED BY THE FEDERAL GOVERNMENT, THEY WOULD HAVE TO JOIN THE SYSTEM.



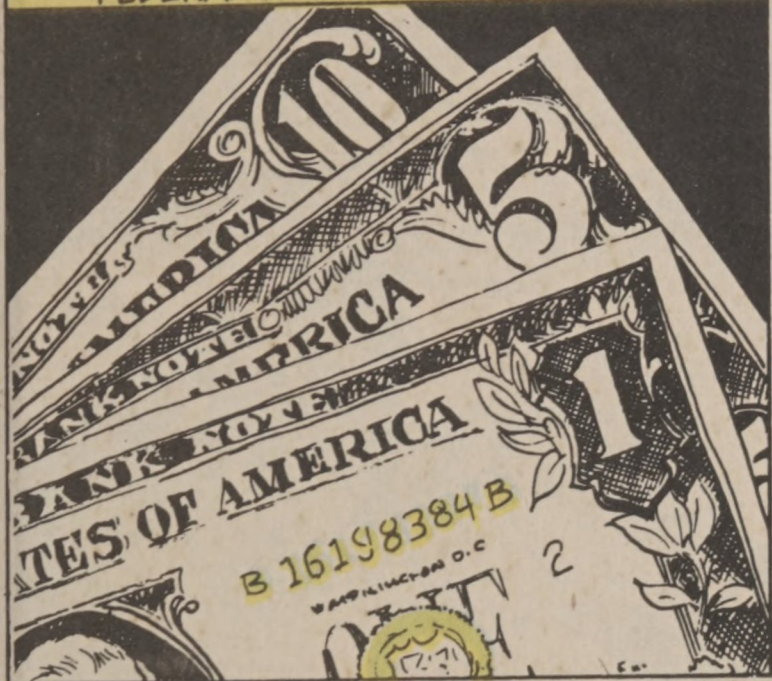
STATE-CHARTERED BANKS, BECAUSE THEIR AUTHORITY CAME FROM THE STATES, WOULDN'T BE REQUIRED TO JOIN BUT COULD BECOME MEMBERS IF THEY WERE QUALIFIED.



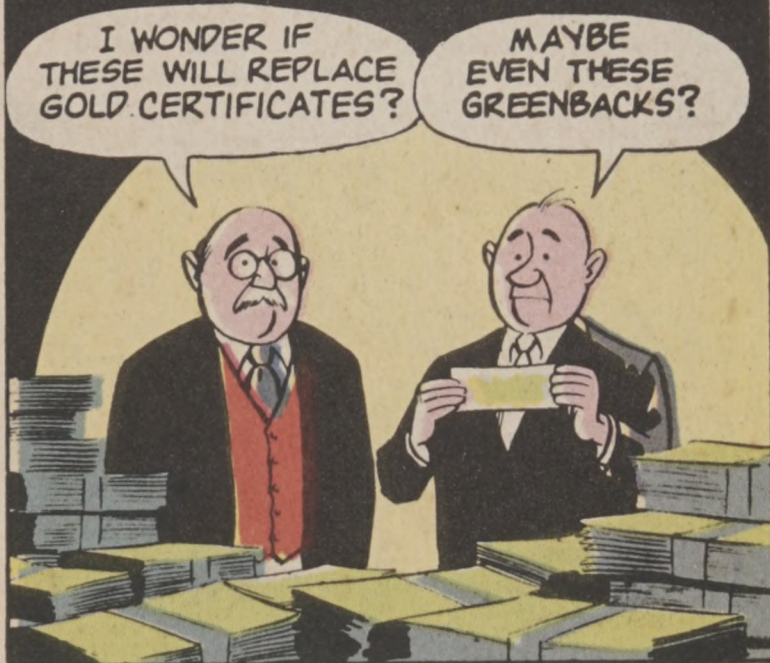
RESERVE BANKS WOULD HOLD MEMBER BANKS' RESERVES.



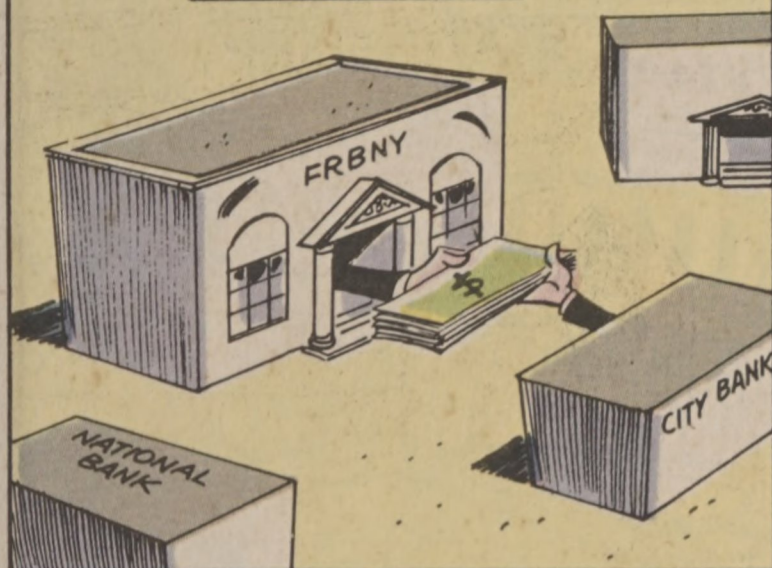
THEY WOULD ALSO ISSUE A NEW CURRENCY—
FEDERAL RESERVE BANK NOTES.



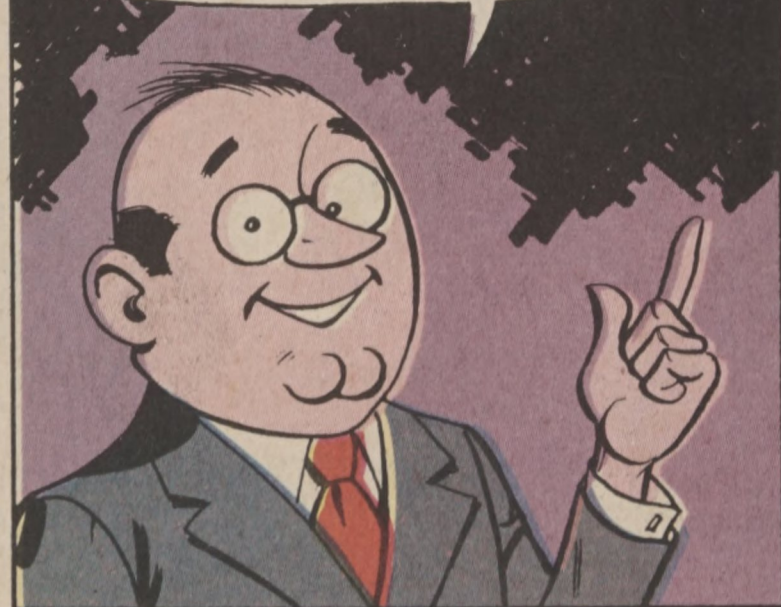
THE NOTES SOON MADE UP THE BULK OF THE
NATION'S PAPER CURRENCY.



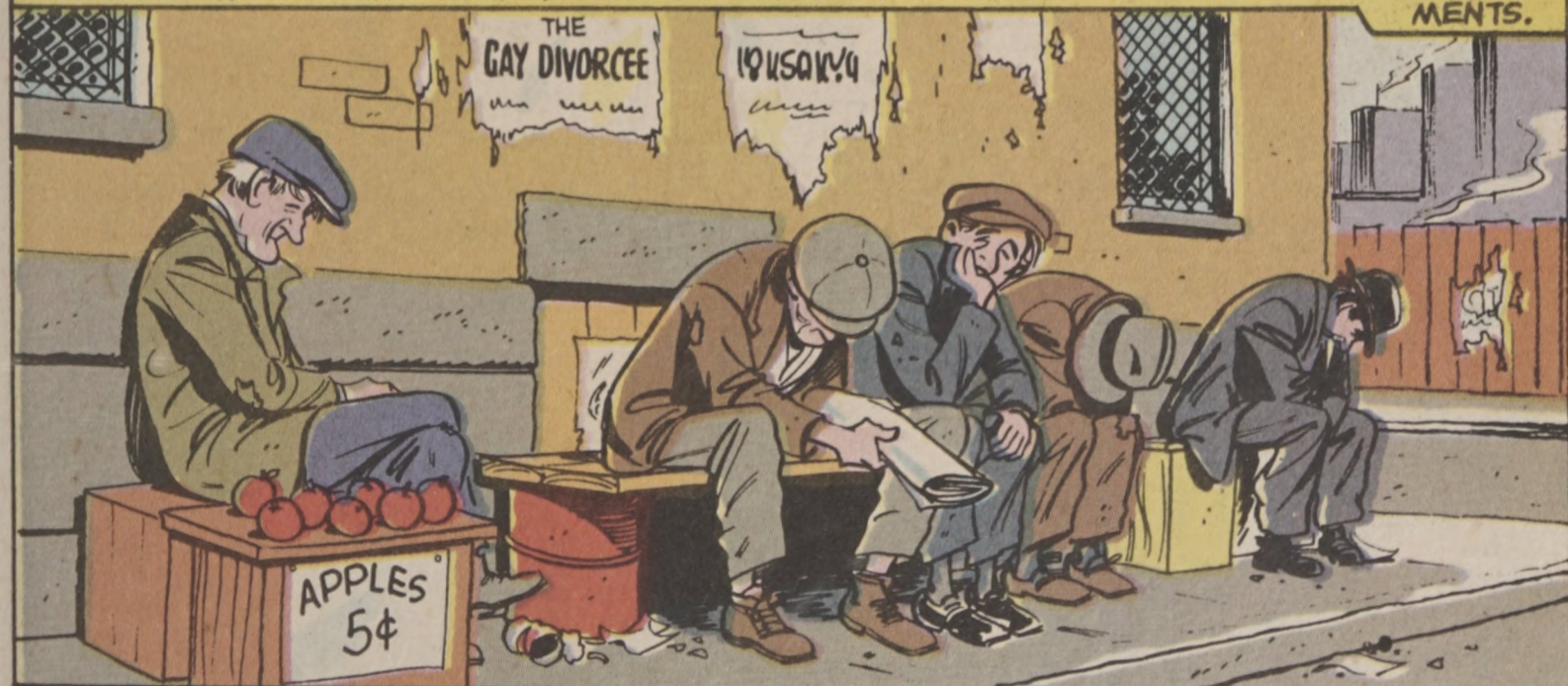
THE FEDERAL RESERVE WOULD ALSO SUPERVISE ITS MEMBER BANKS, ISSUE REGULATIONS AIMED AT PROMOTING SOUND BANKING PRACTICES AND MAKE LOANS TO BANKS IN TEMPORARY NEED.



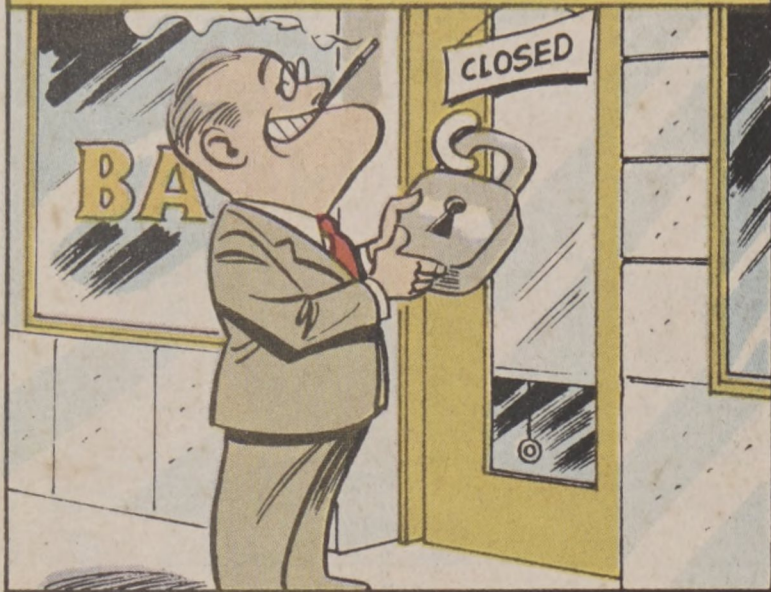
AMERICA WAS NOW ON ITS WAY TO A REASONABLY SOUND BANKING SYSTEM. BUT ANOTHER HARDSHIP FOLLOWED.



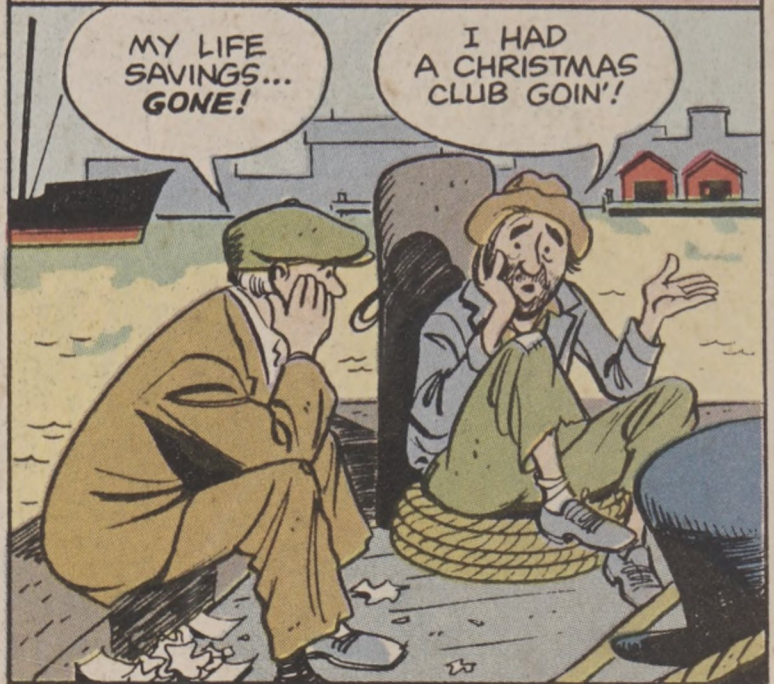
THE GREAT DEPRESSION OF THE 1930'S BROUGHT THE U.S. TO ITS KNEES. IT ALSO BADLY DAMAGED THE NATION'S BANKS, WHICH SUFFERED ENORMOUS LOSSES ON LOANS AND INVESTMENTS.



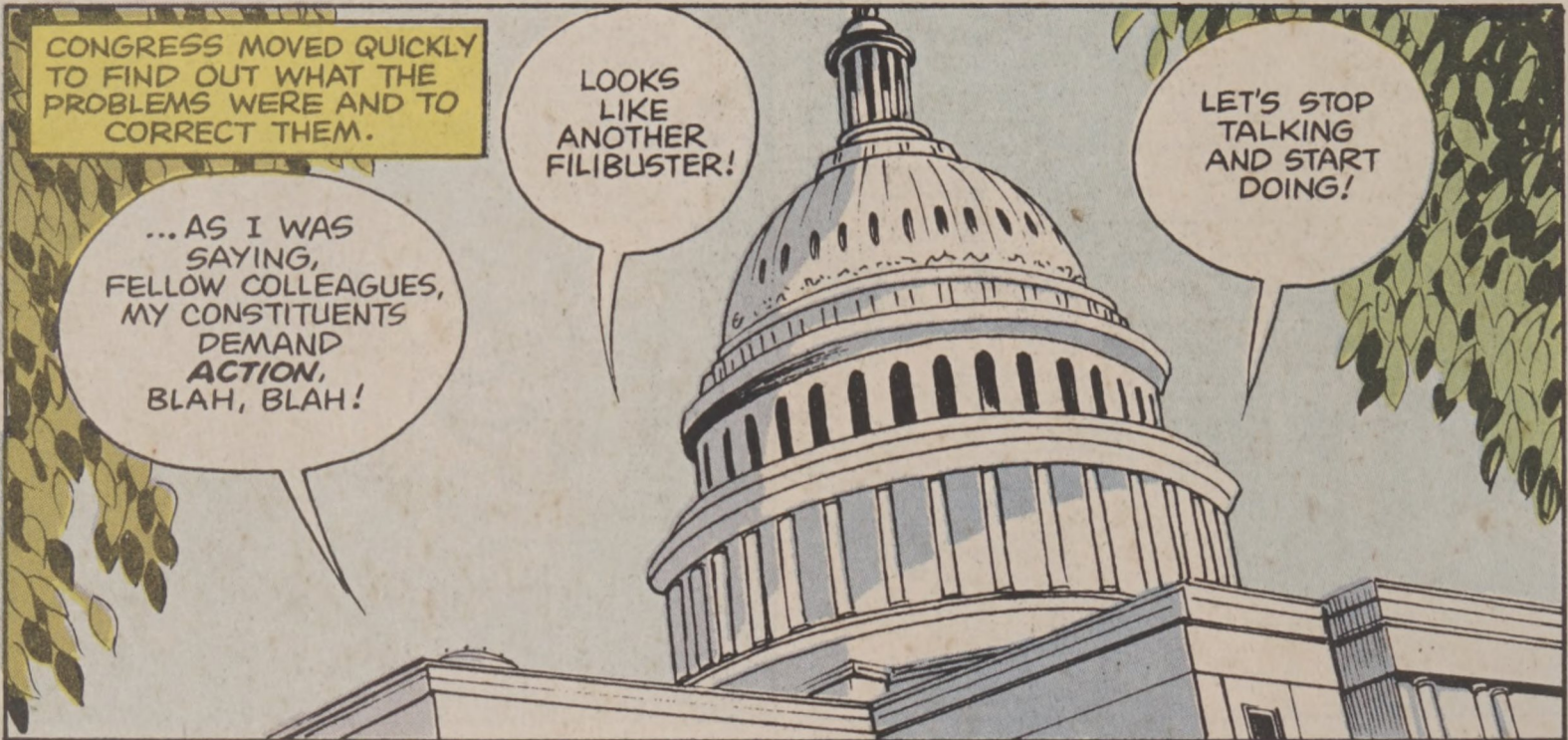
AS THE EVER DEEPENING DEPRESSION THREATENED EVEN SOUNDLY MANAGED BANKS, NEWLY ELECTED PRESIDENT FRANKLIN D. ROOSEVELT, IN MARCH, 1933, CLOSED THE NATION'S BANKS UNTIL ORDER WAS RESTORED.



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



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



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

LOOKS LIKE ANOTHER FILIBUSTER!

LET'S STOP TALKING AND START DOING!

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?

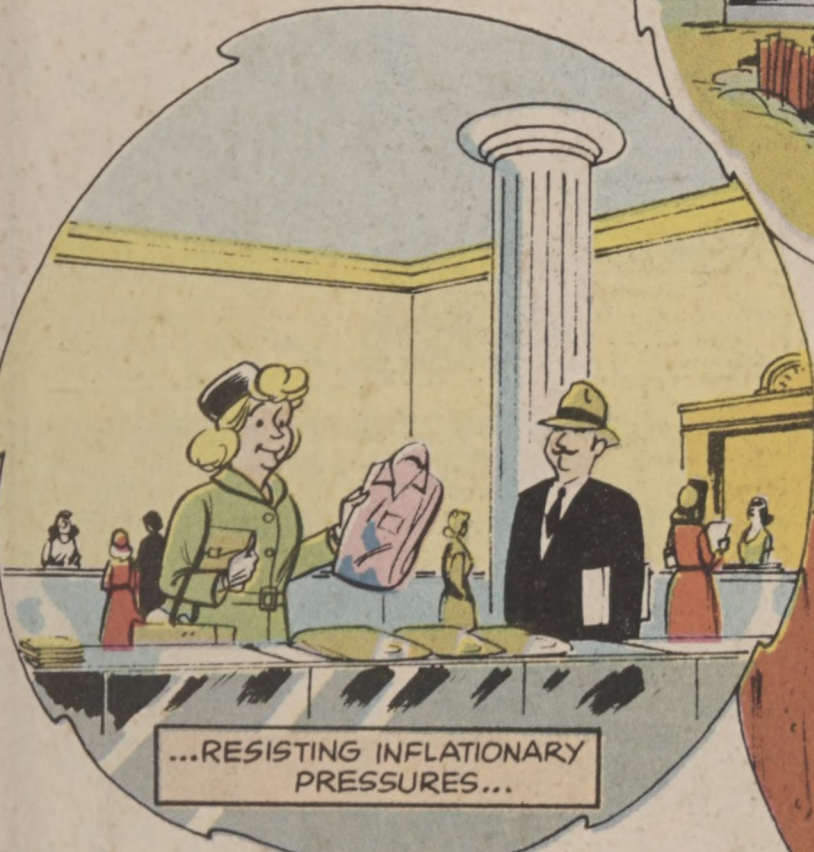
THAT'S A CRUMMY QUESTION.

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...

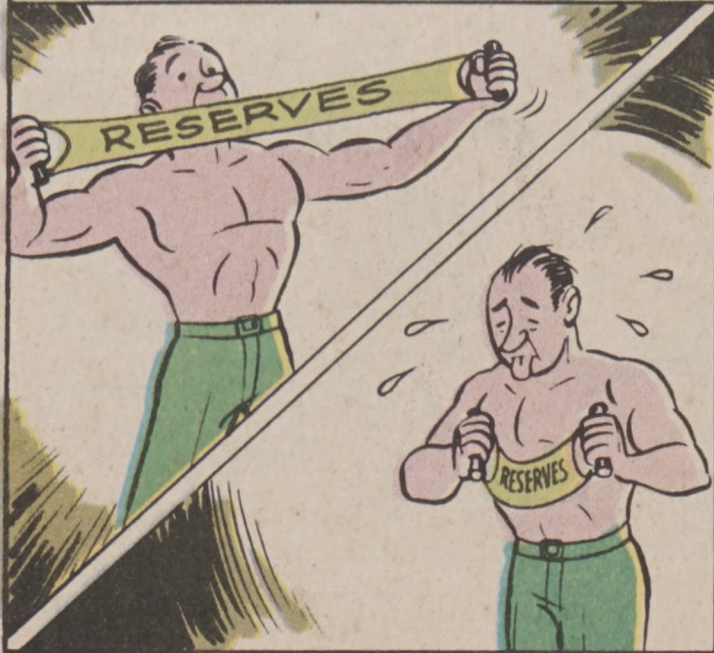


...SUSTAINING BALANCE IN OUR TRADE AND FINANCIAL DEALINGS WITH OTHER NATIONS.

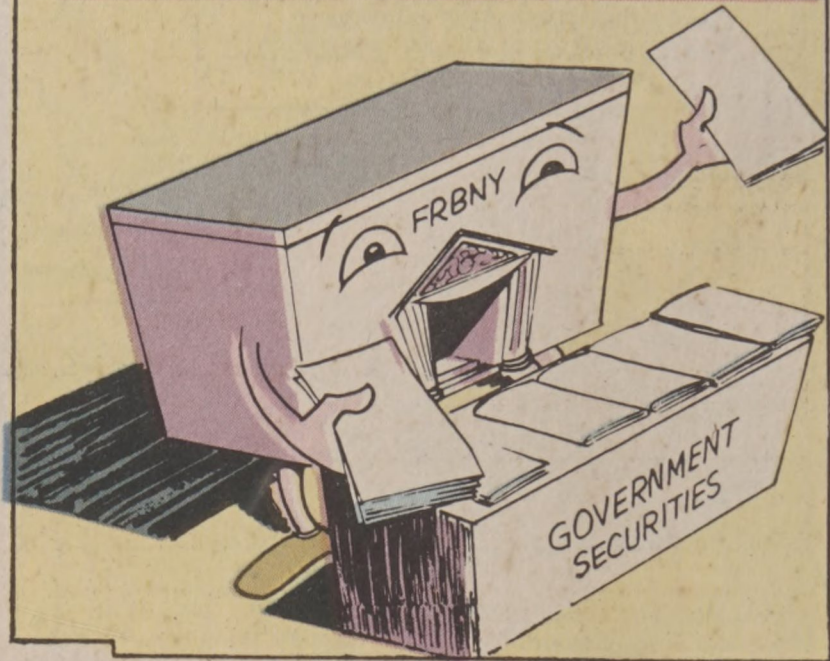
THE AMOUNT OF MONEY "CREATED" BY BANKS HAS A MAJOR INFLUENCE ON THE ECONOMY. MONETARY POLICY INFLUENCES THE TOTAL AMOUNT OF CREDIT AND ITS COST. BECAUSE THE FEDERAL RESERVE SYSTEM CAN AFFECT BANKS' ABILITY TO CREATE MONEY, CONGRESS GAVE THE SYSTEM THE JOB OF RELATING "MONETARY POLICY" TO NATIONAL ECONOMIC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



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



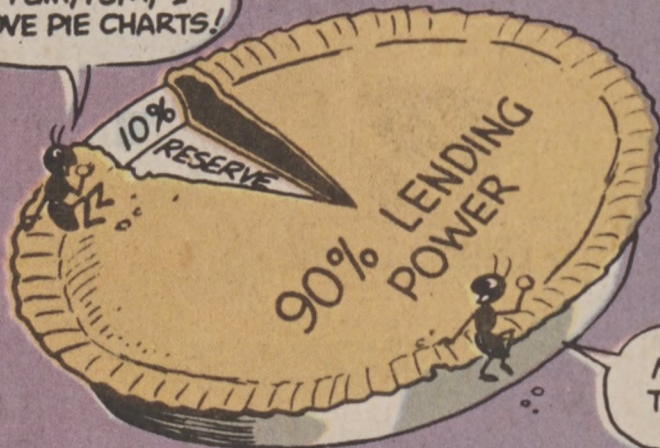
THE FEDERAL RESERVE BUYS AND SELLS U.S. GOVERNMENT SECURITIES. BUYING ADDS TO RESERVES. SELLING LOWERS RESERVES.



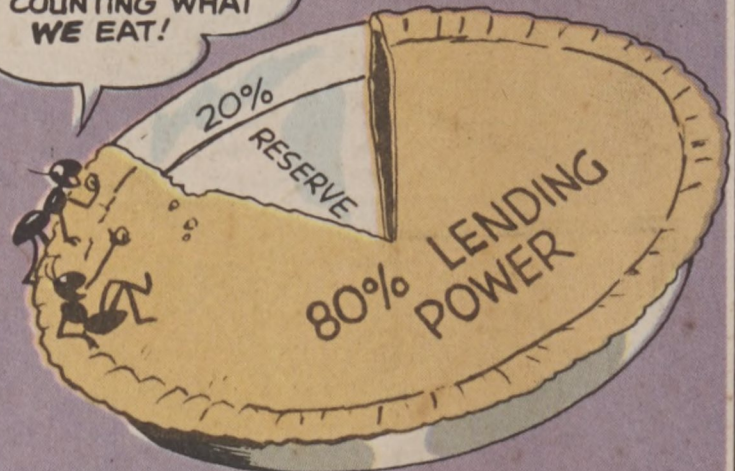
SUPPLYING MORE RESERVES ALLOWS THEM TO MAKE MORE LOANS. FEWER RESERVES MEAN LESS LENDING. FOR EXAMPLE, A BANK WITH A 10% RESERVE REQUIREMENT MUST HOLD \$10 OUT OF EVERY \$100 OF DEPOSITS. IT HAS \$90 OF LENDING POWER.

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.

YUM, YUM, I LOVE PIE CHARTS!

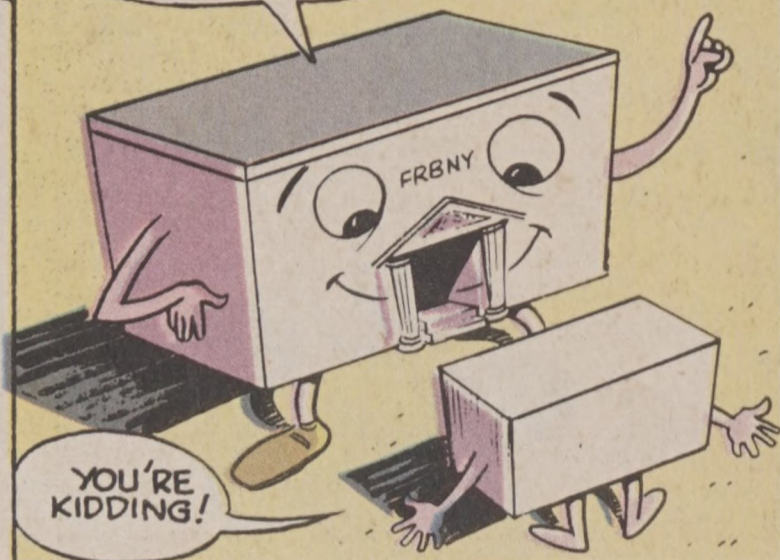


AND THAT'S NOT COUNTING WHAT WE EAT!



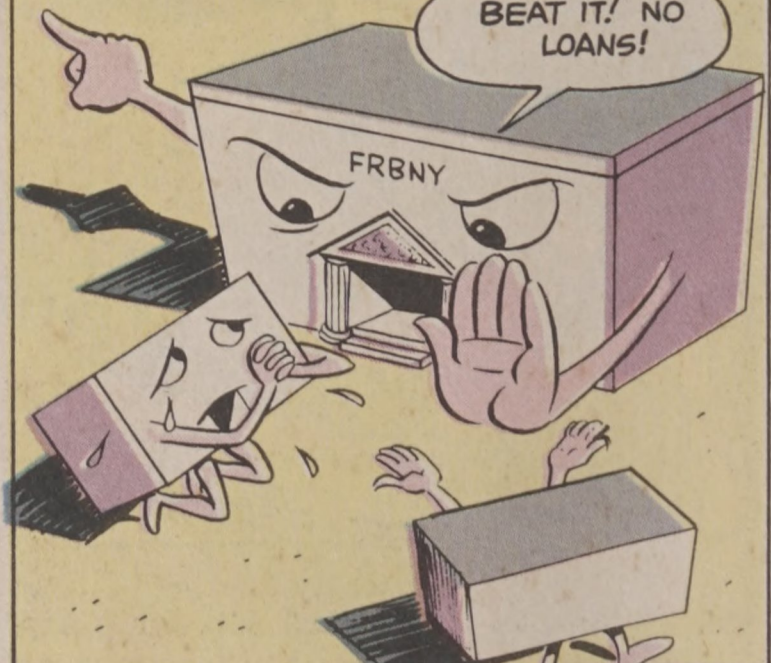
RESERVE BANKS CAN ALSO CHARGE A HIGHER OR LOWER INTEREST RATE ON THE TEMPORARY LOANS IT MAKES TO BANKS AND THRIFTS.

BORROWINGS COST LESS!

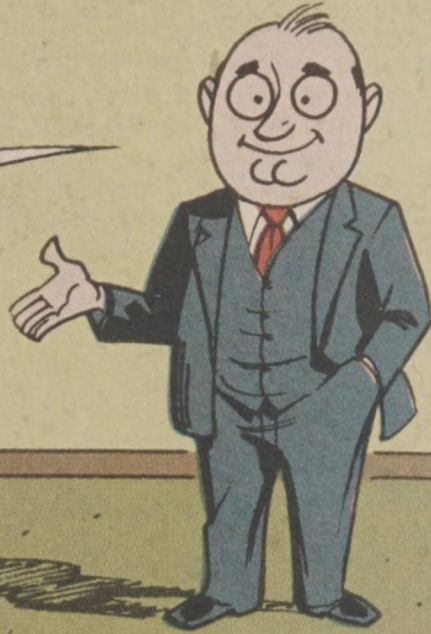


THE FED CAN ALSO MAKE IT EITHER EASIER OR MORE DIFFICULT FOR THEM TO GET LOANS.

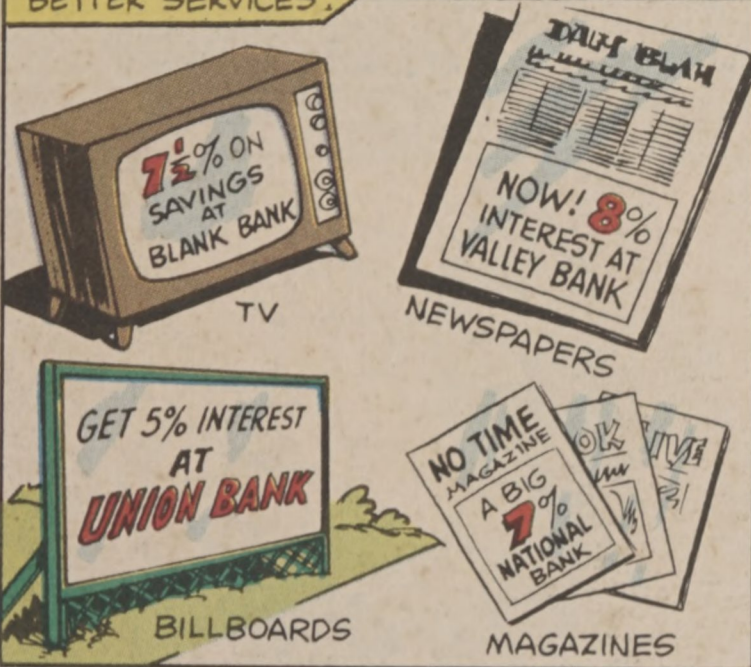
BEAT IT! NO LOANS!



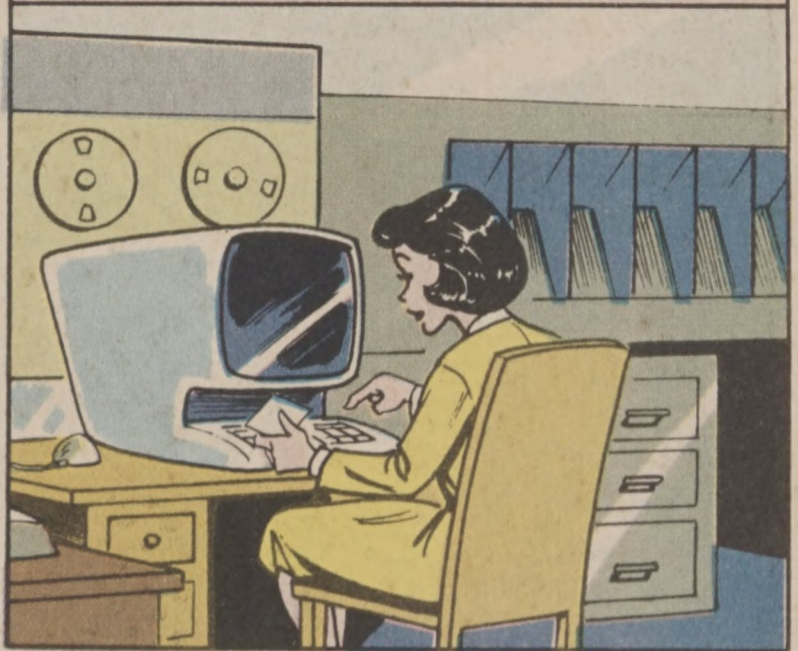
BANKING TODAY IS VASTLY DIFFERENT THAN IT WAS 100 OR EVEN 50 YEARS AGO, WHEN BANKS SERVED ONLY THE BUSINESSMAN AND THE WEALTHY. TODAY, BANKS SERVE A WIDE RANGE OF PEOPLE FROM ALL ECONOMIC LEVELS, AGES AND OCCUPATIONS.



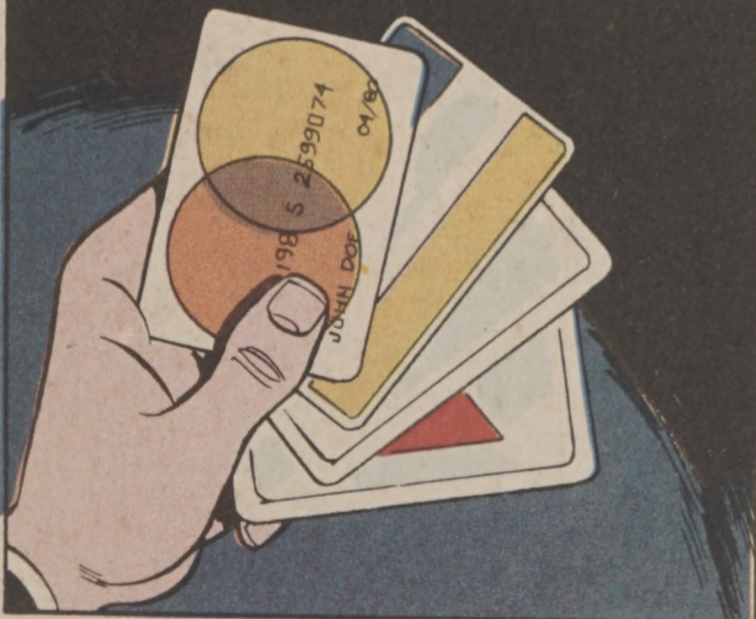
BANKS NO LONGER SIT BACK AND WAIT FOR FUNDS TO COME IN. THEY ACTIVELY COMPETE FOR BUSINESS AND CONSUMER DEPOSITS BY OFFERING COMPETITIVE INTEREST RATES AND BETTER SERVICES.



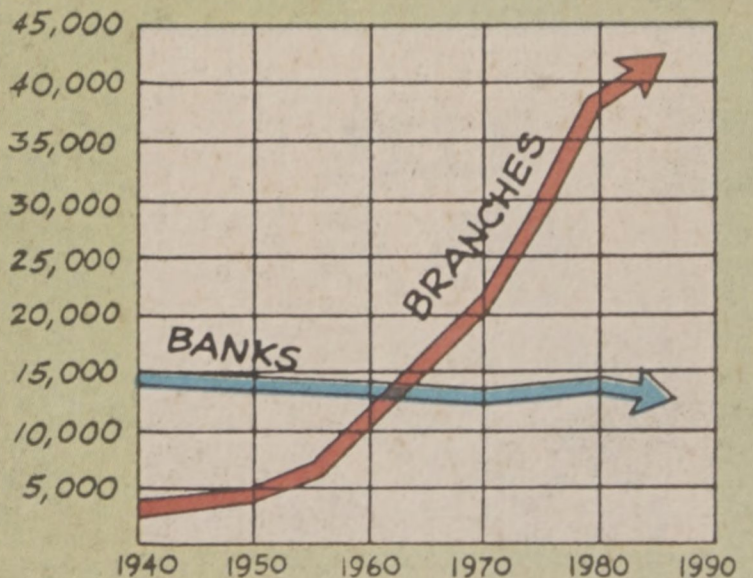
MORE ELECTRONIC DEVICES ARE BEING USED TO IMPROVE SERVICES. SOME BANKS USE COMPUTERS TO TRANSFER FUNDS INSTANTANEOUSLY BETWEEN SAVINGS AND CHECKING ACCOUNTS OF INDIVIDUALS AND BUSINESSES.



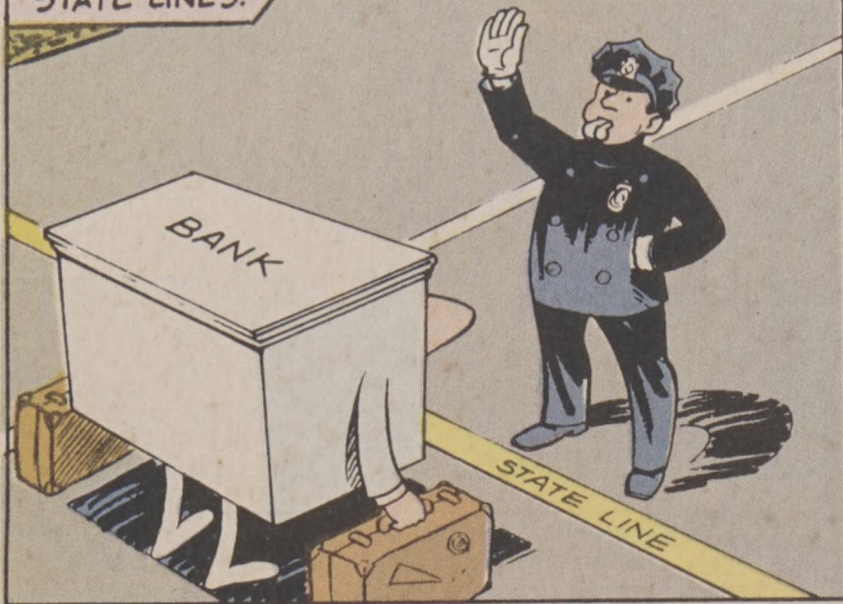
EVEN THE GRANTING OF CREDIT HAS CHANGED DRAMATICALLY. BANK CREDIT CARDS NOW GIVE IMMEDIATE CREDIT FOR AMOUNTS THAT A FEW YEARS AGO TOOK DAYS TO APPROVE.



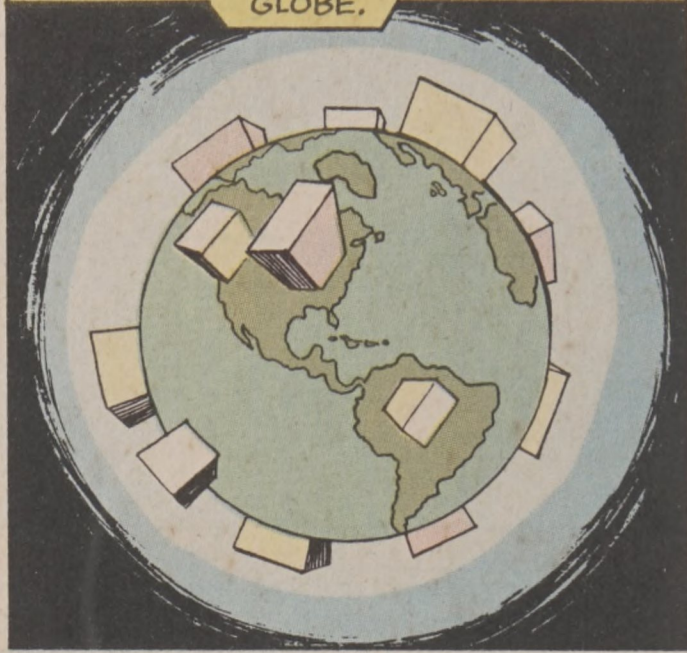
THE STRUCTURE OF BANKS AND THE WAY THEY OPERATE HAVE ALSO CHANGED. ALTHOUGH THE NUMBER OF BANKS HAS FALLEN SINCE 1940, THE NUMBER OF BRANCHES HAS GROWN.



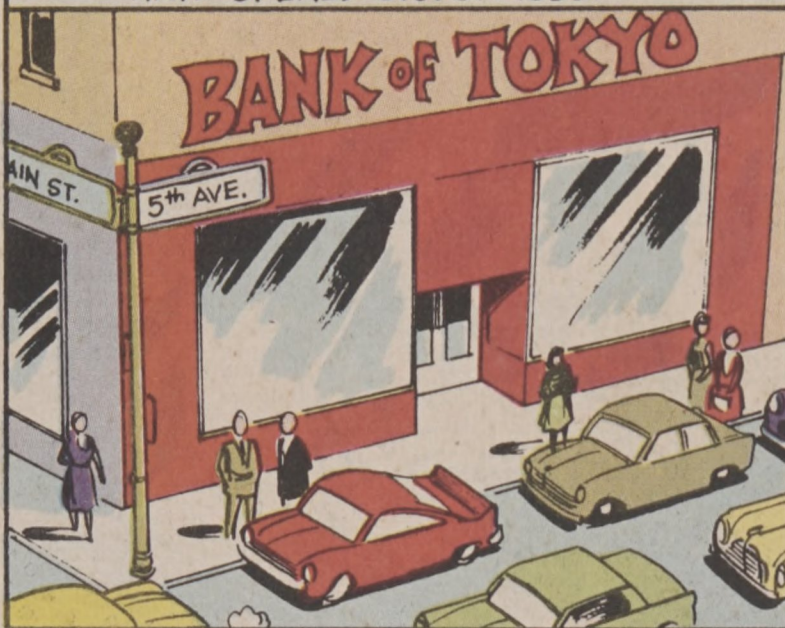
EACH STATE SETS ITS OWN RULES REGARDING BRANCHING WITHIN ITS BORDERS. MOST ALLOW SOME BRANCHING. A FEW ALLOW A BANK ONLY ONE OFFICE. GENERALLY, FEDERAL LAW PROHIBITS BANKING ACROSS STATE LINES.



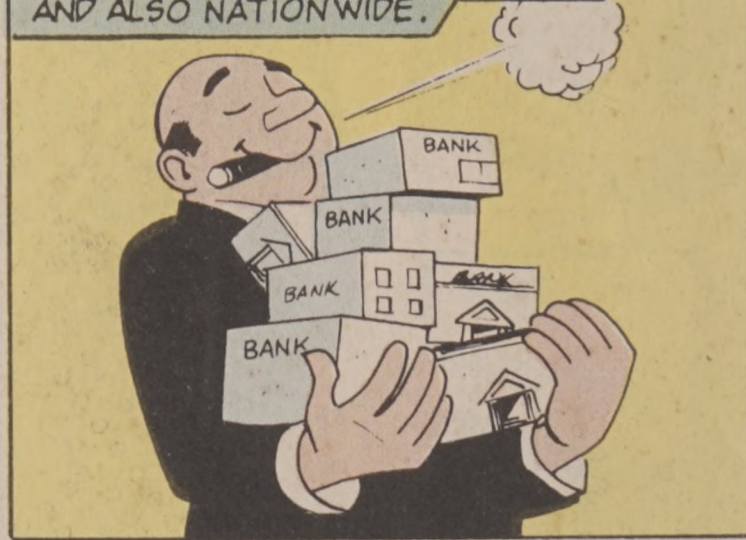
SOME OF THE LARGER CITY BANKS OPENED OVERSEAS BRANCHES AS THEIR CUSTOMERS BECAME MORE ACTIVELY INVOLVED IN INTERNATIONAL TRADE. A FEW BANKS HAVE OFFICES AROUND THE GLOBE.



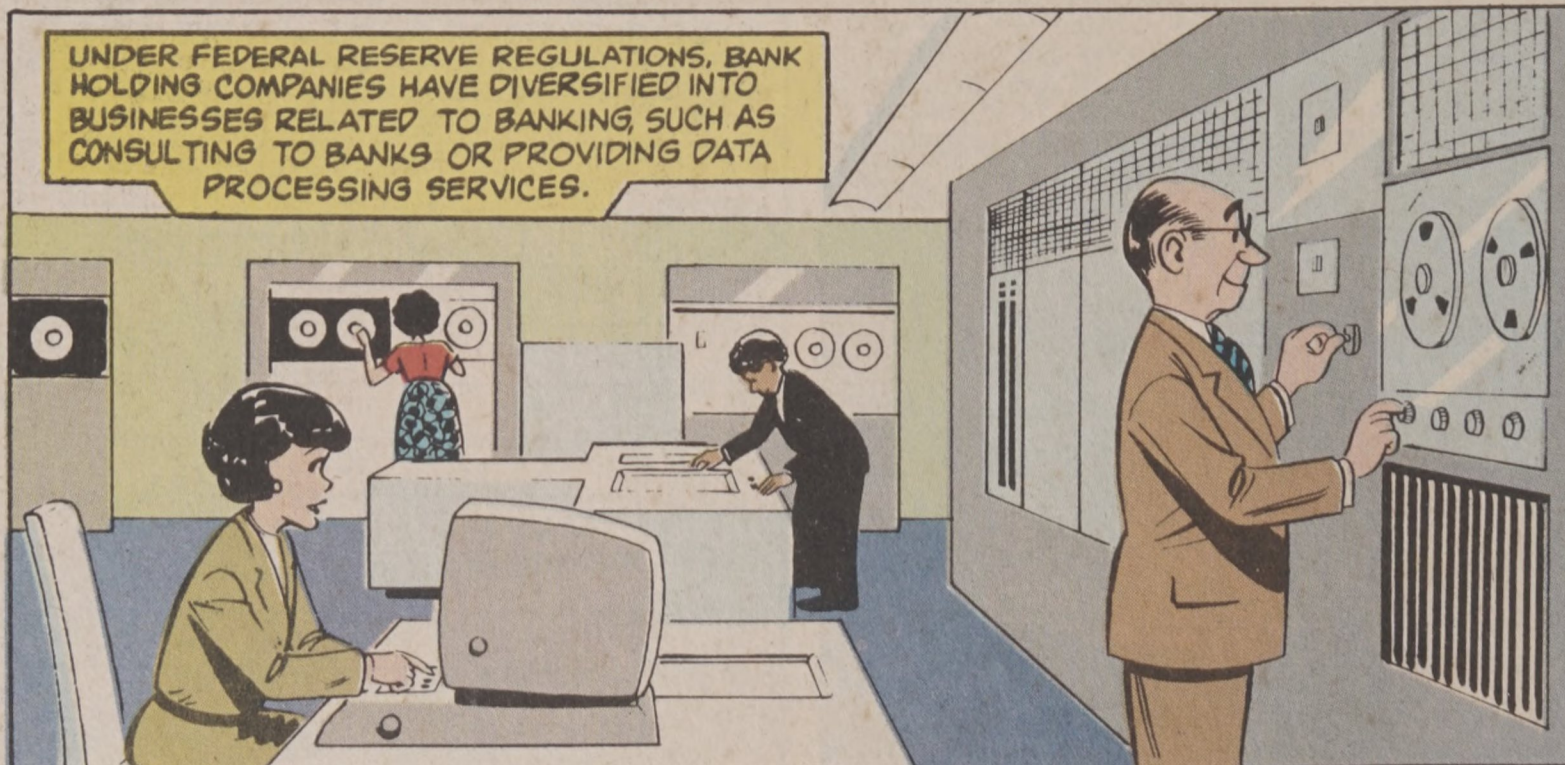
AT THE SAME TIME, LARGE FOREIGN BANKS HAVE OPENED U.S. OFFICES.



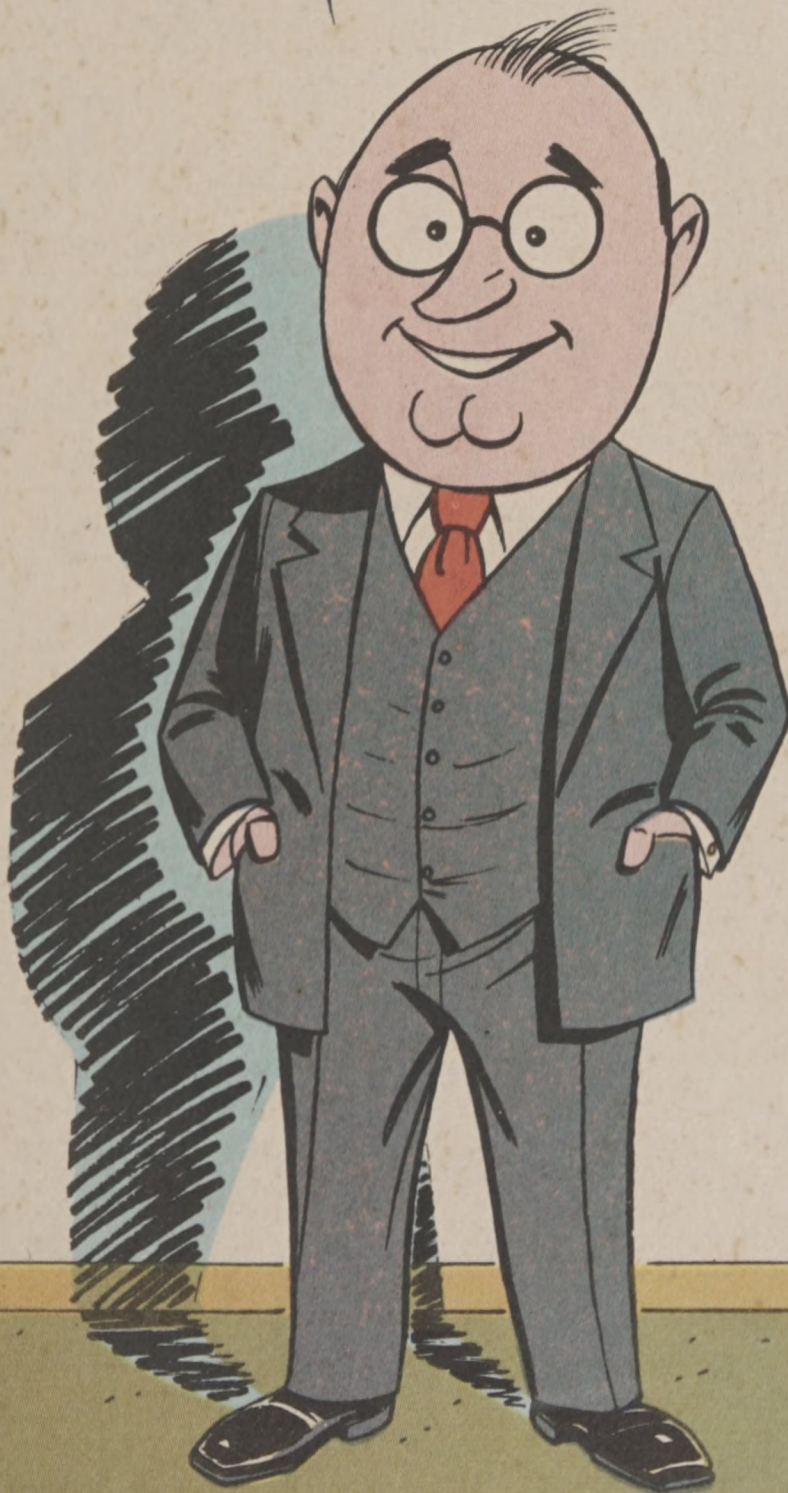
BANK HOLDING COMPANIES-- CORPORATIONS WHICH OWN ONE OR MORE BANKS-- ARE ALLOWED TO EXPAND THEIR ACTIVITIES WITHIN THEIR STATES AND ALSO NATIONWIDE.



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

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