# National Banking Acts of 1863 and 1864

Despite these private or state-sponsored efforts at reform, the state banking system still exhibited the undesirable properties enumerated earlier. The National Banking Acts of 1863 and 1864 were attempts to assert some degree of federal control over the banking system without the formation of another central bank. The Act had three primary purposes: (1) create a system of national banks, (2) to create a uniform national currency, and (3) to create an active secondary market for Treasury securities to help finance the Civil War (for the Union's side).

The first provision of the Acts was to allow for the incorporation of national banks. These banks were essentially the same as state banks, except national banks received their charter from the federal government and not a state government. This arrangement gave the federal government regulatory jurisdiction over the national banks it created, whereas it asserted no control over state-chartered banks. National banks had higher capital requirements and higher reserve requirements than their state bank counterparts. To improve liquidity and safety they were restricted from making real estate loans and could not lend to any single person an amount exceeding ten percent of the bank's capital. The National Banking Acts also created under the Treasury Department the office of Comptroller of the Currency which occasionally inspected the books of the national banks to insure compliance with the above regulations, held Treasury securities deposited there by national banks, and, via the Bureau of Engraving, was responsible for printing all national banknotes.

The second goal of the National Banking Acts was to create a uniform national currency. Rather than have several hundred, or several thousand, forms of currency circulating in the states, conducting transactions could be greatly simplified if there were a uniform currency. To achieve this all national banks were required to accept at par the banknotes of other national banks. This insured that national banknotes would not suffer from the same discounting problem with which state banknotes were afflicted. In addition, all national banknotes were printed by the Comptroller of the Currency on behalf of the national banks to guarantee standardization in appearance and quality. This reduced the possibility of counterfeiting, an understandable wartime concern.

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## National Bank Note

This 1929 note was issued by the Atlanta and Lowry National Bank. The writing over the red seal reads, "Redeemable in lawful money of the United States at United States Treasury or at the bank of issue." At the time, *lawful money* referred to gold coin, silver coin, gold or silver certificates, or United States notes. The reverse is the same as modern $20 Federal Reserve notes.

The writing over the portrait of Andrew Jackson reads, "National currency secured by United States bonds deposited with the Treasurer of the United States of America." This refers to the requirement of the National Banking Acts that the amount of currency a national bank could issue be based on the market value of Treasury bonds on deposit with the Comptroller of the Currency.

Who knows? Perhaps this very bill was used to buy a ticket to the premeir of *Gone With the Wind*.

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The third goal of the Acts was to help finance the Civil War. The volume of notes which a national bank issued was based on the market value of the U.S. Treasury securities the bank held. A national bank was required to keep on deposit with the Comptroller of the Currency a sizeable volume of Treasury securities. In exchange the bank received banknotes worth 90 percent, and later 100 percent, of the market value of the deposited bonds. If the bank wished to extend additional loans to generate more profits, then the bank had to increase its holdings of Treasury bonds. This provision had its roots in the Michigan Act, and it was designed to create a more active secondary market for Treasury bonds and thus lower the cost of borrowing for the federal government.

It was the hope of Secretary of the Treasury Chase that national banks would replace state banks, and that this would create the uniform currency he desired and ease the financing of the Civil War. By 1865 there were 1,500 national banks, about 800 of which had converted from state banking charters. The remainder were new banks. However, this still meant that state banknotes were dominating the currency because most of them were discounted. Accordingly, the public hoarded the national banknotes. To reduced the proliferation of state banking and the notes it generated, Congress imposed a ten percent tax on all outstanding state banknotes. There was no corresponding tax of national banknotes. Many state banks decided to convert to national bank charters because the tax made state banking unprofitable. By 1870 there were 1,638 national banks and only 325 state banks.

While the tax eventually eliminated the circulation of state banknotes, it did not entirely kill state banking because state banks began to use checking accounts as a substitute for banknotes. Checking accounts became so popular that by 1890 the Comptroller of the Currency estimated that only ten percent of the nation's money supply was in the form of currency. Combined with lower capital and reserve requirements, as well as the ease with which states issued banking charters, state banks again became the dominant banking structure by the late 1880's. Consequently, the improvements to safety that the national banking system offered were mitigated somewhat by the return of state banking.