President Franklin D. Roosevelt believed that declaring a bank holiday and creating the Federal Deposit Insurance Corporation (FDIC) would help the nation’s banking system by

a. restoring public confidence in the banks
b. reducing government regulation of banks
c. restricting foreign investments
d. granting tax relief to individuals

Answer

a. restoring public confidence in the banks

The Federal Deposit Insurance Corporation (FDIC) is a United States government corporation operating as an independent agency created by the Banking Act of 1933.

During the 1930s, the U.S. and the rest of the world experienced a severe economic contraction known as the Great Depression. In the U.S. during the height of the Great Depression, the official unemployment rate was 25% and the stock market had declined 75% since 1929. Bank runs were common because there was not insurance on deposits at banks, banks kept only a fraction of deposits in reserve, and customers ran the risk of losing the money that they had deposited if their bank failed.

On June 16, 1933, President Franklin D. Roosevelt signed the Banking Act of 1933. This legislation:

- Established the FDIC as a temporary government corporation. The Banking Act of 1935 made the FDIC a permanent agency of the government and provided permanent deposit insurance maintained at the $5,000 level.
- Gave the FDIC authority to provide deposit insurance to banks
- Gave the FDIC the authority to regulate and supervise state non-member banks
- Funded the FDIC with initial loans of $289 million through the U.S. Treasury and the Federal Reserve, which was later paid back with interest
- Extended federal oversight to all commercial banks for the first time
- Separated commercial and investment banking (Glass–Steagall Act)
- Prohibited banks from paying interest on checking accounts
- Allowed national banks to branch statewide, if allowed by state law.
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