FROM FAILURE FRIDAYS TO SECURE MONDAYS: ROLE OF THE FDIC IN PROTECTING THE DEPOSITS OF BANK CUSTOMERS AND MITIGATING THE EFFECTS OF BANK FAILURES

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dx.doi.org/10.18374/JIBE-14-4.12

ABSTRACT

The primary motivation of the U.S. Congress in establishing the Federal Reserve System in 1913 was to prevent financial crises similar to the ones that destabilized the country's economy before. However, less than two decades later, an even bigger financial crisis occurred leading to the great depression of 1929-1933, and thousands of banks failed and hundreds of thousands of depositors lost their life savings. Again, Congress created in 1933 the Federal Deposit Insurance Corporation (FDIC) to safeguard the deposits of bank customers. Since then, there were no panics or customer-deposit losses, though there have been a considerable number of bank failures and a few economic and financial crises. In this paper, we briefly describe how the FDIC closes a failing bank on a Friday, referred to as Failure Friday, and smoothly switches over to a normal functioning bank by the following Monday without any loss or interruption in service to customers. Further, we study the relation between the number of troubled banks as identified by the FDIC and the number of bank failures after the 2008 financial crisis. An interesting finding of our study is that the bank failures follow an "elliptic pattern." Immediately, after the crisis, the number of bank failures was at a higher level for a given number of troubled banks. However, as the crisis abated, the proportion of bank failures went down, reaching a lower plateau as the economy stabilized, thus manifesting an "elliptic pattern."

Keywords: *Financial Crisis, FDIC, Failure Friday, Bank Failures, Elliptic Pattern*