

A BRIEF HISTORY OF BANKING

There is no certainty as to when banking began, but the act of exchanging various forms of payment dates from prior to the third millennium BC (Heathcote 2000, p. 9). The first banks were likely temples, where people could exchange items such as cattle, implements, or precious metals, before the use of coins. When coins of precious metals began to be used as payment, “money changers” were those who understood the relative value of various coins and could provide the means for a desired exchange.

Banking then declined in medieval Europe because of religious opposition to “usury,” which is the collection of interest added to a loaned amount. The Renaissance brought a revival of banking, most prominently in Italy where Marco Polo had introduced a trade route to the east, and with that, its exotic products. In the fourteenth century, the famous banking houses in Venice and Florence brought about the modern practice of banking as it came to be known. In fact, the English *bank* derives from the Italian *banco*, meaning “bench”—the tables where early banking transactions occurred (Mayer 1987, p. 26).

As trade increased and more people traveled greater distances to exchange goods, the need for an accurate means of monetary measure increased as well. Coins soon became difficult and unwieldy to carry in large numbers, and the need for an alternative resulted in the creation of paper money, which was first used in China (Williams 1997, p. 149).

In England, the safekeeping of precious coins or objects was entrusted to goldsmiths, who had the only safe storage vaults or boxes. Their customers knew that was how the goldsmiths kept safe their valuables and began to ask if their own could be kept in the smiths’ vaults as well. Written receipts allowed both customers and the goldsmiths to know what was stored at a given time. Soon, customers, and then the goldsmiths, began to exchange these written receipts, instead of the actual stored items. Thus began an early form of monetary note (Moore 1987, p. 9).

The practice became so commonplace that in 1694 the Bank of England was chartered by the government and allowed to issue its own notes, early forms of paper currency. This originally private bank was later to become England’s Central Bank (Mayer 1987, p. 27).

BANKING IN THE UNITED STATES

Banking in the United States developed relatively late. The economy in colonial America was principally agricultural, and credit was extended to farmers by merchants in cities such as Boston or Philadelphia. These merchants then bought on credit from their British suppliers, and when the harvest came in, the whole chain was paid off. Because the British credit system was cut off during the Revolutionary War, the need for indigenous banks became clear. Several of the colonies had previously established “land banks.” These issued notes to make loans against land, but they very soon experienced

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► *First Bank of the United States, Philadelphia, Pennsylvania, 1797; attributed to Samuel Blodgett. Greek temple-inspired architecture was selected for many early bank projects. Historic American Buildings Survey.*



problems with over-issue and depreciation of their notes. The few that did not fail were closed by the British Colonial administration in 1741 (Kohn 2004, p. 134).

In 1781, the Bank of North America was chartered within the Commonwealth of Pennsylvania, to help finance the Revolutionary War, but for another ten years there was no nationally chartered bank. In 1791, Congress granted the First Bank of the United States a twenty-year charter at the behest of Alexander Hamilton, the first Secretary of the Treasury. The bank building's design was attributed to Samuel Blodgett, although this has been questioned (Belfoure 2005, p. 16). The early colonial banks—which had since become state institutions—were then competing with the First Bank of the United States. They objected to its continuation, and in 1811 Congress failed to renew its charter.

Economic complications resulting from the War of 1812 prompted Congress to create the Second Bank of the United States in 1816, also with a twenty-year charter. The building was designed by William Strickland. Continuing political differences resulted in President Andrew Jackson's veto of the extension of that charter in 1836. From then until the Civil War era, free banks could be established by anyone who could provide a minimum capital outlay and deposit specified amounts, in the form of bonds, with a state agent. With such minimal restraint, however, many of these failed, often because of defaults on the states' bonds they were holding. By 1860, eighteen of the then thirty-two states had enacted "free charter" laws, and these contributed significantly to the westward expansion of the country.

For the most part, banks of this era were



◀ *Second Bank of the United States, Philadelphia, Pennsylvania, 1820; William Strickland. Simple Doric columns were used here. Historic American Buildings Survey.*

designed in the classical Greek, Italianate, French Second Empire, Victorian Gothic, or English Queen Anne style. Then the work of Henry H. Richardson brought about a revival of the eleventh-century Romanesque style in the 1870s. Surprisingly, Richardson only designed one bank, the Agawam Bank in Springfield, Massachusetts, and it was not in the style for which he became famous. His many other commissions, however, were the inspiration for countless banks throughout the United States well into the early twentieth century (Belfoure 2005, p. 104).

In 1863, Congress enacted the National Banking Act to finance the Civil War, and by 1866 there were 1,600 nationally chartered banks, which accounted for 75 percent of all bank deposits in the United States. This act also brought about the first uniform national currency and established the

Office of the Comptroller of the Currency (OCC),¹ the bureau that has authority over all national banks to this day. (See chapter 2 for a description of the duties and responsibilities of the OCC.)

The new banks were required to back their notes with federal government securities, and the numbers of new banks quickly grew. Severe financial panics occurred, despite these safeguards, in 1893 and again in 1907. These led to the establishment of the National Monetary Commission, which then recommended passage of the Federal Reserve Act (1913).²

The Federal Reserve was then established in order to provide a central bank as the

1. <http://www.occ.gov> (accessed September 15, 2007).

2. <http://federalreserve.gov> (accessed September 17, 2007).

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lender of last resort, and to establish monetary policy for the entire country. (Chapter 2 provides a description of the Federal Reserve and its responsibilities.)

Louis Sullivan and the Prairie Style

Louis Sullivan was already a noted architect when he designed his first bank project in 1907, the famous National Farmers Bank in Owatonna, Minnesota.

Sullivan's design philosophy of "form follows function," which his even more renowned protégé Frank Lloyd Wright also espoused, influenced other, lesser-known but significant architects of the upper Midwest. These early twentieth-century architects believed American architecture should cease copying the classical styles. George G. Elmslie, who had worked for Sullivan on the Na-

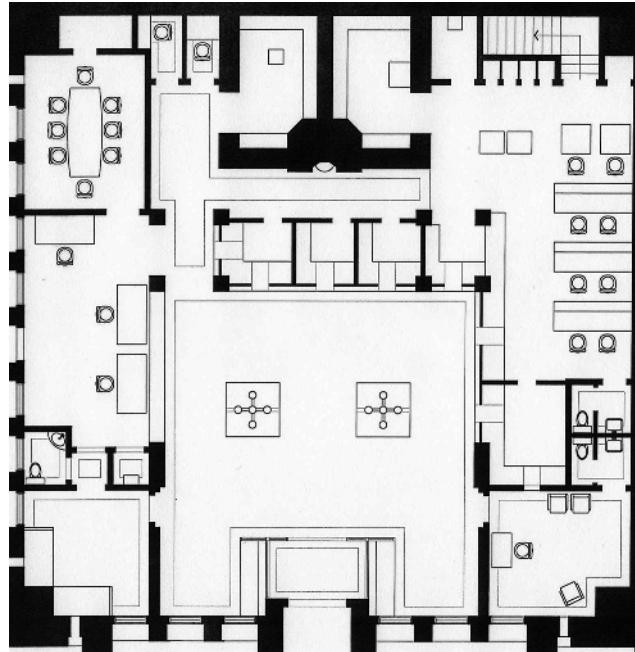
tional Farmers Bank project, together with William G. Purcell, formed Purcell and Elmslie, Architects. They produced several important bank projects, including the Merchants Bank of Winona, in Minnesota (Belfoure 2005, pp. 194–211). Completed in 1912, it was significant for its innovative, Sullivan-inspired exterior.

Frank Lloyd Wright, who produced so many significant buildings in his long career, designed relatively few banks. The architectural significance of the early Prairie-style banks is acknowledged by critics and historians alike, but unfortunately this design movement did not spread to the rest of the country, where the majority of banks continued to be designed in a classical revival style. It was not until the late 1920s that architects and their banker

► *National Farmers Bank, Owatonna, Minnesota, 1908; Louis Sullivan. Louis Sullivan's most famous bank is still beautiful more than 100 years later. Historic American Buildings Survey.*



Banking in the United States



◀ Merchants Bank of Winona, Minnesota, 1912; Purcell and Elmslie. This plan is remarkably similar to bank plans that became popular many years later. Some branch facilities today are reminiscent in their use of lobby, teller, and desk space. Illustration by the author, after an image from *Western Architect*, January 1915.



◀ Merchants Bank of Winona, Minnesota, 1912; Purcell and Elmslie. The terra-cotta ornament made popular by Louis Sullivan is clearly visible on the facade of this bank building, perhaps the best work of Purcell and Elmslie.

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clients would consider a more modern style for bank design.

THE GREAT DEPRESSION

The stock market crash of 1929 marked the beginning of the Great Depression, which soon became a worldwide circumstance. Bank construction came to a halt, and mar-

ket events led to the insolvency of numerous banks across the country. Most hard-hit were rural banks that had financed agricultural loans, but banks in cities also faced great hardship. Continuous “runs” were being made, wherein customers, fearing an immediate collapse of their bank, lined up to ask for their money to be refunded. These difficulties led to the “bank holiday” of 1933, during which all U.S. banks were closed for four days to allow for an evaluation of remaining banks and to assure the public of their solvency (Klebaner 1990, p. 138).

The events stemming from the Depression led to the establishment of the Federal Deposit Insurance Corporation, which initially provided for \$2500 in insurance for each depositor, in case the insured institution became insolvent. This limit was later increased to \$100,000, until recently, when a temporary limit of \$250,000 was established as a result of the nationwide financial turmoil of 2008. It is expected to be reduced to \$100,000 again at the end of 2009. The Great Depression also brought about significantly more oversight by the regulating governmental agencies.

Another effect of the Great Depression was a change in the characteristic architectural style of American banks. Although the Depression did not end immediately, the remaining financial institutions eventually regained their viability and a new outlook in design began to prevail. One of the early modern banks was the 32-story Philadelphia Savings Fund Society building, built in 1932. It was designed by William Lescaze and George Howe and has been called America’s first “truly modern skyscraper” (Belfoure, p. 227).



◀ *Manufacturer's Trust, New York City; SOM, 1954. This bank became a design pacesetter for the postwar years in the United States. Illustration by Dwain South.*

◀◀ *Philadelphia Savings Fund Building, 1932; Howe & Lescaze. The clean vertical lines and ribbon windows were well ahead of their time in this building, considered the first International Style high-rise project. It was placed on the National Historic Register in 1976. Historic American Buildings Survey.*

The National Credit Union Administration

In 1934 President Roosevelt signed into law the Federal Credit Union Act, which authorized the formation of federally chartered credit unions in all states. The National Credit Union Administration (NCAU) was established to charter and supervise the federal credit unions. Backed by the full faith and credit of the United States government, the NCAU operates the National Credit Union Share Insurance Fund (NCUSIF), which insures the account holders of the federal credit unions and many of the state-chartered credit unions.³

3. <http://www.ncau.gov/AboutNCAU/Index.htm> (accessed October 29, 2007).

WORLD WAR II AND THE POSTWAR ERA

American commerce and industry were completely dedicated to the war effort after the Pearl Harbor attack, and almost all bank construction was put on hold. The war years did provide bankers with an opportunity to reconsider the kind of bank that they wanted and their customers needed.

After the war, bankers were much less interested in the old classical influences. Of the immediate postwar banks the most dramatic was the Fifth Avenue branch of the Manufacturers' Trust designed by Skidmore, Owings & Merrill (SOM) in New York City in 1954 (Belfoure 2005, p. 248). An in-house competition was held over a weekend

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at SOM and the winner was Charles Evans Hughes III, who designed a four-story building with a glass curtain wall that featured the vault prominently visible from the street, a practice that is still favored by many bankers today.

FROM THE 1960s TO THE PRESENT

Over the last forty years, banking has undergone dramatic technological changes. Electronic banking, banking by phone, use of debit and credit cards, and the ubiquity of automated teller machines (ATMs) have revolutionized banking and financial institution buildings. Other, less visible innovations in planning, equipment, and the delivery of financial services have also been made, and these are featured in the following chapters.

The Bank Protection Act of 1968 and its amendment in 1991 have been significant to bankers and their architects alike, because it spelled out in great detail the security requirements for buildings and operations. The responsibilities it delegated to banks' boards of directors, and thereby the architects in their employ, became much greater as well. All agencies that regulate the financial industry in the United States are subject to these requirements. This legislation will be discussed in greater detail in later chapters.

Equally important were the regulatory changes brought about in 1999 by the

Gramm-Leach-Bliley Act, which in essence overturned the strict banking laws enacted in 1933. The earlier legislation had precluded commercial banks from offering investment banking, insurance, and other services. It remains to be seen what the long-lasting effects of the 1999 act will be, given the credit difficulties lately seen, which stemmed from the subprime lending and other practices that followed its passage.

A most significant operational change was brought about in 2004 with the advent of Check Clearing for the 21st Century, called Check 21. This law allows a new negotiable instrument, called a substitute check, which permits a bank to truncate the original check and process the check information electronically. This has had an enormous impact on banking operations throughout the United States, with implications for the design of financial institutions.

The even more recent development of "remote deposit capture," which allows merchants to combine the processing and imaging of checks at the beginning of the payment cycle, rather than at the end, may have an even greater impact on banking and the bank's relationship with customers (Fisher 2006, p. 108). More will be presented in the following chapters about the physical requirements these changes have brought. (Chapter 9, for example, features a bank workroom that has been recently converted for use of the new Check 21 equipment.)