Interbank networks in the National Banking Era:Their purpose and their role in the Panic of 1893

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Interbank networks in the National Banking Era: Their purpose and their role in the Panic of 1893[☆]

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Abstract

The unit banking structure of the United States produced a uniquely important interbank correspondent network. During the National Banking Era, this network normally provided banks with access to money markets, facilitated payment processing, and helped banks meet legal reserve requirements. In crises, network connections could be a source of liquidity risk. That risk became evident during the Panic of 1893, when New York suspended convertibility. Banks with high two-sided liquidity risk (those holding more of their liquid assets with their correspondents and funded to a greater extent by deposits of other banks) were particularly exposed and more likely to close.

Keywords:
Interbank networks; Correspondent banking; Banking panics; Contagion; National Banking Era
JEL classification:
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