The Federal Reserve Banking System

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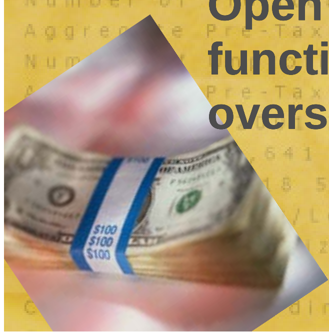
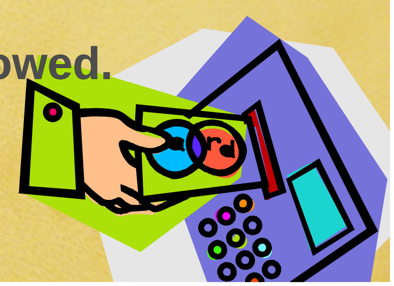
Why a Federal Reserve System?

- During the early twentieth century, there was a series of panics regarding the financial situations of our nation's population, during which many people withdrew their deposits from banks. As the result of a particularly difficult crisis in 1907, Congress established the Federal Reserve in 1913. Today the "Fed" maintains a healthy economy and a dependable banking system.
- On a national view, the Fed ensures a smooth exchange of payments between regions to increase the U.S.'s economic status internationally. On a regional view, however, it must meet local liquidity needs.
- The Federal Reserve System is a publicly controlled central bank with numerous checks and balances. In addition, the Board of Governors, the twelve regional Reserve Banks, and the Federal Open Market Committee, which make up the three parts of the Fed, function separately from the government, though Congress oversees the system and creates objectives that must be followed.

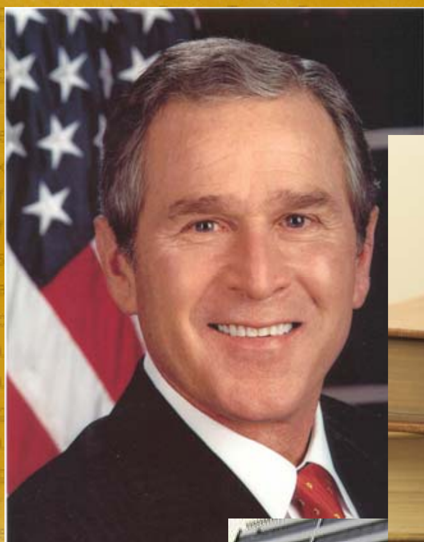




Board of Governors

- The Board of Governors, also known as the Federal Reserve Board, is a federal government agency located in Washington D.C. It is a fundamental component of the Fed.

Board of Governors

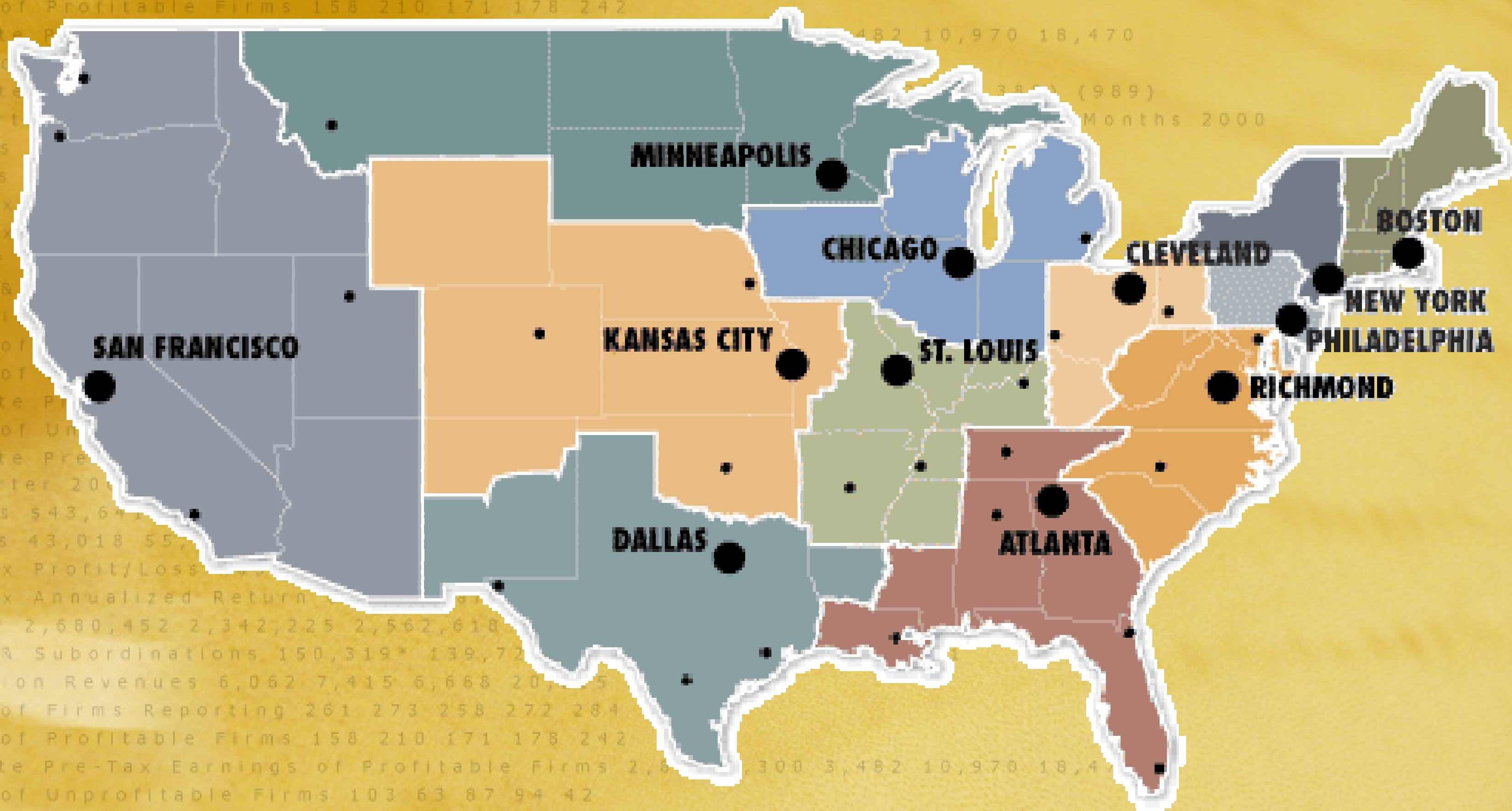


- The Board is made up of seven governors who serve fourteen-year terms. They are appointed by the President and approved by the Senate.
- With the help of a number of economists and other staff, they make decisions that affect our banks and protect our economy.
- Some concerning issues range from affordable housing and consumer banking laws to interstate banking and electronic commerce.
- The Board regulates banks, which are chartered by the state, bank-owning companies, and the Reserve Banks.

Board of Governors

- The Board approves of the Presidents of Reserve Banks and members of their Boards of Directors.
- The Board participates in the Federal Open Market Committee (FOMC).
- A chairman and a vice chairman assigned by the President lead the Board for a four-year term.
- The Board testifies before Congress twice a year on issues such as monetary policy objectives. It also meets periodically with the President and the Secretary of the Treasury.

Regional Federal Reserve Banks

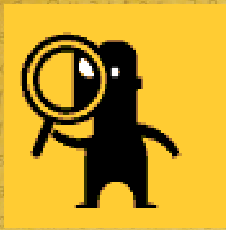


The Federal Reserve System is made up of 12 districts, each with a regional Reserve Bank, as well as additional branches. The small dots on the map represent branch banks.

Federal Reserve Banks

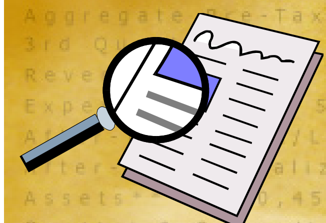
- **The Reserve Banks are the decentralized components of the Fed, operating individually while supervised by the Board. They discuss national policy by expressing a regional banking perspective and extracting from their experience with the local economy.**

- **Reserve Banks are called the "banker's banks," because they handle the surplus of currency and coins from commercial banks, supervise these banks, and sort their checks and electronic payments. They also deal with the Treasury's payments, securities, cash management, and investments. Ultimately, Reserve Banks prepare the Bank Presidents to take part in the FOMC and discuss the economy.**



Federal Reserve Banks

- **Each Reserve Bank has its own Board of Directors that oversees the processes of the Bank, supplying local business experience and leadership in the community. There are nine Directors on this Board, six of which represent the public, and three represent banking. This Board chooses the President of the Bank with the consent of the Board of Governors.**



Federal Open Market Committee

- The Federal Open Market Committee (FOMC) is in charge of making monetary policy. The Board of Governors, the President of the Federal Reserve Bank of New York, and four other Reserve Bank Presidents who serve one-year terms, make up the voting members of the FOMC. The Chairman of the Board also serves as the Chairman of the committee.

FOMC meetings occur eight times a year, during which a senior official of the New York Federal Reserve discusses the financial and foreign exchange markets and the up-to-date actions of New York's domestic and foreign trading desks. The seven other Reserve Bank Presidents who are non-voting members of the FOMC, speak regarding finances and the economy.

Federal Open Market Committee

- After discussing possible monetary policy actions, the committee votes and their directive is submitted to the New York Fed's domestic trading desk. Depending on whether the decision was to ease, tighten, or maintain the current policy, the desk either buys or sells U.S. securities on the open market.

- When the economy needs a boost, the Fed buys government securities on the open market. It pays for them with money stored in the bank, which increases the supply of money in circulation, making more money available for business loans. This helps to build up a slowing economy.

- To help stop inflation, the Fed sells government securities on the open market. It takes payment for them into the bank which removes money from circulation, and decreases the money supply. This helps to bring inflation under control.

For More Information, Visit:

http://www.federalreserve.gov