The "FED" – The Federal Reserve Bank

The Federal Reserve System was established by Congress in 1913, being the main item under the **Federal Reserve Act**. The main goal was to have a government-controlled banking system that would allow an elastic currency, one which could expand or contract as the economy required.

<u>The Federal Reserve System has a three-tiered structure and formation</u>:

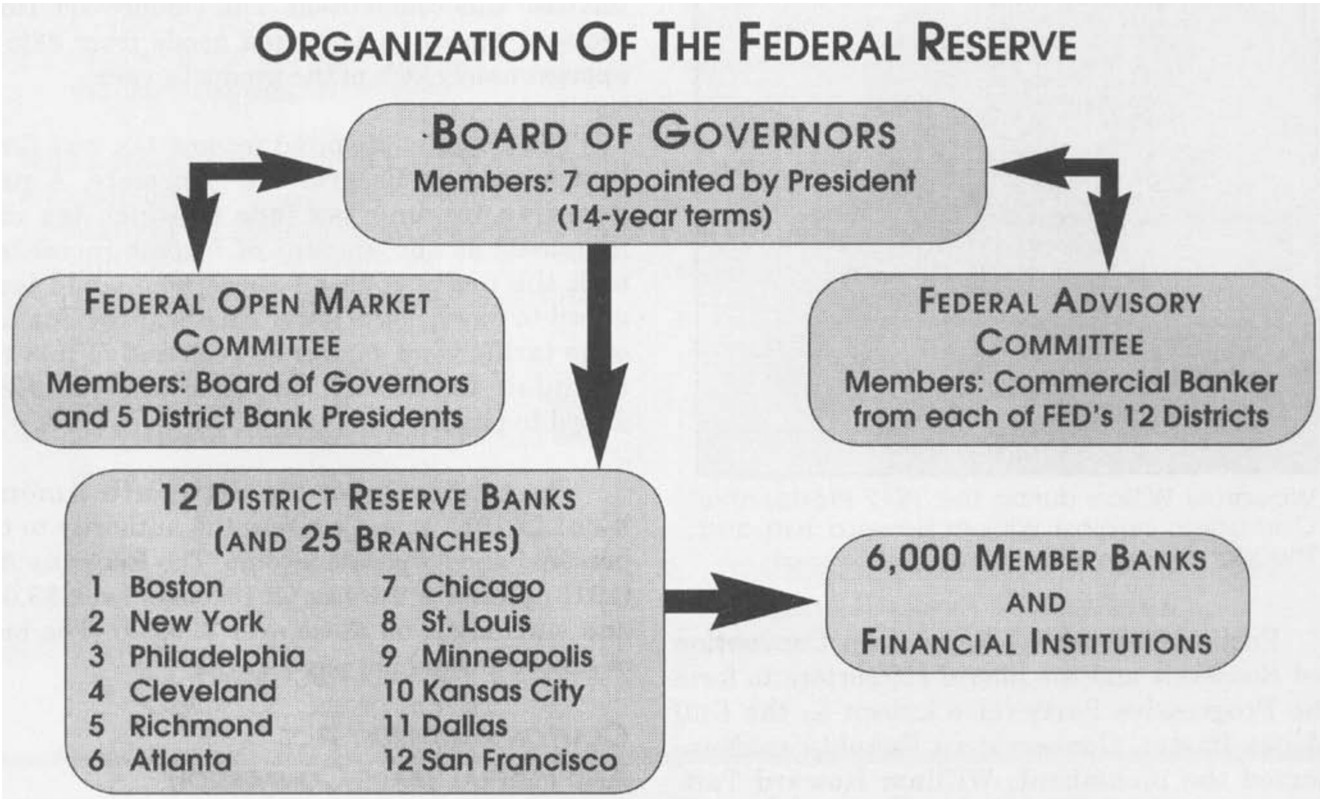
- At the top is the **Board of Governors**. They are members appointed by the President to supervise and regulate the activities of the system
- **Twelve Regional Banks**, which act as "banks banks" hold reserves and lend money to..
- **Member Banks** (all nationally chartered banks and other banks who wish to join the system)

<u>How it works on a day-to-day basis</u>

The Board of Governors located in Washington, D.C., consults with the presidents of the FED's 12 district banks and supervises banking operations, regulates the money supply, and establishes credit rules for the nation. The 12 district banks are **nonprofit "bankers' banks"** owned by the member banks. They perform many services for the banking community:

- Make **low interest loans** to member banks to keep proper reserves
- **Hold reserves on account** for member banks
- **Modify and administer the policies** set by the FED's Board of Governors to meet the needs of banks in their district
- Computer process (**credit/debit**) the **40 billion checks** written annually in the country
- **Transfer funds** among the 12 districts
- **Make loans to the government**, especially for disaster aid (floods, earthquakes, hurricanes etc.)
- **Disburse new U.S. currency** (and destroy old, worn currency)
- **Regulate the money supply** rules set by the Board of Governors

The 12 district banks "customize and fine-tune" the basic regulations set down by the Board of Governors to the particular circumstances in their region of the country.


ORGANIZATION OF THE FEDERAL RESERVE
BOARD OF GOVERNORS
Members: 7 appointed by President
(14-year terms)
FEDERAL OPEN MARKET COMMITTEE
Members: Board of Governors and 5 District Bank Presidents
FEDERAL ADVISORY COMMITTEE
Members: Commercial Banker from each of FED's 12 Districts
12 DISTRICT RESERVE BANKS (AND 25 BRANCHES)
1 Boston
2 New York
3 Philadelphia
4 Cleveland
5 Richmond
6 Atlanta
7 Chicago
8 St. Louis
9 Minneapolis
10 Kansas City
11 Dallas
12 San Francisco
6,000 MEMBER BANKS AND FINANCIAL INSTITUTIONS