

The Fed Explained

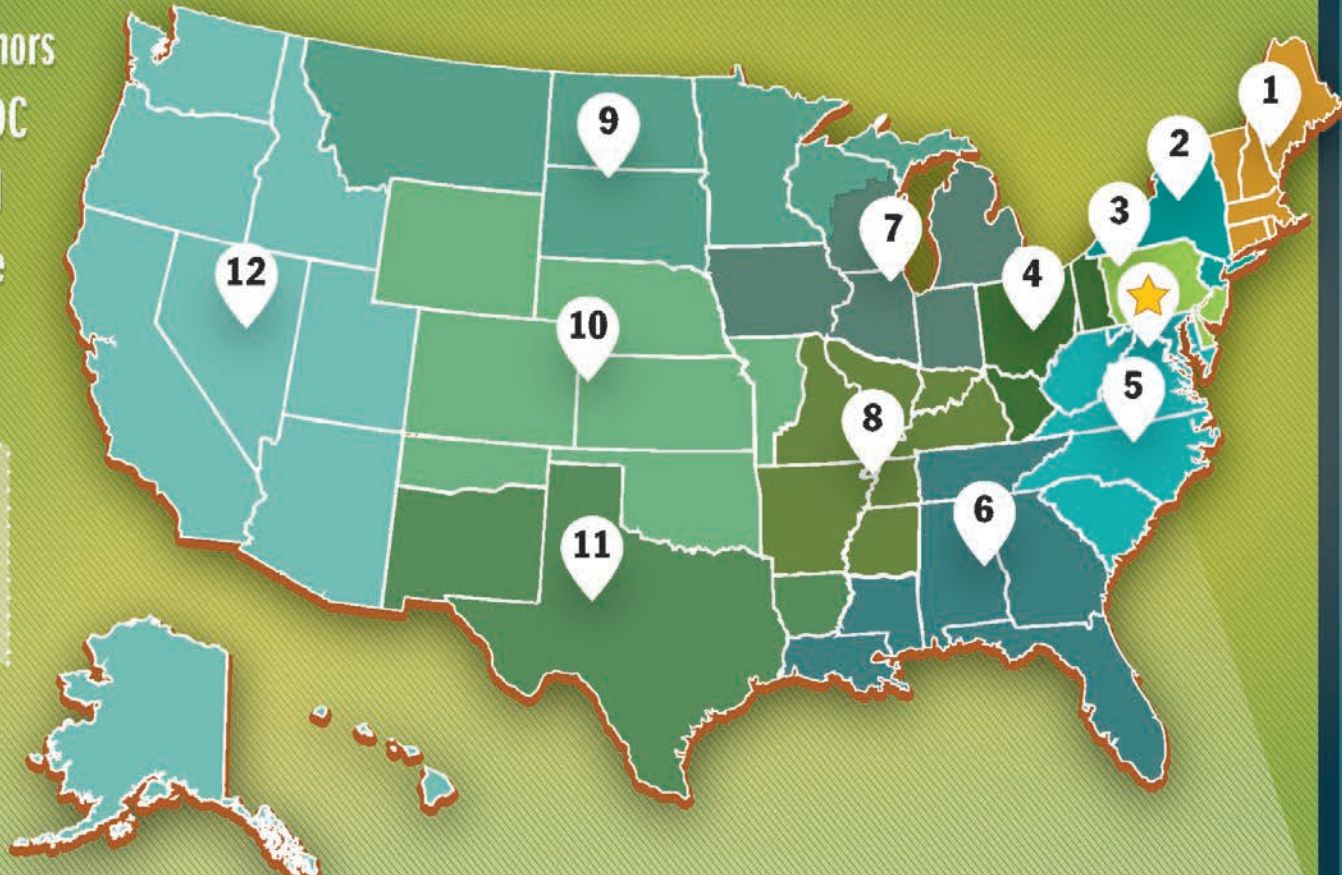
The Federal Reserve is the central bank of the United States, with responsibility for overseeing the nation's monetary system.



Structure

Board of Governors in Washington DC and 12 regional Federal Reserve Banks

- Bank location
- Board of Governors



Federal Open Market Committee



5
Fed presidents vote:
New York and four others on a rotating basis*

7
Fed governors vote:
All members of the Board of Governors vote

12
votes cast
at each of the eight FOMC meetings during the year

*All presidents participate fully in FOMC meetings even if they are not currently voting members.

Functions of the Federal Reserve

Monetary Policy



- Discount rate
- Interest on required and excess reserves
- Open market operations
- Overnight reverse repurchase agreements
- Reserve requirements
- Term deposit facility

Payment Services



- Electronic payments
- Check collection & cash services
- Fiscal agent for the U.S. Treasury
- Banker's bank
- Funds transfers

Supervision & Regulation



- Regulations
- Bank exams
- Stress tests
- Safety & soundness

The Dual Mandate

The Federal Reserve sets its policies to promote the following two conditions:

Maximum employment

An unemployment rate of

5-5.2%

as reflected in the FOMC's Summary of Economic Projections

Price stability

A target inflation rate of

2%

Lender of Last Resort

The Federal Reserve System serves as the lender of last resort, a place where banks with good collateral can turn when they can't obtain credit elsewhere and their inability to obtain credit could put the nation's economy at risk.



Audit

- Balance sheet posted weekly
- Independent audit
- Government Accountability Office (GAO) audit

Funding

- Interest on securities
- Fees for services provided
- Federal budget appropriations

Independence

The Federal Reserve helps keep the economy healthy without pressure from short-term political interests.

- Is subject to government oversight
- Works independently

Transparency

- Released statements
- Congressional testimony
- Quarterly press conferences
- Frequent public speeches
- Published minutes
- Explicit 2% long-term inflation target