The Federal Reserve System

The Central Bank of the United States

How It All Began…

Before the Federal Reserve was established, Congress attempted the idea of the First Bank of the United States in 1791. It was mainly run by private investors in an effort to support the Federal Government. The Bank acted as the government's financial representative; selling its securities, maintaining its revenues, and paying its debts. The contract ran for twenty years, but ultimately failed.

The First Bank of the United States

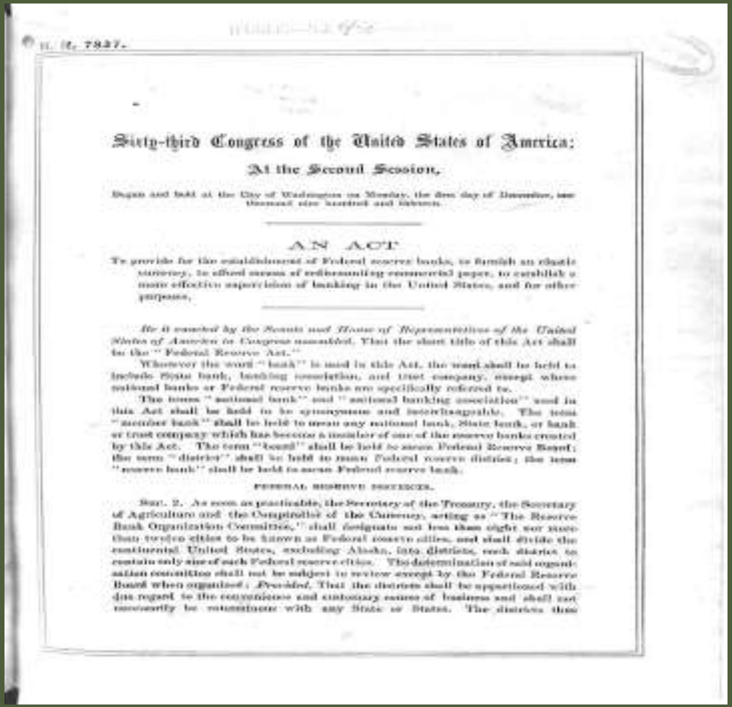
The Second Bank of the United States

The Federal Government recognized the great need for a central bank after many years, and thus the Second Bank of the United States was founded in 1816. The American public perceived the bank as a means to control the Government, as it was still mostly led by shareholders, and so after many years of inconsistency it ended in 1836.

The Second Bank of the United States Established in 1816

Federal Reserve Act

Woodrow Wilson, the 28th President of the United States signed the Federal Reserve Act on December 23, 1913. The Federal Reserve started operations in 1914.



Sixty-third Congress of the United States of America;

At the Second Session,

[illegible]

AN ACT

To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Federal Reserve Act."

Wherever the word "bank" is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal reserve banks are specifically referred to.

The terms "national bank" and "national banking association" used in this Act shall be held to be synonymous and interchangeable. The term "member bank" shall be held to mean any national bank, State bank, or bank or trust company which has become a member of one of the reserve banks created by this Act. The term "board" shall be held to mean Federal Reserve Board; the term "district" shall be held to mean Federal reserve district; the term "reserve bank" shall be held to mean Federal reserve bank.

FEDERAL RESERVE DISTRICTS.

SEC. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as "The Reserve Bank Organization Committee," shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized: *Provided*, That the districts shall be apportioned with due regard to the convenience and customary course of business and shall not necessarily be coterminous with any State or States. The districts thus

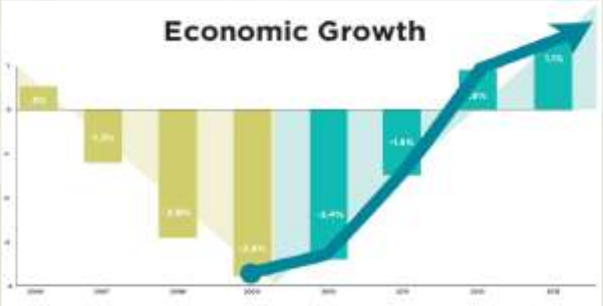
What does the Federal Reserve Do?

The Federal Reserve is a central bank to the United States, and has several obligations to keep the financial, employment, and economical welfare in functioning order:

Stable Prices in the Economy

Maximum Employment

Economic Growth



Federal Reserve's Monetary Policy

How the Federal Reserve implements monetary policy:

Reserve Requirement

Discount Rate

Open Market Operations

Reserve Requirement

Reserve requirements are the amount of funds that a bank establishment is obligated to retain against deposit liabilities. The Board of Governors has exclusive authority over changes in reserve requirements. Financial organizations must hold reserves in the form of cash in a vault or deposits with Federal Reserve Banks.

Current Reserve Requirements as of January 23, 2014

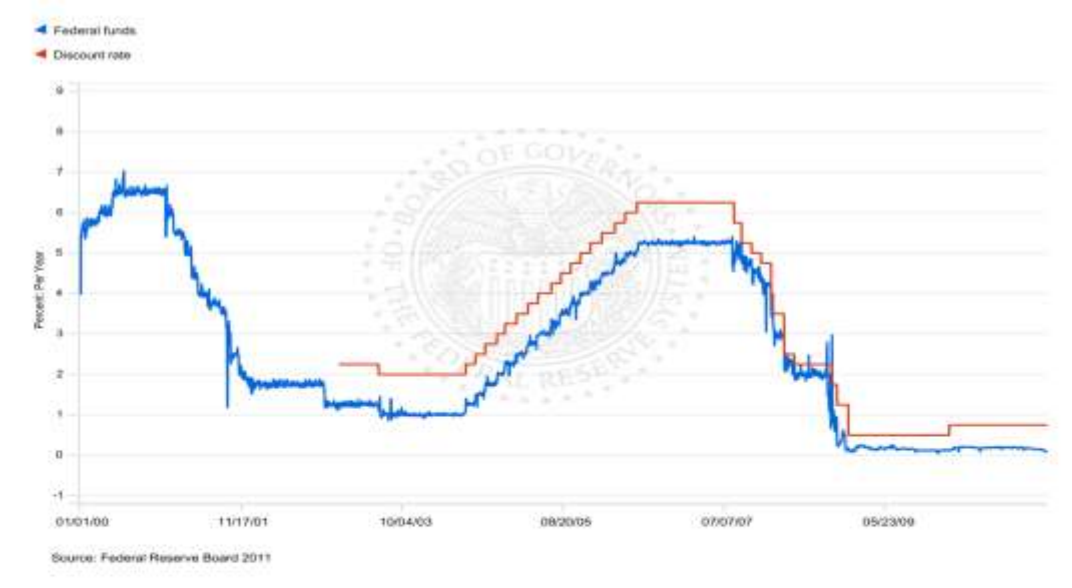
- Less than $12.4 million have no minimum reserve requirement
- Between $12.4 million and $79.5 million must have a liquidity ratio of 3%
- Exceeding $79.5 million must have a liquidity ratio of 10%

Discount Rate

The discount rate is the interest ratio charged to national banks and other financial institutions on loans they receive from their district Federal Reserve Bank's lending facility.

The Federal Reserve Banks offer three discount window plans to financial organizations: primary, secondary, and periodic credit.

Each has its own interest rate and the loans are fully secured.



Open Market Operations

Open market operations is the purchase and sale of securities in the open market by a central bank. It is one of the key tools used by the Federal Reserve in the implementation of monetary policy. The Federal Reserve has used open market operations to regulate the supply of reserve balances to keep the federal funds rate around the target established by the Federal Open Market Committee.

How is the Federal Reserve organized?

- Board of Governors
- The Federal Open Market Committee
- 12 District Banks
- Smaller Member Banks

The Board of Governors

The Board is made up of seven members who are elected by the President, and approved by the Senate.

The Board of Governors are responsible for:

- Analysis of national and global monetary and commercial expansions.
- Manages and regulates the Federal Reserve Banks.
- Controls laws regarding consumer credit protection.
- Authority over the U.S. banking system & legislature.
- Exclusive power over changes in the reserve requirements to the Federal Reserve Banks.

The Federal Open Market Committee

The FOMC is made up of the seven members from the Board of Governors, the president of the Federal Reserve New York Bank, and five of the banking presidents from the regional banks.

They are in charge of:

- Opens market operations in national and foreign markets.
- Assists in monetary policy development.
- Supports analysis of economic conditions locally and abroad.
- Sets Federal fund rates.

12 Federal Banks

The 12 federal banks are located in different regions throughout the United States. The federal institutions serve banks, the U.S. Treasury, and the public. They have several responsibilities as part of the Federal Reserve System:

- Supervises commercial banks in their particular regions.
- Handles the U.S. Treasury's payments and investments.
- Conducts research on local, national, and global economic activities.
- Stores currency and coin, processes checks, and electronic payments.
- Sells Federal Government securities.

Member Banks

Member banks are required to invest capital in their districts Federal Reserve Bank

All banks with national contracts must join the Federal Reserve

More then a third of the nations banks are a part of the Federal Reserve System

Important Legislative Acts of the Federal Reserve

McFadden Act of 1927

Banking Act of 1935

Employment Act of 1946

Federal Reserve Reform Act of 1977

Monetary Control Act of 1980

Gramm-Leach-Bliley Act (1999)

The Dodd-Frank Protection Act of 2010

McFadden Act of 1927

The McFadden Act was enacted to alleviate concerns about the Federal Reserve and its stability, branch banking, and competition.

Expiration of the Federal Reserve

- Congress reinstated the Fed seven years early

Branch Banking

- Allowed national banks to operate branches, if states permitted

Competition among Federal Reserve Banks

- Subsidiaries granted to member banks

Banking Act of 1935

FDIC	Savings	Restructure
The creation of the Federal Deposit Insurance Corporation (FDIC) was created in 1933, and was carried over to the law of 1935 permanently..	Amounts that patrons could deposit into their savings accounts were increased and were insured against future bank failures, as previously experienced.	The Federal Reserve was given more independence from the Federal Government and was given more power to be able to appoint the Board of Governors through the Senate.

Employment Act of 1946

The legislation was enacted when American soldiers were returning from World War II, and needed employment. The Fed promised the American workforce that they would promote employment for those capable, eager, and in search of work, and to encourage maximum employment, production, and buying power.

President Harry Truman signs the Employment Act of 1946

Federal Reserve Reform Act of 1977

This was an important restructure of the Federal Reserve as it aided in how we see the organization today.

Several major changes were enforced:

- Increased its responsibility and transparency to Congress and the public.
- Expanded monetary policy goals.
- Requirement of the Senate to approve of the Board of Governors and limit their term to four years.
- Prohibited the Federal Reserve Board, employees, and affiliates from participating in financial matters that would affect their own financial interests.

Monetary Control Act of 1980

President Jimmy Carter signed this into law on March 31, 1980

New Mandatory Fees

The Federal Reserve began to charge for services such as: check clearing, wire transfers, currency storage, and protection of securities.

Reserve Requirements

The amount of reserves member banks had on hand was increased, and non-member banks were now enforced to do the same. Additional reporting requirements were put into place.

No More Restrictions

The Federal Reserve and its banking institutions no longer had the constraint of interest rates. They were able to charge the rate amount to what they deemed necessary.

Gramm-Leach-Bliley Act (1999)

The Financial Holding Company, (FHC) was established by the new legislation to encourage the advantages of financial affiliation for clients and investors while protecting the integrity of the banking and financial system.

Under the new law, financial organizations who wanted to participate as a FHC were to file a written statement with the Fed. If they met the requirements under the Community Reinvestment Act, they were held to high standards and disciplined harshly if they acted inappropriately.

President Clinton signing the Act in 1999

The Dodd-Frank Protection Act of 2010

Stricter Criteria for Financial Institutions	• Tougher requirements for investments, mergers and acquisitions, and other financial firms whose oversight could harm the stability of the U.S. financial system.
Qualified Mortgages	• Moneylenders must validate a borrower’s ability to repay a loan that establishes mortgage loans that meet certain criteria, and are considered to fulfill the ability-to-pay requirement.
Reduction of the Federal Reserves Authority	• The Federal Reserve lost some independence to spread emergency credit. The Fed can make reserve loans but only through programs that are available to many companies, not to a single corporation.

The Federal Reserve Today

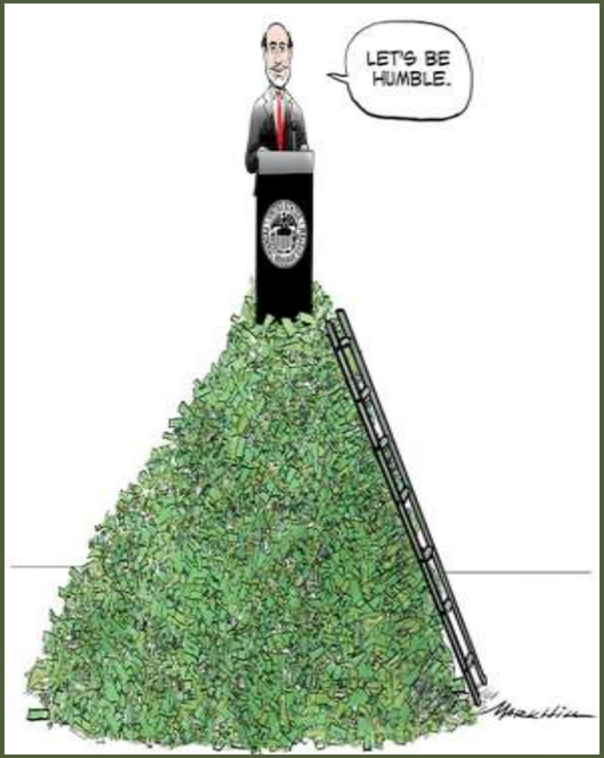
In 2014 the Federal Reserve finds itself in the spotlight once again

Despite its best efforts, the Federal Reserve is under scrutiny for a sluggish economy five years after the recession supposedly ceased. In 2013 monthly averages of job growth were at a high of 194,000. However, in 2014 there has only been 178,000 jobs produced monthly.

The New York Times editorial team refers to the market and The Federal Reserve as, "*The job market is far from healed. It will not recover on its own. Ms. Yellen and the other Fed members need to keep that in mind in fashioning monetary policy and in their dealings with lawmakers who will blame anything, even the weather, but never themselves for today's lousy job conditions.*"

The Future of the Federal Reserve

Former chairman, Ben Bernanke



Just like long ago when the first and second banks of the United States were founded, there is mistrust among the American public as to the real motives behind the Federal Reserve. Five years after the recession, politicians and lawmakers are informing the nation that the unemployment rate has decreased, and that there is a positive economic outlook for the future. However, numbers can be manipulated, but the amount of those unemployed are still a major concern. Is the Federal Reserve able to “fix” the economy, or will it stay bound to private companies and big banks whose agenda is not that of the American people? Really, only time will tell…

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