

# The Fed Explained

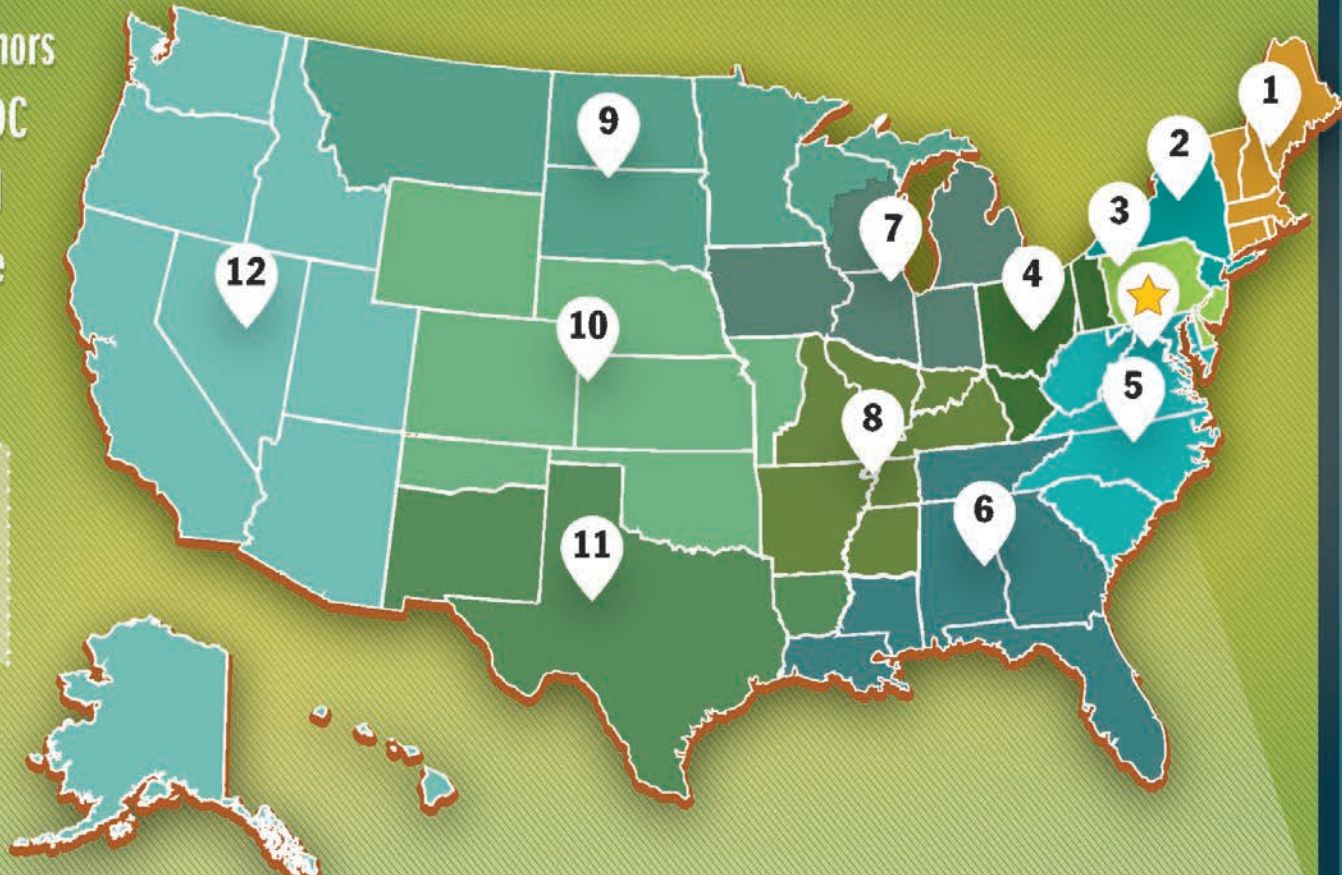
The Federal Reserve is the central bank of the United States, with responsibility for overseeing the nation's monetary system.



## 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