The Federal Reserve

Information provided by the Federal Reserve

The Federal Reserve is a part of the federal government.

The Federal Reserve is the nation's central bank. It was created by an Act of Congress on December 23, 1913. The Federal Reserve System consists of a seven-member Board of Governors plus a nationwide network of 12 Federal Reserve Banks and 25 Reserve Bank branches. The Federal Reserve Banks were established by Congress as the operating arms of the nation's central banking system, and they have both public purposes and private aspects.

The Federal Reserve Banks are organized like private corporations, and their stock, as provided for by law, is held by all national banks and by those state chartered commercial banks that are members of the Federal Reserve System. Ownership of Federal Reserve Bank stock is in the nature of an obligation that goes along with membership in the System, and does not carry with it the attributes of control and financial interest ordinarily attached to stock ownership in corporations that are operated for the purpose of making a profit. The amount of stock that member banks are required to own is specified by law, and each member bank has only one vote, regardless of the number of shares it holds. The stock may not be sold or pledged as security for loans, and dividends are limited by law to 6 percent per year. If a Reserve Bank were liquidated, any surplus would go to the U.S. Government, not the stockholders.

Neither the Board nor the Reserve Banks receive appropriations from Congress. Therefore, they do not operate with tax revenues, but rather pay expenses out of earnings. Earnings of the Federal Reserve Banks are derived primarily from interest received on their holdings of securities and on the fees they charge depository institutions for providing services such as the processing and clearing of checks. After payment of expenses, contributions to surplus, and payment of other assessments, all the net earnings of the Federal Reserve Banks are aggregated and paid over to the U.S. Treasury.

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The Board of Governors retains an independent auditor to review its financial statements; and, in addition, the activities of the Federal Reserve are audited by the U.S. General Accounting Office. Each Reserve Bank has a General Auditor who reports to the Bank's board of directors regarding audit activities and to the Board of Governors.

The U.S. Congress has ultimate authority over the Federal Reserve System, and the Board is required by statute to report to Congress annually on the Federal Reserve's activities. In addition, the Federal Reserve is required by statute to report to Congress twice a year on its plans and objectives for monetary policy. As you may know, members of the Board, particularly the Chairman, are frequently requested to testify before congressional committees on banking and economic issues.

The members of the Board of Governors of the Federal Reserve System are appointed by the President and confirmed by the Senate to serve fourteen-year terms of office. Their prime responsibility is in the field of monetary policy. The President designates one member of the Board as Chairman and another as Vice Chairman, for terms of four years. The Board is responsible for: establishing reserve requirements for financial institutions, setting margin requirements on credit extended by brokers-dealers, banks or others to purchase or carry stock, and maintaining contact with the central banks of other countries or with organizations concerned with the international monetary system. The Board's supervisory responsibilities extend to banking organizations in the United States, the operations of domestic corporations involved in international banking or finance, and certain operations of foreign banks. The Board also oversees the operations of the twelve Federal Reserve Banks and shares with them the responsibility for setting the discount rate. In addition, the Board has responsibility for implementing by regulation the major Federal consumer credit laws, such as Truth in Lending and Equal Credit Opportunity.