

# Federal Reserve System



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### ■ INTRODUCTION

The Federal Reserve System (the Fed) is an independent regulatory and monetary policymaking agency, established by the Federal Reserve Act in 1913. The Fed is administered by a board composed of seven governors, nominated by the president and confirmed by the Senate. The president also designates two of the members to serve as chair and vice chair for four years. Both the chair and

vice chair may be redesignated. A governor's term is fourteen years, but few serve that long, and often an individual is appointed to fill the remaining portion of a term. Members who have served a full term may not be reappointed.

### Responsibilities

The Fed's major responsibility is to conduct the federal government's monetary policy. Through the buying and selling of government securities, the Fed directly influences the supply of credit and the level of key short-term interest rates, which in turn strongly affect the pace of economic activity, unemployment, and prices.

In addition, the Fed regulates certain credit activities, collects economic data, oversees the activities of bank holding companies, and acts as the primary federal government supervisor of state-chartered banks that have joined the Federal Reserve System. These banks are referred to as state member banks. State-chartered banks that are not members of the Fed are supervised by the Federal Deposit Insurance Corporation (FDIC) (*p. 125*); federally chartered banks are regulated by the Office of the Comptroller of the Currency (OCC) (*p. 710*).

In executing its monetary policy-making functions, the Fed:

- Determines the level of reserves that must be kept on deposit with the twelve Federal Reserve district banks by all financial institutions.
- Lends money through its "discount window" to banks that encounter unexpected deposit fluctuations and need to enlarge their reserves or pay depositors. Serves as the "lender of last resort" when financial markets are in disarray. Reviews and confirms the "discount rate" charged on such loans by the Federal Reserve district banks.
- Buys and sells government securities in the open market, thereby directly increasing or reducing the amount of bank cash reserves and short-term market interest rates ("open market operations").
- Collects and analyzes extensive data on the money supply, credit, industrial production, and other economic activity.

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**GLOSSARY**

**Bank holding company (BHC)**—A company that owns or controls one or more banks. The Federal Reserve System regulates and supervises BHCs and approves bank mergers and acquisitions. The Fed maintains authority over a BHC even if the banks it owns are under the supervision of the FDIC or OCC.

**Discount rate**—The interest rate district Federal Reserve banks charge on loans to depository institutions (banks, savings banks, thrifts, and credit unions).

**Discount window**—An expression used to describe the mechanism by which the Fed makes loans to depository institutions.

**Fed**—A widely used nickname for the Federal Reserve System.

**Federal funds rate**—The rate commercial banks pay to borrow money from each other on a short-term basis, generally overnight, and typically to meet reserve requirements.

**Interlocking directorates**—Boards of directors having some members in common, so that the corporations concerned are to some extent under the same control.

**National bank**—Bank that is chartered and regulated by the OCC. National banks are required to be members of the Federal Reserve System.

**NOW accounts (negotiable-order-of-withdrawal accounts)**—These are interest-bearing accounts on which checks may be drawn.

**Reserves**—Money that financial institutions must keep as cash in their vaults.

**State member bank**—A bank that is chartered by a state and is a member of the Federal Reserve System, which supervises these banks.

**State nonmember bank**—A bank that is chartered by a state but is not a member of the Federal Reserve System. These banks are supervised by the FDIC.

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- Supervises and examines the activities of the twelve Federal Reserve district banks.

- Supervises the issuance and distribution of Federal Reserve notes and monitors the amount of currency in circulation.

- Regulates various types of credit, such as for purchasing stocks and other equity securities.

- Serves as fiscal agent for the U.S. government, selling, servicing, and redeeming U.S. Treasury securities.

- Buys and sells foreign currencies, in cooperation with the Treasury Department or on behalf of foreign central banks, to counteract disorderly conditions in foreign exchange markets.

- Supervises the government securities broker and dealer activities of state member banks, foreign banks and their uninsured U.S. branches, and foreign branches and affiliates of U.S. banks.

As one of the five major federal regulatory agencies for financial institutions, the Fed:

- Registers, regulates, and supervises bank holding companies; reviews acquisition and expansion plans of bank holding companies to ensure they do not foster anti-competitive and monopolistic behavior.

- Approves establishment of foreign branches of member banks and regulates their activities; regulates and supervises the foreign activities of U.S. banks.

- Charters and regulates international banking subsidiaries (known as Edge corporations) of member banks.

- Approves acquisitions of banks, thrifts, and commercial-lending offices in the United States by foreign-owned banks; approves opening of branch offices by foreign banks; has authority to close state-chartered branches and affiliate offices of foreign banks that are not subject to comprehensive regulation in their home countries (and recommend such action to the OCC for federally chartered branches of foreign banks); supervises certain nonbank offices of state-chartered, foreign-owned banks; enforces consumer protection laws as they apply to foreign-owned U.S. banks; monitors capital standards for foreign banks in the United States.

- Provides check clearing, settlement, wire transfer, automated clearinghouse, and other services to the banking system.

- Issues regulations requiring meaningful disclosure of credit terms offered by state member banks.

- Issues rules prohibiting discrimination by banks in granting credit.

- Participates in the deliberations of the Federal Financial Institutions Examination Council, which was established in 1978 to develop uniform examination and supervision practices for all depository institutions' regulatory agencies. Other members of the council include the FDIC, OCC, the Office of Thrift Supervision (*p. 721*), and the National Credit Union Administration (*p. 350*).

As the primary regulator of state-chartered banks that have joined the Federal Reserve System (state member banks), the Fed:

- Regulates and supervises the activities of state member banks, including their lending practices and financial condition.

- Approves establishment of new facilities and branches by state member banks.

- Authorizes the issuance of orders requiring state member banks and bank holding companies to cease and desist from violations of law and unsafe business practices.

- Authorizes the removal from office of bank officers and directors who violate the law, engage in unsafe and unsound practices, or engage in insider loans and arrangements.

- Regulates issuance of credit cards by state member banks.

- Establishes minimum standards for installing and maintaining security systems.

- Enforces statutory restrictions that greatly limit interlocking directorates and overlap of officers among banking companies.

- Regulates mergers, consolidations, and acquisitions when the resulting institution would be a state member bank.

## Powers and Authority

The Federal Reserve System is the nation's central bank and is charged with making and administering policy for the nation's credit and monetary affairs. It also has supervisory and regulatory power over bank holding companies, state-chartered banks that are members of the system, overseas activities of U.S. banks, and U.S.-based operations of foreign-owned banks.

## STRUCTURE

The Federal Reserve System consists of five major parts: (1) the board of governors, (2) the Federal Open Market Committee (FOMC), (3) the twelve Federal Reserve banks, (4) the three advisory councils, and (5) the member banks of the system.

### The Board of Governors

The board is responsible for administering and supervising the Federal Reserve System. It consists of seven members who are appointed by the president and confirmed by the Senate. Board members are appointed for fourteen-year terms, and no two members may come from the same Federal Reserve district. The chair and vice chair of the board are named by the president to four-year terms and may be renamed as long as their terms have not expired.

Although the Fed is designed to be independent of political influences, the chair often meets with administration officials to discuss economic policy and since 1978 is required by law to appear biannually before the House and Senate Banking committees to give lawmakers an economic update. In practice, members of the board testify much more often than that on a wide variety of economic issues.

The board supervises the twelve Federal Reserve District banks and appoints some members of each bank's board of directors. Each bank's board appoints its president and vice presidents, but the Federal Reserve Board confirms those appointments. In addition, the Fed coordinates the Federal Reserve System's economic research and data collection and reviews all publications. It must vote to approve acquisitions by bank holding companies, some bank mergers, and certain other commercial bank actions.

The board's primary function, however, is the formulation of monetary policy. In addition to approving proposed changes in the discount rate, it has authority to change reserve requirements within specified limits and to set margin requirements for the financing of securities traded on national securities exchanges.

### Federal Open Market Committee

The FOMC, with twelve voting members, is the system's most important monetary policy-making body. The committee meets eight times a year in Washington, DC, and consults by telephone when a change of policy is called for between meeting dates. It is composed of the board of governors plus the president of the New York Reserve Bank. Four other voting positions rotate among the eleven remaining Reserve bank presidents, though all

twelve Reserve bank presidents typically attend each session of the FOMC and participate in discussions.

The committee's main responsibility is to establish open market operations and thereby the general course of monetary policy. The FOMC decides the extent to which the system buys and sells government and other securities. Purchases and sales of securities in the open market are undertaken to supply the credit and money needed for long-term economic growth, to offset cyclical economic swings, and to accommodate seasonal demands of businesses and consumers for money and credit. The committee also issues regulations regarding administration of the discount window.

In addition, the committee oversees the system's operations in foreign exchange markets. Foreign currency transactions are undertaken in conjunction with the Treasury to safeguard the value of the dollar in international exchange markets and to facilitate growth in international liquidity in accordance with the needs of an expanding world economy.

The New York Reserve Bank serves as the committee's agent in making actual purchases and sales. Government securities bought outright are then prorated among the twelve Reserve banks according to a formula based upon their reserve ratios. The foreign department of the New York bank acts as the agent for foreign exchange transactions.

### The Federal Reserve Banks

The operations of the Federal Reserve System are conducted through a nationwide network of twelve Federal Reserve banks located in Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Minneapolis, New York, Philadelphia, Richmond, San Francisco, and St. Louis. Branches of Reserve banks have been established in twenty-five additional cities (*p. 189*).

Each Reserve bank is an incorporated institution with its separate board of directors, consisting of nine members. The Federal Reserve Act requires that directors be divided into three classes. Class A directors, who represent member banks, and Class B directors, who are engaged in pursuits other than banking, are elected by the member banks in each Federal Reserve district. The board of governors appoints the three Class C directors and designates one of them as chair and another as deputy chair of the bank's board. No Class B or Class C director may be an officer, director, or employee of a bank; in addition, Class C directors are prohibited from being stockholders of any bank.

The directors of each Reserve bank oversee the operations of their bank under the overall supervision of the board of governors. They establish, subject to approval by the board, the interest rates the bank may charge on short-term collateral loans to member banks and on any loans that may be extended to nonmember institutions. The directors appoint the bank's president and first vice president subject to approval of the Fed board of governors.

### Advisory Councils

To aid the Fed in its work, three advisory councils monitor various issues and offer suggestions to the board and the FOMC.

The Federal Advisory Council consists of one member from each of the Federal Reserve districts. The board of directors of each bank annually selects one council member, usually a banker from the district. The council is required to meet in Washington, DC, at least four times a year. It confers with the board of governors on economic and banking matters and makes recommendations regarding the affairs of the system.

The Consumer Advisory Council meets three times a year to discuss consumer issues relating to Fed responsibilities. The thirty-member body is made up of bankers, consumer group representatives, academics, and legal experts.

The twelve-member Thrift Institutions Advisory Council provides the Fed with information and views on the needs and problems of thrifts. The council is composed of representatives from savings banks, savings and loan associations, and credit unions.

### Agency Budget

The Fed receives no appropriation from Congress, and its budget is largely free from congressional scrutiny. Interest paid on government securities purchased by the Fed accounts for about 90 percent of the Fed's earnings. In addition, the Fed earns money from the fees it charges for its services, from interest on discount window loans, and from its foreign currency operations.

Technically, the Federal Reserve System is owned by its member banks. To be admitted to membership, a bank must subscribe a certain percentage of its capital stock and surplus to the Reserve bank in its district. Member banks receive a dividend of 6 percent annually on the value of their paid-in stock. The dividend is exempt from federal, state, and local tax.

The Fed's earnings go first to pay expenses and to pay the 6 percent dividend to member banks on their paid-in stock. Earnings also are used to make any additions to each Reserve bank's surplus to keep it equal to the bank's paid-in stock. Remaining earnings then are paid to the U.S. Treasury. About 90 percent of the Fed's annual income has been paid to the Treasury since the system was established.

Although Congress has no authority over the budgets of the Federal Reserve board of governors or the twelve district banks, since 1978 the General Accounting Office—now the Government Accountability Office (GAO)—has been authorized to audit certain records of the Fed. The GAO is barred from examining international monetary and financial transactions; monetary policy matters, including discount window operations, member bank reserves, securities credit, interest on deposits, and open market operations; FOMC activities; and all communications among Fed personnel relating to exempted activities. The comptroller general is required to report audit results to Congress.

### MONETARY POLICY

The Fed closely monitors and takes regular steps to affect the supply of credit and its price, or interest rates, which in turn influence the level of spending and production in the economy. Long-term monetary policy is set by

the Fed's board of governors through the discount rate and bank reserve requirements. But short-term policy, which is more central to the economy and market observers, is set in meetings of the FOMC.

The Fed requires all depository institutions to maintain reserves—in the form of cash in their vaults or held in non-interest-bearing accounts at Federal Reserve banks—equal to a certain percentage of their deposits. When the central bank buys Treasury securities from banks, it pays for them by crediting the banks' reserve accounts, giving banks additional money to lend to individuals and corporations. Conversely, when the Fed sells Treasury securities, it prompts banks to draw down their reserves. To maintain the required level of reserves, banks are forced to pull money out of the system by slowing down their rate of lending or perhaps even calling in some loans.

Most banks meet their reserve requirements by borrowing, usually on an overnight basis, from other institutions that have a temporary surplus. The market-based interest rate for such short-term borrowing, dubbed the federal funds rate, is closely controlled by Fed open market operations, and it is closely watched by financial markets as a sign of changes in available credit. When the Fed seeks to move interest rates up or down, it buys or sells Treasury securities and thereby expands or contracts bank reserves, altering the supply of money to meet reserve requirements. A tighter supply of lendable reserves results in a higher price to borrow, or a higher federal funds rate; a looser supply results in a lower rate. Fed open market operations are carefully geared to keep the federal funds rate fairly steady and to move it generally in increments of a quarter of a percentage point.

The Fed often engages in open market transactions simply to iron out temporary fluctuations in the demand for money and credit in the economy. These shifts in demand can result from a variety of factors, such as seasonal variations in economic activity and the weather, among others. But open market transactions also influence longer-term trends in credit conditions.

Since the mid-1950s the Fed has used monetary policy to moderate the degree of inflation or recession in the economy. To counteract inflation, the central bank has followed a restrictive policy, making it more difficult for consumers, businesses, and governments to borrow money. Tighter credit tends to reduce the demand for goods, in turn decreasing inflationary pressures on prices; but it also risks increasing unemployment. At other times, to fight recession, the central bank has eased credit conditions, bringing down interest rates and encouraging borrowing. That tends to increase the demand for goods, raising production and employment; but it also creates the danger of inflationary wage and price scales.

The challenge to monetary policymakers has always been to find an appropriate guide for their activities. The effects of a change in policy on growth or inflation may not show up in the economy until many months after the change has occurred. As a result, the FOMC must predict the effects of its actions using imperfect indicators.

During World War II and immediately after, the FOMC was guided by the need to prevent interest rates

on the government debt from rising. The government had borrowed heavily to finance the war, and increasing rates would add greatly to the federal budget. If the rates the Treasury had to pay to borrow money started to rise, the Fed would follow an easier policy, creating more reserves and encouraging interest rates to fall. Such a policy, however, was powerless to prevent inflation. As the rate of inflation began to rise during the Korean War, the Fed formally ended its support of Treasury financing.

The Fed continued to pay attention to interest rates, however, as well as to various measures of the money supply and other indicators of economic activity. It was not until October 1979 that the Fed decided to ignore interest rates and set a policy designed to slow the growth of the money supply in a vigorous attempt to curtail double-digit inflation.

The close focus on money supply measures came to an end in 1982. The FOMC claimed that the principal measure of the money supply—known as M1—had become distorted. M1 was supposed to include currency in circulation plus checking accounts, but not savings accounts. But the rise of NOW accounts and money market accounts made the line between checking and savings accounts increasingly vague. As a result, Fed officials claimed, M1 had become an unreliable guide to policy. Perhaps more important than those technical arguments, however, was the fact that the money supply was rising rapidly in late 1982, and the Fed knew that any attempt to rein it in would exacerbate an already deep recession and a looming international debt crisis. An increasingly global economy and a resulting increase in “Eurodollars”—U.S. dollars held and traded in Europe—added to the Fed’s difficulty in controlling the money supply.

Since 1982 the FOMC has followed a varied set of policy guides. Because meetings are held in private, it is difficult to say precisely what determines committee decisions. A statement of policy directives adopted by the FOMC and minutes of the meetings are released five to eight weeks after they occur—typically a few days after the following meeting.

Not only is it difficult to know what guides Fed policy decisions; sometimes the decisions themselves are obscure. In fact, it has long been the Fed’s practice to allow the financial markets, businesses, governments, and other observers to guess at its intentions. Its silence has led to severe criticism. In response to such objections, the Fed on several occasions in 1994 released public statements that the FOMC had decided to boost the federal funds rate.

Despite the apparent policy reversal, the FOMC’s policy actions remain somewhat ambiguous, particularly the rationale for policy decisions. It is, however, apparent from a careful reading of FOMC policy statements and minutes that in making monetary policy the committee keeps a close eye not only on the behavior of money supply measures but also on other indicators, such as economic growth rates, including gross measures of the economy and narrow statistics of regional and sectoral activity, inflation, the value of the dollar on foreign exchange markets, lending activity, and the health of the financial system.

Moreover, it is plain that the Fed chair, being the most visible member of the Fed board and also serving as chair of the FOMC, wields enormous influence. To the extent that the chair’s thinking reflects a general view of the board of governors and the FOMC, it is sometimes possible to discern what influences the committee. The Fed chair testifies twice yearly to the House and Senate Banking committees, explaining Fed monetary policy, and makes frequent other appearances before congressional committees to discuss economic concerns. Financial markets follow closely every statement the Fed chair makes, looking for clues to the direction of Fed monetary policy.

## **BANK SUPERVISION AND REGULATION**

The Bank Holding Company Act of 1956 granted to the Federal Reserve regulatory authority over bank holding companies (BHCs). A BHC was defined as any company controlling at least 25 percent of a bank’s voting stock or the election of a majority of its governing body.

The purpose of the act was to control BHC expansion, prevent the formation of monopolies, and discourage restraint-of-trade in banking. The act required a company to obtain prior approval from the Fed before becoming a BHC. It also required prior approval for a BHC to do any of the following: acquire more than 5 percent of a bank’s voting stock, acquire a bank’s assets or merge with another BHC, or acquire a bank’s assets in another state unless state law specifically authorizes out-of-state acquisition. (The prohibition on out-of-state acquisitions was repealed in 1994.) It prohibited expansion into nonbanking areas except those deemed by the Fed to be permissible bank-related activities or “so closely related to the business of banking or of managing or controlling banks as to be a proper incident thereto.”

A 1970 amendment to the Bank Holding Company Act closed a major loophole by giving the Fed regulatory authority over bank holding companies that only own a single bank—companies that previously had been exempted.

The Bank Mergers Act of 1966 granted the board of governors partial authority to administer bank mergers. The Fed approves mergers between state member banks and national or state nonmember banks if the resulting institution is to be a state member bank.

Throughout the 1980s and 1990s the Fed several times expanded its interpretation of closely related activities to allow some banking companies to engage in securities activities. Those decisions required a relaxed interpretation of the Glass-Steagall Act of 1933, the Depression-era barriers that barred banks from engaging in most securities sales and underwriting activities and from affiliating with companies “principally engaged” in those securities activities.

In November 1999 President Bill Clinton signed a historic overhaul of the Glass-Steagall Act, known as Gramm-Leach-Bliley. The long-awaited modernization of the financial services industry allowed banks, securities firms, and insurance companies to enter into each other’s markets to a certain degree. Under the new system, banks could form BHCs that engage in traditional banking activities as

well as insurance and securities underwriting, merchant banking, and real estate development. Each endeavor operated as a separate business under the umbrella of the new financial services conglomerates—still closely regulated by the Fed. Other federal agencies, such as the Securities and Exchange Commission and the OCC, continued to regulate activities within their jurisdiction, regardless of whether they were carried out by a bank.

### **International Banking**

The Fed issues licenses for foreign branches of Federal Reserve member banks and regulates the scope of their activity. It also charters and regulates international banking subsidiaries, called Edge corporations after Sen. Walter Edge (R-NJ), who introduced the legislation in 1919, and it authorizes overseas investments of commercial banks, Edge corporations, and BHCs.

The International Banking Act of 1978 gave the Fed the primary authority for regulating U.S. branches of foreign banks and overseas branches of U.S. banks. Two years later the Monetary Control Act required U.S. branches of foreign banks and Edge corporations to meet the Fed's reserve requirements. The Foreign Bank Supervision Enhancement Act of 1991 greatly expanded the Fed's jurisdiction over U.S. activities of foreign banks by requiring advance approval of the Fed for the acquisition or establishment of a branch, agency, representative office, or commercial-lending company.

In addition to these regulatory responsibilities, the Fed advises and consults with agencies of the federal government in discussions with international organizations and maintains contacts with the central banks of other countries.

### **Consumer Credit Protection**

The board shares with other banking regulators enforcement responsibility for several consumer-protection laws. These include the Truth in Lending Act, the Truth in Savings Act, the Fair Credit Billing Act, the Fair Debt Collection Practices Act, the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Community Reinvestment Act, and certain provisions of the Real Estate Settlement Procedures Act and the Federal Trade Commission Act that apply to banks.

### **Bank Examinations**

The Fed has the authority to conduct examinations of all member banks, including national as well as state-chartered banks. However, the OCC has primary responsibility for the supervision and regulation of nationally chartered member banks and furnishes the Fed with reports on their operations. The FDIC examines and regulates state non-member insured banks.

Because its primary role is formulating monetary policy, the board of governors has delegated the responsibility for field examination of member banks to the twelve Federal Reserve banks around the country. The mechanics and standards of examinations, as well as enforcement activities, are similar to those carried out by the FDIC (*p. 126*).

Field examiners have the authority to examine a bank's financial condition, enforce regulations and statutory provisions, such as restrictions on asset holdings, and require that unsatisfactory operating conditions of member banks be corrected. Under a major banking law enacted in 1991, bank regulators, including the Fed, were required to take direct action to prevent financial institutions from becoming undercapitalized and to take control of or close institutions whose capital fell below a designated "critical" level.

Most state member banks must be examined by Federal Reserve bank officials every year. Only smaller banks that received the highest of five regulatory ratings are examined every eighteen months.

### **SUPPORT SERVICES**

The Monetary Control Act of 1980 required the board to charge for Federal Reserve bank services, which include currency and coin services of a nongovernmental nature; check clearing and collection; wire transfers; automated clearinghouse; settlement; securities safekeeping; Federal Reserve float (the Fed gives one institution credit for a check before it has collected funds from the institution where the check was written); and payment services for electronic funds transfer.

### **Issuing Currency**

Reserve banks provide a convenient and accessible source of currency and coin for banks. If a bank needs cash, it replenishes its supply by obtaining shipments from a Reserve bank. If a bank accumulates more currency and coin than it needs, it is allowed to return this money to a Reserve bank and receive credits to its reserve accounts.

Federal Reserve banks also replace worn or damaged currency or coin with new money obtained from the U.S. Mint or the Bureau of Engraving and Printing.

The Federal Reserve collects substantial quantities of bank checks and noncash items such as drafts, promissory notes, and bond coupons for the public.

When a check remains in the community near the bank on which it is drawn, presentation for payment usually is made by an exchange of checks through a local clearing arrangement. For checks leaving the local community, however, the Federal Reserve assists the timely presentation of that check by accepting millions of checks daily and then sorting and directing them to the banks on which they are drawn. Banks receive credit for checks deposited with a Federal Reserve bank based on a published availability schedule, with credit being passed to the depositor the same day payment is scheduled to be received from the bank on which the check is written.

### **Securities Credit**

Through Regulations T, U, and X, the board of governors sets the amount of credit that may be used to buy equity securities. These regulations are known as "margin" requirements.

### **Wire Transfer of Funds**

A member bank may transfer funds from its reserve account to another member bank anywhere in the country

within a matter of minutes. Such transactions formerly were processed on a private communications system known as the Federal Reserve Communications System. In 1994 the twelve Federal Reserve district banks and member banks began using a new completely interconnected Fednet system.

### **Automated Clearinghouses**

Reserve banks and their branches operate automated clearinghouses (ACHs) that provide for the exchange of payments on magnetic tape. The ACH receives a tape of transaction information from a commercial bank and electronically directs each item to the appropriate receiving bank where customer accounts are posted. Examples of ACH transactions are the direct deposit of a payroll by an employer and payment of a customer's recurring bills such as mortgages. In 2006 the Fed processed more than 9.2 billion of these transactions, totaling \$25.1 trillion.

### **Background**

The Federal Reserve System was created by Congress in December 1913. It was the nation's third attempt to establish a central bank. The first Bank of the United States was chartered by Congress in 1791. When its twenty-year charter expired, Congress, fearing the central bank vested too much control over the economy in the hands of the federal government, refused to extend it.

In 1816 Congress established the second Bank of the United States. But again, members of Congress grew distrustful of their creation and allowed its charter to expire in 1836. Both national banks also were criticized for benefiting the moneyed aristocracy over the general population.

For the next twenty-five years, the banking system consisted of a network of unregulated state-chartered banks and was plagued by insufficient capital, a high level of risky loans, fluctuating currency values, and insufficient reserves to back bank notes and deposits. The situation continued to deteriorate until 1863, when Congress passed the National Bank Act, which established federally chartered banks and created the Office of the Comptroller of the Currency to regulate them. A primary purpose was to establish a uniform national currency that would be issued through national banks, with the intent of stabilizing money in the Union and devaluing that in the Confederacy during the Civil War. The economy continued to suffer from periodic banking and currency crises, however, leading Congress to pass the Federal Reserve Act in 1913.

### **EARLY HISTORY**

The architects of the Federal Reserve System were concerned principally with the need for an efficient payments system that would allow money to be transferred among financial institutions across the nation. They also believed the new Federal Reserve banks could smooth out fluctuations in the nation's money supply and help avoid financial panics by making loans to banks through the discount window. Authors of the Federal Reserve Act said that the

bill's purpose was "to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford a means of rediscounting commercial paper [and] to establish a more effective supervision of banking in the United States."

During the 1920s, however, the Fed learned that the sale and purchase of U.S. Treasury securities provided an even more powerful tool for influencing money creation than the discount window. When the Fed bought securities from a bank, it increased the bank's reserves and enabled it to make more loans; as a result, interest rates on loans tended to fall. When the Fed sold securities, on the other hand, bank reserves fell and credit shrank; as a result, interest rates tended to rise.

At first, sales and purchases of Treasury securities by the Federal Reserve district banks were uncoordinated, sometimes contributing to disarray in financial markets. But in 1922 the Fed established the Open Market Investment Committee to coordinate dealings in securities.

In spring 1933, in the midst of the Great Depression, the Fed failed to avert panic by providing sufficient cash to banks experiencing depositor runs. President Franklin D. Roosevelt was forced to declare a "bank holiday," closing all the banks in the nation on March 6, two days after he was sworn into office. Several thousand banks never reopened their doors. This severe crisis prompted passage of landmark banking laws in 1933 and 1935 that established the FDIC to insure bank deposits and stabilize banks.

The FDIC also was charged with supervising state-chartered banks that were not members of the Fed and, therefore, previously had not been subject to federal regulation. The Fed continued to supervise state-chartered banks that were members, and the comptroller regulated national banks.

The banking acts of the 1930s also increased the power and the autonomy of the Fed by removing the secretary of the Treasury and the comptroller from its board of governors. The acts also stripped the regional Fed banks of their power to buy and sell securities and concentrated that power in the hands of the Federal Open Market Committee—successor to the Open Market Investment Committee—which operated through the Federal Reserve Bank of New York.

From the outset, all national banks were required to be members of the Fed, and state-chartered banks could choose to be members if they wished. Member banks were required to keep interest-free reserves at the Fed, and in return they received certain Fed services. The rise of interest rates in the 1970s, however, caused dramatic growth in the cost to banks of keeping interest-free reserves at the Fed. As a result, many state banks withdrew from Fed membership, and some national banks converted to state charters so they also could withdraw.

Fearing that a loss of Fed members would hamper the central bank's ability to manage the money supply, Congress passed the Monetary Control Act in 1980. That law required all depository institutions to keep reserves at the Fed, regardless of whether they were members. The Fed also was required to charge fees for its check clearing and other services, and to offer them to nonmember banks.

**THE FED IN THE 1980s**

In the 1980s, confronted with major upheavals in the economy and the performance of financial markets, the Fed attracted severe criticism for its monetary policy. With inflation topping 10 percent in 1979, Fed chair Paul A. Volcker began a “war on inflation,” convincing the FOMC to stop trying to control interest rates and focus on restraining the growth of the money supply. Prices had been brought under control by 1982, when inflation settled in at about 4 percent, as measured by the Consumer Price Index. But price stability came at the cost of soaring interest rates—prime rates charged by commercial banks exceeded 20 percent in 1981—and a pair of back-to-back recessions that stretched from January 1980 to November 1982.

The war on inflation was ultimately considered a success. Though Volcker was branded as a pariah in the early 1980s, by the time he left the Fed in 1987, the economy was in its fifth consecutive year of economic growth, and the chair was hailed for the prosperity.

But notwithstanding its success in reining in prices, the Fed was left struggling with interest rates that remained high, particularly as the economy grew with gusto in the mid-1980s. The prime rate fell in 1987 to just above 8 percent before it began climbing, and the central bank came under renewed pressure from policymakers—in Congress and the White House—who thought that rates were too high.

Alan Greenspan, who took the helm in summer 1987, continued the vigorous approach of his predecessor, but whereas Volcker had battled inflation to get the economy back on track, Greenspan tried to prevent inflationary pressures from gaining a foothold to keep economic growth at a stable and sustained pace.

The Fed did not hesitate to intervene when the stock and futures markets were in disarray. After Oct. 19, 1987, when stock markets around the world crashed and the Dow Jones Industrial Average dropped 508 points, the central bank took steps to assure brokers that credit would be extended if needed. The move calmed investors’ biggest fears—that credit would not be available to cover margin requirements and their stocks would have to be sold in a deeply depressed market.

Likewise, in October 1989, after the Dow dropped 190 points on a Friday, Fed officials spent the weekend assuring investors that money would be available to meet credit needs. When trading began the following Monday, the markets rebounded.

**THE FED IN THE 1990s**

Greenspan’s emphasis on price stability often came at the expense of economic growth. The economy stalled again in July 1990 and recovered slowly from a recession that lasted until March 1991, in technical terms, and continued for a year or more after that in practical effect. The result, however, was a further decline in inflation and interest rates.

The Fed had taken a deliberate route of pulling rates down during the 1990 recession and after: in just twelve months from late 1990 to late 1991, the Fed cut

the discount rate in half, from 7 percent to 3.5 percent. Six months later, in mid-1992, the discount rate fell to 3 percent, a level where it had not been since 1962. “Real” short-term rates—or rates after the effects of inflation were discounted—were near zero, providing what the Fed later said was needed accommodation to the economy’s recovery.

In July 1991, expressing confidence in his inflation-fighting skills, President George H.W. Bush renominated Greenspan for a second four-year term as chair and a full fourteen-year term on the board of governors.

The Fed board took one other monetary policy step in the aftermath of the 1990 recession to ease what it viewed as a credit crunch threatening the economy. In April 1992 the board reduced from 12 percent to 10 percent the number of bank deposits above a threshold amount (\$51.9 million in 1994) that must be set aside as reserves in vault cash or on deposit with the Fed. Deposits less than the threshold were subject to a statutory 3 percent reserve requirement.

The Fed also actively—and successfully—sought changes in international banking laws in 1991 following the scandal involving the Bank of Credit and Commerce International (BCCI) and its secret ownership of several large U.S. banks. The Fed eventually fined a top BCCI official \$37 million. Nonetheless, the Fed’s regulation of foreign banks suffered a blow in 1995: When it closed the U.S. operations of Japan’s Daiwa Bank for fraud in bond trading, critics faulted both the Fed and the Federal Reserve Bank of New York for overlooking a problem that dated back more than a decade.

In February 1994, somewhat to the consternation of financial markets and policymakers, the FOMC began edging rates higher, as a stronger economy posed the threat of resurgent inflation. Six more hikes followed over twelve months. By late 1995 the rates began to lower, and from January through November 1996 the short-term interest rates held steady at 5.25 percent. Through all these fluctuations the Fed’s objectives continued to be low inflation and an unemployment rate no lower than 6 percent. In return, the Fed received some credit for a recovery that, though never robust, had been fairly steady.

When the administration of Democratic President Bill Clinton in 1994 proposed consolidating the federal government’s banking regulators into a single agency—stripping the Fed of much of its bank regulatory authority—the Fed led the charge that blocked the proposed change. However, Greenspan suffered little lasting enmity from the administration or from Congress: he was renominated to his third term as chair by Clinton in 1996 and was confirmed with strong bipartisan support. Greenspan’s consistent emphasis on “slow growth” had helped lower the unemployment rate to 5.1 percent and kept the annual inflation rate to 2.6 percent, a thirty-year low.

But the Fed under Greenspan has not just focused on inflation. It has also worked aggressively to transform the U.S. financial services industry. In particular, the Fed pushed hard for repeal of the Glass-Steagall Act of 1933, which had prohibited banks from dealing in and underwriting securities other than those issued by the government

and backed by tax receipts. The Glass-Steagall Act also had prevented banks from affiliating with companies “principally engaged” in prohibited securities activities.

Despite Greenspan’s strong backing for financial services overhaul and the efforts of federal regulators, including the Fed, to allow banks to dabble in securities and insurance products, Congress failed several times during the 1980s and 1990s to overturn Glass-Steagall, largely because compromise among the three main industry groups affected—banks, securities firms, and insurance companies—remained elusive.

In 1998 Congress took another run at overhauling the law. Greenspan argued publicly with opponents of the bill, namely his close partner in overseeing the nation’s economy, Treasury Secretary Robert E. Rubin. The disagreement between Greenspan and Rubin centered on how new financial conglomerates in a post-Glass-Steagall world would organize their banking, brokerage, and insurance arms, and on who would regulate the new conglomerates. Greenspan favored a system in which banks could form holding companies that engaged in traditional banking activities as well as insurance and securities underwriting, merchant banking, and real estate development. Under Greenspan’s plan, each endeavor would be under the umbrella of the holding company but would function as a separate business with its bottom line. The new financial services conglomerates would be regulated by the Fed. Rubin argued that such a structure would disadvantage smaller institutions that could not afford to set up an elaborate system. Rubin favored allowing the organization of operating subsidiaries without a holding company, which would essentially leave the brokerage and insurance operations as a part of the parent bank.

Greenspan’s plan received a boost early in 1999, when Rubin’s retirement as Treasury secretary removed a major opponent to the chair’s proposal. At the same time, various finance-related industries put aside their differences and began aggressively pushing legislation that resembled Greenspan’s proposal. Such a bill cleared Congress and was signed into law by Clinton in November of that year.

Meanwhile, the economy had continued to improve, culminating in record-breaking stock market highs during the late 1990s and into 2000. Despite the financial peaks, the Fed remained on guard for inflationary trends that could sidetrack the country’s growth. A brief dip in the stock market during the summer of 1998 had prompted the Fed to make three quarter-point rate cuts, bringing the federal funds rate down to 4.75 percent. The tactic worked, and the market rose to new highs.

But by the middle of 1999 the Fed had once again become concerned about the threat of inflation. These fears were reinforced when the unemployment rate reached a twenty-nine-year low of just above 4 percent, driving up demand for skilled workers. The Fed chair and others worried that the high demand for workers would drive up wages, which would in turn increase the cost of products, fueling inflation.

Moreover, economic growth continued at what Greenspan believed was an unsustainable pace, with growth rates averaging 4.6 percent between 1997 and 1999. Even the

serious fiscal crisis in Asia in 1997 did not slow down the American economy. In the first half of 2000 the economy was well into its ninth year of growth—humming along at 5 percent rate of growth.

In June 1999—just a year after the slight decrease in rates—the bank had made the first of six interest rate increases, in an effort to slow down the economy and prevent inflation. Over the next year, the federal funds rate was increased from 4.75 percent to 6.5 percent. The goal of the increases was to engineer what financial analysts called a “soft landing,” an economy with slower but steady growth, coupled with low inflation.

### THE FED IN THE 2000s

At first the Fed’s strategy to slow the economy seemed to be working. In the second half of 2000, economic growth began to slow down. However, by early 2001 the “soft landing,” according to some indicators, appeared to be turning into a “hard landing.” By spring 2001 economists agreed that it looked like the country was in a recession. Growth in the first months of the year almost sputtered to a halt, slowing to 1 percent. The formerly high-flying stock market dropped precipitously. In particular, the tech-heavy NASDAQ lost more than half its value in the last quarter of 2000 and first quarter of 2001.

Greenspan, renominated to a fourth term in 2000, took a drubbing. Some members of the financial community questioned why the Fed chair, who in 1996 coined the term “irrational exuberance” to describe investors’ feverish purchase of overvalued stock, had not done more to burst the bubble in its early stages. Still, he continued to be generally regarded as a good steward of the economy. The new president, George W. Bush, helped to reinforce this image by meeting with the Fed chief before his inauguration to express total confidence in his abilities. Greenspan returned the favor in January 2001 by giving a general endorsement to tax cuts—the cornerstone of the new president’s economic agenda—as a way of giving the economy a much-needed boost, saying tax cuts appeared “required” and recommending that Congress start the process “sooner rather than later.”

Bush’s proposed tax cut was estimated to cost \$1.6 trillion over ten years. In spite of his general support for tax cuts, Greenspan recommended several times during congressional testimony in 2001 that tax cuts be accompanied by a “trigger” that would limit cuts if certain surplus or debt targets were not met. In May 2001 Congress passed a reduced form of Bush’s tax cut, worth \$1.35 trillion over ten years, without any such trigger.

The Fed responded to the slowdown with a number of deep cuts in the federal funds interest rate. The first came in early January 2001 and took investors by surprise. The half-point reduction gave the markets a short-term boost but did little to dispel the country’s generally gloomy disposition regarding the economy. When the Fed cut rates for a third time that March—once again by a half point—short term rates went down to 5 percent, and the markets actually dropped precipitously. By August the Fed had slashed rates to 3.75 percent, down from 6.5 percent at the beginning of the year.

The terrorist attacks on Sept. 11, 2001, dealt a major blow to the already floundering economy. When the stock market reopened six days later, understandably skittish investors reacted by selling: equity markets tumbled by 7 percent on the first day and another 5 percent later that week. The Fed sought to reassure the markets with two cuts of 0.5 percent each within three weeks of the attacks. By December the Fed had cut rates a record eleven times in 2001, leaving rates at a forty-year low of 1.75 percent.

Despite the uncertainties created by the terrorist attacks, Greenspan gave a guardedly encouraging assessment of the economy in testimony to Congress early in 2002. It was at that time, however, when the country learned that the energy giant Enron had been using stock options bestowed on its executives to inflate its stock prices artificially. Corporate accountability leapt onto the congressional agenda. It was then that Greenspan and Bush had their first significant public disagreement over how to reform the expensing of stock options. As news broke of major companies—WorldCom, Tyco, and Xerox—also using stock options to inflate earnings, Greenspan advocated for corporations being required to state stock options as expenses, warning of the “infectious greed” of executives. Meanwhile, Bush supported maintaining the status quo of requiring companies to include unexercised options in their calculations of the number of outstanding shares.

When Republicans took control of both chambers of Congress following the 2002 midterm elections, President Bush seemed poised to enact further tax cuts in 2003, touting them as a necessary stimulant to the still-skittish economy. But this time, Greenspan sent mixed signals regarding Bush’s proposed tax cut. While stating that the elimination of dividend taxation was sound economic policy, the Fed chair noted that the effects would be negligible in the short term. Furthermore, he said that any cuts should be offset by cuts in spending to prevent further ballooning of the federal deficit.

Uncertainties, tied to the U.S.-led war in Iraq, spikes in energy prices, and increases in unemployment continued to loom over the U.S. economy in 2003. By spring the Fed had cut interest rates to 1 percent, another historic low. As the United States made steady progress in toppling the Iraqi regime in March and April, energy prices dropped and the stock market rallied. Greenspan continued to be cautiously optimistic about the future of the economy, citing its ability in dealing with shocks of the past few years, including the terrorist attacks, the accounting scandals, and the decline in stock prices. Some economists dissented, saying that the problems were deeper than the war and high energy prices.

The Fed chair, however, retained the confidence of the administration, and Bush announced in April that Greenspan had done a “good enough job” to be reappointed. On June 19, 2004, Greenspan began his record fifth term as chair of the Fed’s board of governors. Although optimistic about the near future of the U.S. economy, Greenspan in November 2004 issued a warning to federal leaders against deficit complacency, saying that they could not expect foreign investors to continue to finance never-ending growth

in America’s already huge trade gap. If foreign investments continue in spite of the increasingly concentrated risks for investors, Greenspan said, they may begin demanding a higher rate of return to compensate for the risk. He recommended that U.S. policymakers try to cut the record federal budget deficit, which would reduce the government’s borrowing needs and effectively increase national saving.

By spring 2004 the federal funds rate had remained at the 1 percent rate for more than a year. Top Fed officials publicly agreed that the federal funds rate was too low and ran the risk of fueling inflation. Beginning in June, the Fed began to raise the rate at every meeting for the next fifteen months, even in summer 2004 when the economy hit what they later called a “soft patch” because of higher energy prices. By early 2005 Greenspan and Fed officials were incorporating new rhetoric into statements and congressional testimony, frequently dropping references to a “measured” pace for rate increases, but without really detailing what that would mean.

On Sept. 20, 2005, Fed commissioners raised rates a quarter-percentage point to 3.75 percent. It was also the eleventh straight increase since June 2004. Even the destructive havoc of Hurricane Katrina, which many analysts concluded would have at least a short-term effect on the economy, did not give the Fed reason to pause. “While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee’s view that they do not pose a more persistent threat,” the board of governors said.

Meanwhile, government-backed mortgage broker Freddie Mac’s \$5 billion manipulation of earnings, revealed in 2003, and news that sister broker Fannie Mae had overstated 2000 to 2003 earnings by about \$12 billion in late 2004 shook up the financial world, already reeling from Enron, Tyco, and other such corporate financial scandals. Some analysts began to suggest that Freddie Mac and Fannie Mae unfairly and perhaps intentionally tweaked the housing market, simultaneously creating a housing boom in an effort to boost their earnings per share.

The resignation, in December 2004, of Fannie Mae chief executive and former Clinton Office of Management and Budget head Franklin Raines, over the accounting irregularities, accelerated congressional efforts to clamp down on both quasi-governmental lending brokers. In early 2005 Greenspan added his voice to a growing chorus clamoring for change. In February testimony before the House Financial Services Committee, the chair argued that both entities had grown too large and that their own troubles posed a real risk for the broader economy.

In October 2005 the House followed Greenspan’s advice and overwhelmingly passed legislation that would create a new oversight body to regulate the Fannie and Freddie. The Federal Housing Finance Agency (FHFA), as the new agency was to be called, would have had the authority to limit the size of the lenders’ holdings of mortgages and securities as well as a mandate to review and approve or reject any new lending services that either company planned to offer to consumers. The new regulator would have been independent of current agencies,

exist outside of the appropriations process, and would have had much broader authority than Freddie Mac and Fannie Mae's current regulator, the Office of Federal Housing Enterprise Oversight.

Early in 2006 Sen. Richard Shelby, chair of the Senate Banking Committee, began pushing a companion bill in the Senate, but a number of factors stalled the measure. First, Republicans and Democrats disagreed about a number of provisions, in particular a proposal (not included in the House bill) that would require the lenders to divest most of their huge investment portfolios. Also, after initially fighting federal efforts to uncover wrongdoing, Freddie Mac and Fannie Mae began working closely with investigators to clean up their books, soothing some congressional tempers. No bill passed the Senate that year.

While the fate of Freddie Mac and Fannie Mae was big news in 2005 and 2006, the biggest question facing the Fed concerned the Fed itself. After a record eighteen years as chair, Greenspan was poised to leave his post in January 2006. Next to the president, many consider the Fed chair the most powerful official in the federal government. On Oct. 24, 2005, Bush chose Ben Bernanke, the chair of the White House Council of Economic Advisers, to succeed Greenspan.

From the beginning, the reaction to the nomination, from the banking and financial industry and from Congress, was positive. Bernanke's past experience, which included a stint as a governor of the Federal Reserve and as an economics professor at Princeton University, made him well qualified for the job. Like Greenspan and Volcker, he also had a reputation as an inflation fighter.

Yet, while few questioned Bernanke's qualifications, there was some unease in the financial markets at this passing of the torch. Many had come to believe so thoroughly in Greenspan's ability to safely steer the economy, that no replacement was deemed adequate. Even Greenspan's later failures—such as his inability to prevent the stock market from overheating in 2001—did not severely dent his reputation as a financial miracle worker.

Still, the fate of Bernanke's nomination was never in doubt. At his confirmation hearing before the Senate Banking Committee on Nov. 15, 2005, Bernanke was widely praised by all committee members. On Jan. 31, 2006, he was confirmed in the Senate by voice vote and was sworn in the next day.

On Greenspan's last day at the Fed, Jan. 31, 2006, he marked the occasion by chairing a board meeting that raised interest rates from 4.25 percent to 4.5 percent. It was the fourteenth straight increase of the benchmark rate and, the board said, likely not the last. Indeed, in Bernanke's first months as chair, the board quickly raised the rate on three further occasions, ending with a quarter point increase in June 2006 to 5.25 percent. The continued rate hikes were justified, the board said, by inflation fears, stoked by rising oil and other commodity prices and low unemployment.

But the increases also earned Bernanke criticism from some respected economists and financial analysts who worried that the move came just as the all important housing market was slowing. Indeed, after five years of

impressive prices, sales, and new construction increases, the housing market began to turn sour in 2006. At first analysts debated whether market indicators would merely level off or would actually begin to decline. The argument was put to rest in the fall when the numbers began to show a real slowdown, both in the new and existing housing markets. For instance, in October, new home construction dropped almost 15 percent from the same time the year before. Housing has become particularly important for the nation's economic health. One in every ten jobs is dependent on the housing industry and the dramatic increase in the price of homes allowed many Americans to borrow against their home's rising value, helping in recent years to drive consumer spending.

Bernanke defended the rate increases as necessary to fight rising prices. He was helped by the fact that although short-term interest rates rose (along with the Fed rate increases), mortgage or long-term rates stayed relatively stable, helping potential home buyers.

By the beginning of 2007 Bernanke was winning more praise than criticism. The stock market was moving forward and housing prices were slumping but not collapsing, as some had predicted they would. In addition, the gross domestic product had increased by a slower but still healthy 2.5 percent during the first quarter of 2007, a sign that after four years of strong growth the nation's economy seemed to be coming in for a "soft landing" as opposed to a recession. Federal deficits, another concern, were also falling, to an estimated \$240 billion in fiscal 2008, due to increased government revenue from steady economic growth.

Finally, all important inflation numbers were coming down, to an annual rate of 2.5 percent in March 2007, from 3.4 percent in all of 2006. At the same time, unemployment in winter and spring 2007 had fallen to a low 4.4 percent. It seemed that Bernanke had calibrated the rate increases just enough to control inflation but not damage the economy.

In February 2007 Bernanke gave the financial markets a boost when he told members of the Senate Banking Committee that the Fed was unlikely to raise interest rates any time soon. While acknowledging that inflation was still an issue, Bernanke said that he and his fellow governors expected the nation's cooling economy in 2007 and 2008 to dampen price pressure. At subsequent board meetings, in March and May, interest rates remained unchanged, helping to keep financial markets in positive territory during the first half of 2007.

Still, dangers loomed, particularly in the housing market. While sales and prices did not drop as fast as some had predicted, the market began to decline in earnest in 2007. A particular concern was the subprime lending field. Subprime mortgages are higher risk loans, usually given to people who do not have enough money or a good enough credit rating to afford a more desirable fixed-rate mortgage. Subprime loans are often adjustable rate (which can change over time) or "interest only," which means the borrower only pays the bank interest and does not pay down the loan's principle. These loans were popular during the height of the housing boom and were predicated on the

expectation that housing prices would continue to rise and that borrowers who could not make their payments could always sell their homes for a profit and pay off the loan.

But when prices began to fall in late 2006, the number of people defaulting on mortgages, especially subprime mortgages, began to grow, doubling from January 2006 to June 2007. A number of large subprime loan companies declared bankruptcy and some analysts began to show concern that the subprime phenomenon might lead to a collapse in the housing market that could in turn cause a severe economic recession.

Bernanke remained cautiously optimistic about housing. While the number of foreclosures due to subprime loans “will continue to rise,” he said in a speech in Chicago in May 2007, “we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial markets.” The rest of the mortgage market has been performing well, he added, in spite of the overall slowdown in housing. At the same time, Bernanke said, the Fed and government banking regulators might have to do more to protect consumers from abusive lending practices, which were common in the subprime industry.

But while Bernanke tried to sound reassuring, his predecessor was sending a different message. On the same day as Bernanke’s Chicago speech, Greenspan remarked that the uncertainty in the subprime market could bring “a continued period of weakness” to the housing market. These conditions made it hard to determine how the economy will perform in 2008, the former chair added.

Greenspan’s remarks continued through the summer and were given added weight by a media blitz surrounding his memoir, ominously entitled *The Age of Turbulence*, which was published in September 2007. Uncertainty and fear was also stoked by wild up-and-down gyrations in the stock markets, which were reacting to both the decline in housing and a reduction in credit caused by trouble in the home mortgage market.

Finally, on Sept. 18, 2007, Bernanke and the board cut the federal funds rate by a half a percentage point, from 5.25 percent to 4.75 percent. The sizable cut had an immediate effect on the stock market, which had expected only a quarter percent reduction. On the day of the cut the Dow Jones Industrial Average gained more than 335 points, and in the following weeks the markets performed well, with the Dow Jones hitting a new high. Still, in spite of the boost the rate cut gave to stocks, no one was sure whether it was enough to help fix the underlying problems in the housing and credit markets. In addition, worries about inflation and a weakening dollar—two conditions that often prompt the Fed to raise interest rates—made many financial analysts wonder whether the rate cut would be short-lived.

Meanwhile, the new Democratic Congress revived efforts to tighten regulation on Fannie Mae and Freddie Mac, amid fears that a weakening housing sector could leave both institutions as well as the broader banking sector exposed to too many bad mortgages. A measure that was in some ways similar to the 2005 House-passed bill won overwhelming approval in that chamber again in late May 2007. The Senate worked out its objections to the House

bill, and the President Bush signed the Housing and Economic Recovery Act in July 2008 to create the new FHFA with greater authority over Fannie Mae and Freddie Mac.

Supporters of tighter regulation on Freddie and Fannie and greater regulation of the financial services industry in general, however, quickly saw their fears of an economic bust turned into reality. By early 2008, it was clear that the housing sector, which had helped fuel a large share of the nation’s economic growth for more than a decade, was in much more trouble than almost anyone had realized. Indeed, a growing number of economists were now saying that sector was in freefall rather than just decline. In addition, the damage done by rapidly falling housing prices and rising foreclosure rates quickly spread beyond traditional home lenders because millions of mortgages, including millions of riskier “subprime mortgages” had been bundled into different financial instruments and then sold to other financial institutions around the world.

The first evidence that the mortgage lending crisis had spread through the financial system came on March 17, 2008, when the Fed, along with the Treasury Department, moved to save Bear Stearns, one of the largest and most respected investment firms on Wall Street. In an effort to save the ailing firm, the Fed and Treasury backed its acquisition by J.P. Morgan Chase, a major Wall Street bank, largely to avert a much greater financial crisis.

J.P. Morgan agreed to buy most of Bear at the “bargain basement price” of \$2 a share, a strong indication that investment banks were far more vulnerable than had been previously thought. While J.P. Morgan agreed to buy most of Bear, it wanted no part of the firm’s portfolio of complicated and toxic mortgage investments. Bear Stearns protested that J.P. Morgan was opportunistically making the most out of its troubles by purchasing the best parts of an \$8 billion business for only \$236 million. A week later, shareholders were in revolt, causing a renegotiation of the deal on several fronts. J.P. Morgan increased its offer from \$2 per share to \$10. Meanwhile, it took on the Bear’s less attractive assets after the Fed agreed to put taxpayer dollars on the line to guarantee \$30 billion of the firm’s most risky mortgages. On May 30, 2008, 84 percent of Bear Stearns’s shareholders voted to approve the takeover.

While the rescue plan did save Bear Stearns, it did not have the intended effect of keeping investors from panicking; on the day of the announcement of a deal, markets around the world plunged. Although many analysts agreed that the fall of Bear Stearns might have had a domino effect that would have possibly led to other investment bank collapses, imploding the country’s financial system, some voiced concern about the long-term risk to taxpayers. Vincent Reinhart, a former senior policy adviser to Alan Greenspan, called the rescue “the worst policy decision in a generation,” and one that would forever eliminate the possibility that the Fed could serve as an “honest broker” in the banking sector.

In spite of the Fed’s offering an unprecedented line of credit to investment banks in March 2008, bank shares continued to plummet, with Lehman Brothers especially hard hit. After Lehman reported a second-quarter loss of \$2.8 billion in July 2008, Treasury Secretary Henry M.

Paulson told Lehman's chief executive, Richard S. Fuld Jr., that the firm needed to consider either a broad restructuring or an outright sale. Six months later it was filing for bankruptcy, the largest firm to fall in the global credit crisis. In spite of rescuing Bear Stearns and a number of other major financial institutions earlier in the year, the Fed and Treasury drew a line in the sand with Lehman Brothers, ignoring would-be buyers such as Bank of America and the British bank Barclays, suitors whose interest depended on federal protection against any losses arising from the bank's toxic assets. When Lehman's stock dropped to below \$4, some analysts hoped in vain that the lower price tag might persuade a buyer to acquire the company without government guarantees.

Unlike Bear Stearns, whose collapse was relatively sudden and potentially shocking to the financial system, Lehman's demise had been foretold for months, giving investors time to adapt and get ready. In the end, Bernanke and Paulson gambled that financial markets would be able to withstand Lehman's collapse. But many other regulators were worried, concerned that Lehman's problems would spread like an infection through the global financial system, as more and more firms absorbed losses associated with the collapse.

But Bernanke and Paulson argued that the government could not be expected to bail out every failing firm. At some point, they said, struggling firms had to be put on notice that they should not count on the taxpayers to save them. But investor anxieties over the fall of such a large internationally active firm set off a global panic, causing the U.S. stock to fall more than 500 points on Sept. 15, 2008, which many have said was due more to a "crisis in confidence" than anything else. Within weeks, Paulson and Bernanke had switched tack and were bailing out other firms deemed too big to fail, most notably insurance giant AIG, which ended up requiring nearly \$180 billion from the federal government to survive.

In the wake of Lehman's collapse, even markets generally thought to be "safe" such as money market funds, were not immune to financial woes. In October 2008 the Fed, worried about the overall health of the money market industry, created a program that would make up to \$540 billion available to buy troubled assets from such funds. Money market funds, which invest by lending money on a short-term basis to companies, banks, and other financial institutions, are considered less risky places to park cash because they only buy debt that has a good chance of being paid back. But nervous investors had started pulling money from a particular class of money market funds—about \$480 billion in early September. Had that run on the funds continued they might have been forced to sell assets into an already troubled market, potentially causing a snowballing series of losses to investors.

Meanwhile, the Fed began cutting interest rates, tentatively at first and then aggressively, in an effort to stave off a deep recession. Initially, rates were cut from 6.25 percent to 5.75 in August 2007, a move that at the time was meant to stabilize credit markets. The Fed continued to show a disinclination to make dramatic moves, instead indicating that inflation remained its greatest concern. But as 2007

wore on, stock values continued to fall and the markets for mortgages and corporate debt came to a standstill. In November 2007, in spite of signs of a still strong economy, the rate dropped to 4.5 and then again to 4.25 in December. By the end of the year the economy had slowed again with grave portents for 2008.

In January 2008 the distress in financial markets had become a significant enough threat to ordinary Americans to warrant another cut—down to 3 percent—in an effort to prevent a long and debilitating recession. In May, the rate was cut to 2 percent and appeared to be the last in a seven-month campaign of rate cuts, one of the most aggressive in the history of the central bank. Between May and September the rate stayed constant but dipped twice in October to 1 percent. By January 2009 the rate was effectively at zero, where the Fed indicated it would be for some time while the country remained in a deep recession and fears about low interest rates and inflation had not been realized.

In addition to cutting rates, the Fed also sought to ease the crisis by working with the Treasury Department to accurately assess the health of the nation's top banks. The plan was to subject each of them to a "stress test" intended to determine whether each bank would have enough money in their capital reserves to cover projected losses on loans and other assets over the next two years. If a bank was determined to require new capital, it was hoped that most of that capital would come from private investors. If federal aid was required, that aid would come with conditions giving the bank incentives to pay the money back as soon as possible. These conditions, far tougher than those imposed by the Bush administration, would also require the bank to submit reports proving that they are using the federal aid to do more lending.

The announcement of the stress tests in February 2009 initially had a destabilizing effect on the financial markets. But the twelve-week wait before the results were released seemed to calm investor anxieties, especially as other government aid programs began to show a positive impact. Measuring all major banks against common standards was generally deemed a worthy goal, but many senior officials argued that the stress tests would be dismissed if the government failed to back its prognoses with credible data.

The results of the first round of stress tests, announced by Treasury and the Fed in early May 2009, indicated that of the nineteen banks tested, only two—GMAC and Citigroup—were likely to require additional taxpayer assistance. The report also concluded that ten of the banks would need to raise a combined \$75 billion in common equity to withstand an even more serious financial crisis. But this figure was much lower than analysts expected. Officials also reported that banks continued to hold vast quantities of ill-considered loans and could suffer losses totaling \$600 billion over the next twenty months as more borrowers default, but the tests ultimately determined that the banks could absorb those losses.

## Current Issues

When the U.S. Senate voted in 1991 to expand the Fed's emergency powers to lend financial institutions

large amounts of money, it received little notice at the time. In the sixteen years that followed the creation of this new authority, it was rarely used. But from March 2008 to September 2009, the Fed invoked its emergency powers—which essentially allow the institution to print more money to prop up failing banks—at least nineteen times, from containing the fallout from the collapse of Bear Stearns to limiting losses at Bank of America. In total, the Fed doled out more than \$2 trillion.

By mid-2009 the Fed faced the strategic challenge of figuring out when was the best time to withdraw that money from the U.S. economy. Critics worry that, as the economy showed signs of stabilizing, the money the Fed gave out, along with the government's stimulus spending, could cause inflation to surge and the dollar to lose a substantial amount of its value. These criticisms were not confined to domestic policymakers. Countries such as China, which held more than \$1 trillion in U.S. dollars in 2009, have voiced fears that its investment in the dollar might collapse as the currency loses value. The Fed has countered that much of the new money is not actually in circulation but sitting in bank reserves, that a slow economic recovery will keep inflation and devaluation in check, and that the Fed has enough time to reverse course if needed.

But Congress has been pressuring the Fed to come up with an exit strategy, and demanding greater accountability to voters, especially as the agency puts more and more public money at risk. Sen. Bernard Sanders (I-VT) stated what many in Congress felt: "The American people have a right to know who received more than \$2 trillion in loans from the Fed, how much each one received, and what they are doing with the money."

Those demanding transparency, especially concerning what companies the Fed has been lending money to, have become more insistent, but so far the Fed has resisted such disclosure out of fear that it might spark runs on those firms by investors. In early June 2009 the agency began to release a wider range of information concerning its lending programs in a new monthly report. Although the report described the kinds of collateral the Fed has been taking in exchange for loans, it did not identify the specific banks involved.

That same month the new administration of President Barack Obama unveiled a proposal to overhaul how the nation regulates the financial sector. If passed by Congress, the president's plan would, for the first time, authorize the government to dismantle large firms before they fall so far into trouble that they collapse and disrupt the economy. In particular, the proposal would grant much broader authority to the Fed, giving it power to assess and manage risk at banks as well as other financial firms not traditionally under its supervision, including insurance companies and brokerage houses. The board would also gain new authority to regulate the trade in more complex financial instruments, such as derivatives, in order to prevent actions that would cause significant damage to the world financial order.

Obama said he chose the Fed as the lead regulator because the institution is more politically independent

than other potential candidates, such as the Treasury Department and the Securities and Exchange Commission. Still, the Treasury Department would also have enhanced power under the White House proposal. In particular, it would head up a newly created Financial Services Oversight Council, which would include leaders of all of the major federal financial regulatory agencies and would oversee the implementation of any new rules.

Almost immediately after Obama spelled out his proposal, critics in Congress and elsewhere began asking why the Fed was being given greater power when it failed to spot the systemic risks or to rein in the bad loan practices that precipitated the current financial crisis and recession. Indeed, Sen. Christopher J. Dodd (D-CT), who chaired the Senate Banking Committee, said the plan was like a parent giving his son a bigger, faster car right after he crashed the family station wagon. Furthermore, about 250 lawmakers signed a bill sponsored by Rep. Ron Paul (R-TX) that would allow the GAO to audit the Fed's decisions on monetary policy—a move that Fed officials see as a direct threat to their political independence in carrying out their central mission of setting interest rates. These concerns delayed congressional action on the measure. Indeed, by early September 2009 President Obama felt the need to travel to Wall Street and give a major speech on the need for his reforms, in an effort to prompt Congress to act.

Meanwhile, the Obama administration has countered that the Fed is the best suited to regulate the overall financial system because of its extensive experience in overseeing big, complex companies. In July 2009 Bernanke embarked on an extensive national publicity campaign aimed at dispelling some of the mystique surrounding his agency and defending its new proposed supercop role. He also appeared before three separate congressional committees to report on the country's economic and financial health. Congress was not expected to address the proposal reforms until fall or early winter 2009.

The disagreement over the appropriateness of expanding Fed power has been brought into sharp relief by the recent controversy surrounding Bank of America's acquisition of Merrill Lynch, which occurred in January 2009. By June the bank's top executive, Kenneth Lewis, was claiming that federal officials, specifically Paulson and Bernanke, had threatened to oust him and the rest of his bank's senior management if they backed away from the purchase, a deal that the bank became increasingly wary of consummating due to accelerating losses at Merrill. The sale, which initially involved no federal assistance, went through only after the government agreed to provide \$20 billion in federal aid and guaranteed up to \$118 billion in losses by Bank of America. Although Bernanke quickly defended the central bank's actions and repeatedly denied applying undue pressure on Lewis to close the deal, the controversy has come at a sensitive time when Congress is assessing the Fed's performance in relation to the president's reform proposal to give the agency still greater authority.

In June 2009 the Obama administration announced that it would allow some of the largest banks to repay billions in federal aid given to them in the form of direct investments. In recent months, a number of banks had

sought permission to return the money to avoid restrictions such as limits on executive pay and as a sign of economic recuperation. Although almost no bank has raised opposition to repaying the money, some independent experts have warned that few banks have indicated an eagerness for the government to end all forms of support and the continuance of these programs might create an unhealthy dependence on the government.

On Aug. 25, 2009, President Obama reappointed Bernanke to a second term, giving the Fed chair the credit for helping to guide the financial sector through one of its most difficult periods. “Ben approached a financial system on the verge of collapse with calm and wisdom, with bold action and out-of-the-box thinking that has helped put the brakes on our economic free fall,” Obama said. While Bernanke’s reappointment was not unexpected, some Fed watchers had thought that the president would chose former Treasury secretary Larry Summers, a close Obama adviser and director of the White House’s National Economic Council. Bernanke, however was seen as a safe choice, given his steady performance during the financial crisis and the perceived need for continuity in leadership while the economy was still emerging from the recession.

## ■ AGENCY ORGANIZATION

### Biographies

#### BEN S. BERNANKE, CHAIR

**Appointment:** Nominated by President George W. Bush and sworn in on Feb. 1, 2006, as chair and a member of the Board of Governors of the Federal Reserve System; appointed as chair to a four-year term, expiring Jan. 31, 2010; appointed to the board for a full 14-year term, expiring Jan. 31, 2020. Also serves as chair of the Federal Open Market Committee, the system’s principal monetary policymaking body.

**Born:** 1953; Augusta, GA.

**Education:** Harvard University, B.S. in economics, 1975; MIT, Ph.D. in economics, 1979.

**Profession:** Economist.

**Previous Career:** Bernanke previously served as chair of the President’s Council of Economic Advisers, from June 2005 to January 2006. Bernanke has already served the Federal Reserve System as a member of the Board of Governors from 2002 to 2005; a visiting scholar at the Federal Reserve Banks of Philadelphia (1987–1989), Boston (1989–1990), and New York (1990–1991, 1994–1996); and a member of the Academic Advisory Panel at the Federal Reserve Bank of New York (1990–2002). Bernanke had been a professor of economics and public affairs at Princeton University from 1985 to 2002. He also taught at Stanford University, New York University, and MIT.

#### DONALD L. KOHN, VICE CHAIR

**Appointment:** Nominated by President George W. Bush on May 8, 2002, for a full 14-year term; confirmed by the Senate July 31, 2002; sworn in Aug. 5, 2002; term expires Jan. 31, 2016. On June 23, 2006, he was sworn in

as vice chair for a four-year term; term expires June 23, 2010.

**Born:** Nov. 7, 1942; Philadelphia, PA.

**Education:** College of Wooster, B.A. in economics, 1964; University of Michigan, Ph.D. in economics, 1971.

**Profession:** Economist.

**Previous Career:** Kohn’s work within the Federal Reserve System dates back to 1970, including service as an adviser to the board for monetary policy, secretary of the Federal Open Market Committee, director of the Division of Monetary Affairs, and deputy staff director for Monetary and Financial Policy. He began his career as a financial economist at the Federal Reserve Bank of Kansas City. Kohn is the chair of the Committee on the Global Financial System, a central bank panel that monitors and examines broad issues related to financial markets and systems.

#### KEVIN M. WARSH, GOVERNOR

**Appointment:** Nominated by President George W. Bush and took office on Feb. 24, 2006, to fill an unexpired term ending Jan. 31, 2018.

**Born:** April 1970; Albany, NY.

**Education:** Stanford University, B.A. in public policy, 1990; Harvard Law School, J.D., 1995.

**Profession:** Financial services.

**Previous Career:** Prior to his appointment to the board, Warsh served as special assistant to the president for economic policy and as executive secretary of the National Economic Council from 2002 to 2006. Warsh participated in the President’s Working Group on Financial Markets and served as the administration’s chief liaison to the independent financial regulatory agencies. From 1995 to 2002 he was a member of the Mergers and Acquisitions Department of Morgan Stanley & Co., in New York, ultimately serving as vice president and executive director.

#### ELIZABETH A. DUKE, GOVERNOR

**Appointment:** Nominated by George W. Bush and took office on Aug. 5, 2008, to fill an unexpired term ending Jan. 31, 2012.

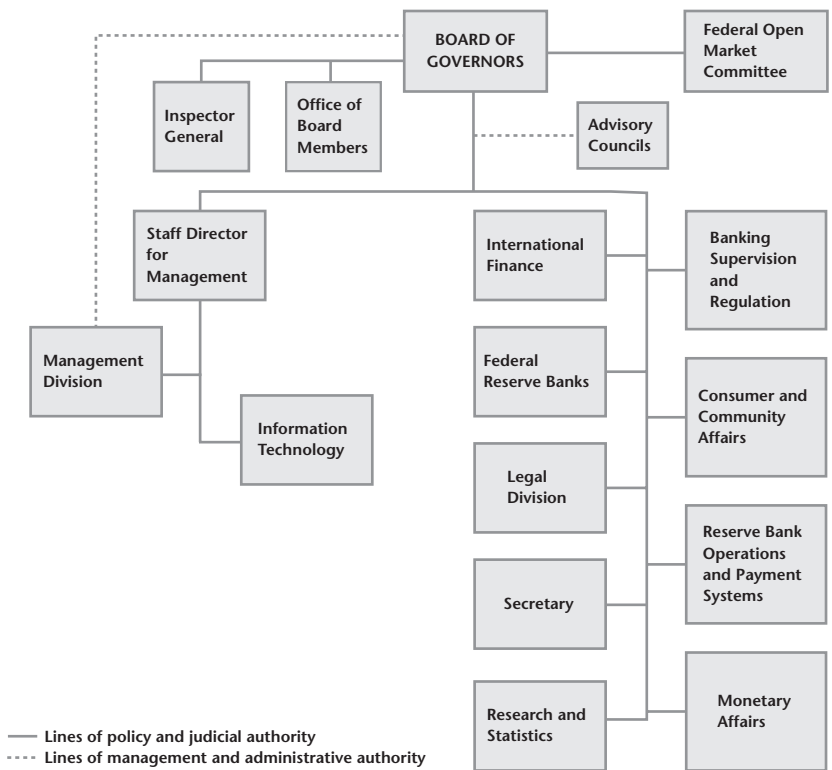
**Born:** July 1952; Portsmouth, VA.

**Education:** University of North Carolina at Chapel Hill, B.A. in fine arts (drama), 1974; Old Dominion University, M.B.A., 1983.

**Profession:** Banker.

**Previous Career:** Prior to her appointment to the board, Duke was senior executive vice president and chief operating officer of TowneBank, a Virginia-based community bank. Prior to this, she was an executive vice president at Wachovia Bank and SouthTrust Bank. Earlier in her career, she was president and chief executive officer of Bank of Tidewater, based in Virginia Beach, VA. She served on the board of directors of the American Bankers Association from 1999 to 2006, and served as its chair from 2004 to 2005. She also served on the board of directors and as president of the Virginia Bankers Association. From 1998 to 2000, she served on the board of directors of the Federal Reserve Bank of Richmond. She has also served as a member of the Fannie Mae National Advisory Council.

### Federal Reserve System



**DANIEL K. TARULLO, GOVERNOR**

**Appointment:** Nominated by President Barack Obama and took office on Jan. 28, 2009, to fill an unexpired term ending Jan. 31, 2022.

**Born:** November 1952; Boston, MA.

**Education:** Georgetown University, A.B., 1973; Duke University, M.A., 1974; University of Michigan, J.D., 1977.

**Profession:** Professor, lawyer.

**Previous Career:** Prior to his appointment to the board, Tarullo was professor of law at Georgetown University Law Center, where he taught courses in international financial regulation, international law, and banking law. Prior to joining the Georgetown Law faculty, he held several senior positions in the Clinton administration. From 1993 to 1998, he served, successively, as assistant secretary of state for economic and business affairs, deputy assistant to the president for economic policy, and assistant to the president for international economic policy. He also served as a principal on both the National Economic Council and the National Security Council. From 1995 to 1998, he also served as President Clinton’s personal representative to the G7/G8 group of industrialized nations. He served as chief counsel for employment policy on the staff of Sen. Edward M. Kennedy (D-MA), and practiced law in Washington, DC. He also worked in the antitrust division of the Justice Department and as special assistant to the undersecretary of the Commerce Department. From 1981 to 1987, he taught at Harvard Law School.

**GOVERNOR, VACANT  
GOVERNOR, VACANT**

### Headquarters and Divisions

**BOARD OF GOVERNORS**

Establishes and implements the government’s monetary policy. Has broad supervisory and regulatory responsibilities over state-chartered banks that are members of the Federal Reserve System, bank holding companies, and operations of foreign banks in the United States.

Establishes reserve requirements for all depository institutions that offer transaction accounts or nonpersonal time accounts, reviews and acts on discount rate recommendations of the boards of directors of Federal Reserve banks, and issues regulations governing the administration of the discount window at those banks.

Exercises supervisory and regulatory responsibilities over the laws that regulate foreign operations of member banks and administers the laws that regulate the actions of foreign bank operations in the United States. Directed by Congress to write rules for and to implement a number of major consumer credit protection laws, including the Truth in Lending Act and the Equal Credit Opportunity Act.

Submits an annual report to Congress and makes available detailed statistics and other information relating to the system’s activities and the nation’s money supply through a variety of publications, including the monthly *Federal Reserve Bulletin*.

Submits a biannual written report to Congress on the state of the economy and monetary policy.

**Chair**

Ben S. Bernanke . . . . . (202) 452-3201

**Vice Chair**

Donald L. Kohn . . . . . (202) 452-3761

**Governors**

Kevin M. Warsh . . . . . (202) 452-3211

Elizabeth A. Duke . . . . . (202) 452-3217

Daniel K. Tarullo . . . . . (202) 452-3715

**FEDERAL OPEN MARKET COMMITTEE**

The principal instrument used by the Federal Reserve to implement national monetary policy. Responsible for determining what transactions the Federal Reserve will conduct in the open financial marketplace. Through frequent buying and selling of U.S. government securities or the securities of federal agencies, the manager of the System Open Market Account increases or decreases bank reserves in keeping with the instructions and directives issued by the committee. When purchases are made on behalf of the Open Market Account, reserves are increased and more money is injected into the financial system. When sales are made by the account manager, the buyers must take money out of circulation to pay for the securities acquired, thus reducing the money supply. In addition to operations in the domestic securities market, the FOMC authorizes and directs operations in foreign exchange markets. The Federal Reserve Bank of New York executes all such transactions and makes allocations among the Reserve banks according to a formula approved by the board of governors.

The FOMC is composed of the seven members of the board of governors and five Reserve bank presidents, one of whom is the president of the Federal Reserve Bank of New York, who serves on a continuous basis. The other bank presidents serve one-year terms, Jan. 1 to Dec. 31, on a rotating basis. One member is elected from each of the following groups of Reserve banks: (1) Boston, Philadelphia, Richmond; (2) Cleveland, Chicago; (3) Atlanta, St. Louis, Dallas; and (4) Minneapolis, Kansas City, San Francisco. By statute the committee determines its own organization, and by tradition it elects the chair of the board of governors to serve as its chair, and the president of the Federal Reserve Bank of New York as its vice chair. The committee meets in the board's offices in Washington, DC, eight times yearly.

**Chair**

Ben S. Bernanke

**Vice Chair**

William C. Dudley (New York)

**Other Members:**

- Elizabeth A. Duke
- Charles L. Evans
- Donald L. Kohn
- Jeffrey M. Lacker
- Dennis P. Lockhart
- Daniel K. Tarullo
- Kevin M. Warsh
- Janet L. Yellen

**Bank Presidents (for 2009)**

- William C. Dudley (New York)
- James Bullard (St. Louis)
- Charles L. Evans (Chicago)
- Richard W. Fisher (Dallas)
- Thomas M. Hoenig (Kansas City)
- Jeffrey M. Lacker (Richmond)
- Dennis P. Lockhart (Atlanta)
- Sandra Pianalto (Cleveland)
- Charles I. Plosser (Philadelphia)
- Eric S. Rosengren (Boston)
- Gary H. Stern (Minneapolis)
- Janet L. Yellen (San Francisco)

**Economists**

- David J. Stockton . . . . . (202) 452-3652
- D. Nathan Sheets . . . . . (202) 452-3600

**General Counsel**

Scott Alvarez . . . . . (202) 452-3583

**Manager for Foreign Operations, System Open Market Account**

Brian Sack . . . . . (212) 720-5746

**Secretary and Economist**

Brian F. Madigan . . . . . (202) 452-2007

**ADVISORY COUNCILS**

**Consumer Advisory Council**

Composed of thirty members representing the interests of the finance services industry and consumers. Advises the board on the exercise of the Federal Reserve System's responsibilities under the Consumer Credit Protection Act. Meets three times a year, and meetings are open to the public.

**Chair**

Edna Sawady

**Vice Chair**

Michael D. Calhoun

**Contact**

Jennifer Kerslake . . . . . (202) 452-6470

**Federal Advisory Council**

Composed of a banking industry representative from each Federal Reserve district. Members are selected annually by the board of directors of each Federal Reserve bank and may be reappointed. Meets four times a year. Confers with the board of governors on banking, business conditions, credit, and monetary policies, and makes recommendations regarding the affairs of the Federal Reserve System.

**President**

William Downe

**Vice President**

R. Scott Smith Jr.

**Contact**

Wanda Quick . . . . . (202) 452-3324

**Thrift Institutions Advisory Council**

Composed of representatives from savings and loan associations, savings banks, and credit unions. Provides information and advice concerning the special needs and

problems of thrift institutions. Meetings are held three times a year. Members are appointed by the Board of Governors and generally serve two years.

**President**

Curtis L. Hage

**Vice President**

F. Edward Broadwell Jr.

**Contact**

Wanda Quick . . . . . (202) 452-3324

**DIVISION OF BANKING SUPERVISION AND REGULATION**

Informs the board about current developments in bank supervision and banking structure. Coordinates the system's bank supervision and examining activities and processes applications for permission to form or expand bank holding companies or make other changes in bank structure, such as adding branches. Administers the examiner training program.

**Director**

Roger T. Cole . . . . . (202) 452-2774  
 Fax . . . . . (202) 452-2770

**Deputy Director**

Vacant . . . . . (202) 452-2634

**Application and Enforcement**

Betsy Cross . . . . . (202) 452-2574

**Accounting Policy and Regulatory Reporting**

Vacant . . . . . (202) 452-2958

**Accounting Policy and Disclosure**

Laurie F. Priest . . . . . (202) 452-2750

**Community Banking Organizations**

Vacant . . . . . (202) 452-2634

**Credit Risk**

John Colwell . . . . . (202) 728-5885

**Domestic Applications**

Vacant . . . . . (202) 452-5214

**Financial Analysis, Surveillance, and Risk Assessment**

Jon Greenlee . . . . . (202) 452-2962

**International Supervision**

Anthony Gold . . . . . (202) 452-3622

**Large Complex Banking Organizations**

Nancy Berlad . . . . . (202) 530-6218

**Large Financial Institutions**

William Charwat . . . . . (202) 452-3006

**Regulatory Reports**

Douglas W. Carpenter . . . . . (202) 452-2205

**Supervisory Policy and Guidance**

Vacant . . . . . (202) 452-5231

**OFFICE OF BOARD MEMBERS**

Provides direct staff support to the seven members of the board, provides secretarial help, implements actions taken by the board, assists divisions in implementing policy actions, assists board members in speech preparation, conducts special surveys and research assignments for board members, and answers selected correspondence. Responsible for public affairs and congressional liaison functions.

**Division Director**

Michelle A. Smith . . . . . (202) 452-2955

**Congressional Liaison**

Laricke D. Blanchard . . . . . (202) 452-3003

**Assistants to the Board**

Rosanna Pianto-Cameron . . . . . (202) 452-2707  
 David W. Skidmore . . . . . (202) 452-2955  
 Brian Gross . . . . . (202) 452-2013  
 Robert M. Pribble . . . . . (202) 452-3444

**DIVISION OF CONSUMER AND COMMUNITY AFFAIRS**

Drafts, interprets, and administers regulations governing consumer protection laws, community reinvestment, and fair lending. Coordinates the system's supervision and examining activities to make sure state member banks comply with consumer protection regulations, and investigates consumer complaints against banks. Oversees a community affairs program that encourages banks to engage in community development projects. The Consumer Advisory Council, established in 1976 and composed of thirty members from across the country, meets quarterly to represent consumer and creditor interests before the board.

**Director**

Sandra Braunstein . . . . . (202) 452-2631  
 Fax . . . . . (202) 872-4995

**Deputy Director**

Glenn E. Loney . . . . . (202) 452-3585

**Associate Counsel and Adviser**

Vacant . . . . . (202) 452-2412

**Adviser**

Maryann Hunter . . . . . (202) 452-3215

**Associate Director**

Vacant . . . . . (202) 452-3378

**Associate Director**

Tonda E. Price . . . . . (202) 728-5803

**Assistant Director**

Suzanne G. Killian . . . . . (202) 452-2090

**Assistant Director**

James A. Michaels . . . . . (202) 452-3667

**DIVISION OF RESERVE BANK OPERATIONS AND PAYMENT SYSTEMS**

Oversees the Federal Reserve banks' provision of financial services to depository institutions, fiscal agency services to the Treasury and other government agencies, and significant support functions such as information technology and financial and cost accounting. The division also develops policies and regulations to foster the efficiency and integrity of the U.S. payment system, works with other central banks and international organizations to improve payment systems more broadly, and conducts research on payment issues.

**Director**

Louise L. Roseman . . . . . (202) 452-2789  
 Fax . . . . . (202) 452-2746

**Deputy Director**

Jeffrey Marquardt . . . . . (202) 452-2360

**Deputy Director**

Donald Hammond . . . . . (202) 452-3660

**Senior Adviser**

Paul W. Bettge . . . . . (202) 452-3174

**Associate Director**

Kenneth D. Buckley . . . . . (202) 452-3646

**Associate Director**

Dorothy LaChapelle . . . . . (202) 452-3963

**Deputy Associate Director**

Jeff J. Stehn . . . . . (202) 452-2217

**Deputy Associate Director**

Gregory L. Evans . . . . . (202) 452-3945

**Deputy Associate Director**

Lisa Hoskins . . . . . (202) 452-3437

**Deputy Associate Director**

Susan Foley . . . . . (202) 452-3596

**Assistant Director**

Michael J. Lambert . . . . . (202) 452-3376

**Assistant Director**

Michael Stan . . . . . (202) 452-5601

**Assistant Director**

Leonard (Buck) Tanis . . . . . (202) 452-2658

**OFFICE OF THE INSPECTOR GENERAL**

Investigates suspected cases of impropriety, wrongdoing, fraud, or waste and abuse in programs and operations administered or financed by the board.

**Inspector General**

Elizabeth Coleman . . . . . (202) 973-5005

Fax . . . . . (202) 973-5044

IG Hotline . . . . . (202) 452-6400

**DIVISION OF INTERNATIONAL FINANCE**

Provides the board, the Federal Open Market Committee, and other Federal Reserve officials with assessments of current international economic and financial developments, principally those relating to the effects on the U.S. economy and world activity, and the effects of the world economy on U.S. economic and financial conditions. Provides economic data and analyses for public release.

**Director**

D. Nathan Sheets . . . . . (202) 452-3600

Fax . . . . . (202) 452-6424

**Deputy Director**

Thomas A. Connors . . . . . (202) 452-3639

**Deputy Director**

Steven B. Kamin . . . . . (202) 452-3339

**Senior Adviser**

Vacant . . . . . (202) 452-2343

**Associate Director**

Vacant . . . . . (202) 452-2344

**Associate Director**

Ralph W. Tryon . . . . . (202) 452-2368

**LEGAL DIVISION**

Provides legal advice in support of board statutory and regulatory responsibilities. Prepares legal analyses and drafts proposals for use by the board in implementing statutory provisions. Represents the board in civil litigation and in administrative proceedings. Aids other divisions in the following areas: contracting; fiscal agency activities; Federal Reserve bank matters; environment and labor law; personnel and supervisory enforcement matters; preparing draft legislation or comments on proposed

legislation; and assisting in the preparation of board member testimony. Also prepares, interprets, and distributes information about board decisions, regulations, rules, and instructions. Advises the board of governors and acts as general counsel to the FOMC.

**General Counsel**

Scott G. Alvarez . . . . . (202) 452-3583

Fax . . . . . (202) 452-3101

**Deputy General Counsel**

Richard M. Ashton . . . . . (202) 452-3750

**International Banking**

Kathleen O'Day . . . . . (202) 452-3786

**Monetary and Reserve Bank Affairs**

Stephanie Martin . . . . . (202) 452-3198

**OFFICE OF STAFF DIRECTOR FOR MANAGEMENT**

Responsible for planning and coordinating the board's operations and activities, including building administration, budget preparation, accounting, and personnel management. Coordinates contingency planning operations and equal employment opportunity programs. The staff director is a designated official of the board's occupational safety and health program.

**Staff Director**

Stephen R. Malphrus . . . . . (202) 452-2801

Fax . . . . . (202) 728-5832

**MANAGEMENT DIVISION**

Maintains the board's account books and directs its internal financial management program, draws up the annual budget, and supervises the receipt and disbursement of funds. Reviews and analyzes the board's use of resources and makes recommendations on developing new programs and improving existing ones.

**Director**

H. Fay Peters . . . . . (202) 452-3953

**DIVISION OF INFORMATION TECHNOLOGY**

Provides telecommunication and computer services for the board of governors, including maintenance and storage of data files and an extensive distribution processing network facility.

**Director**

Maureen T. Hannan . . . . . (202) 452-3618

Fax . . . . . (202) 872-7566

**DIVISION OF MONETARY AFFAIRS**

Responsible for support of the board and the Federal Open Market Committee (FOMC) in the conduct of domestic monetary policy through open market operations, discount rates and the administration of the discount window, and reserve requirements. Serves as liaison with the domestic trading desk at the Federal Reserve Bank of New York in the daily conduct of open market operations, and monitors and analyzes the implications of open market operations and lending for the Federal Reserve's balance sheet. Monitors and interprets developments in financial markets, and analyzes and produces data on developments in money, reserves, and bank credit.

Also conducts research on topics related to the conduct of monetary policy, both short-run implementation and more general issues related to formulating policy and analyzing the markets in which policy is carried out.

**Director**

Brian F. Madigan . . . . . (202) 452-3828

**Deputy Director**

James Clouse . . . . . (202) 452-3922

**Senior Associate Director**

Cheryl L. Edwards . . . . . (202) 452-2257

**Deputy Associate Director**

Seth Carpenter . . . . . (202) 452-2385

**Deputy Director**

William English . . . . . (202) 736-5645

**Deputy Director**

Deborah J. Danker . . . . . (202) 452-3253

**DIVISION OF RESEARCH AND STATISTICS**

Prepares and develops economic and financial information needed by Fed officials to formulate credit and monetary policies and to maintain current operations of the board and the Federal Reserve System. Also supplies economic data and analyses for public release. Most of the data is available in various publications (*see Publications, p. 194*).

**Director**

David J. Stockton . . . . . (202) 452-3068

**Deputy Director**

David W. Wilcox . . . . . (202) 452-2991

**Deputy Director**

Vacant

**Associate Director**

Michael Gibson . . . . . (202) 452-2495

**Associate Director**

Matthew Eichner . . . . . (202) 452-2019

**Associate Director**

Lawrence Slifman . . . . . (202) 452-2543

**Associate Director**

Vacant

**Associate Director**

Alice Patricia White . . . . . (202) 452-2912

**Associate Director**

Joyce K. Zickler . . . . . (202) 452-2587

**OFFICE OF THE SECRETARY**

Coordinates and handles items requiring board action including the following: preparing agendas for board meetings; implementing actions taken at board meetings; preparing, indexing, and circulating minutes of board meetings; and participating in the drafting of Federal Reserve regulations, rules, and procedures. Also performs the same functions for the Federal Advisory Council and coordinates communication between the board and the conference of presidents and the conference of first vice presidents of Federal Reserve banks. Makes arrangements for individuals and groups visiting the board and maintains custody of and provides reference service for official records of the board. Produces the *Federal Reserve Regulatory Service* and handles correspondence and freedom of information requests.

**Secretary**

Jennifer T. Johnson . . . . . (202) 452-3259

Fax . . . . . (202) 452-3819

**Deputy Secretary**

Robert de V. Frierson . . . . . (202) 452-3711

**Associate Secretary**

Margaret M. Shanks . . . . . (202) 452-3584

**FEDERAL RESERVE BANKS**

The twelve Federal Reserve districts were created on the basis of trade areas and related economic considerations and do not always follow state lines. There is a Federal Reserve bank in each district, and ten of the banks have branch offices. The Reserve banks are the principal medium through which the policies and supervisory powers of the Federal Reserve System are implemented. Responsibilities of the banks include providing local and nationwide facilities for the processing of checks and other money instruments, meeting the currency needs of the country, holding the reserve accounts required of financial institutions, extending credit to depository institutions, supervising and collecting data on the banking system, acting as a fiscal agent for the government, maintaining government accounts, selling and redeeming government securities, and administering regionally the policies of the board of governors and the FOMC. The chief executive officer of each bank is its president. The president and first vice president are appointed by the board of directors, with approval of the Fed's board of governors, for a term of five years.

**Directors of Federal Reserve District Banks**

Each of the twelve Federal Reserve district banks has nine directors, elected or appointed for staggered three-year terms. They are divided into three classes of three directors each; the term of one director in each class expires every year.

The classes represent member banks (Class A) and the public (Classes B and C). Class A and B directors are elected by the member banks in the district. Class C directors are appointed by the board of governors.

Member banks are divided into categories according to capitalization: Group 1 (large banks), Group 2 (medium banks), and Group 3 (small banks). Each group elects one Class A and one Class B director.

Class A directors are almost always member bank officers or directors. Class B directors are selected with consideration to agricultural, commercial, industrial service, labor, and consumer interests. Class B and C directors may not be officers, directors, or employees of any bank. Class A and B directors may be reelected.

One of the Class C directors is appointed by the board to act as chair, and another is appointed as deputy chair. In the absence of the chair and deputy chair, the third Class C director acts as chair. Class C directors are not reappointed if they have served two full terms of three years each.

The directors help formulate monetary policy through biweekly recommendations to the board of governors on the discount rate their banks charge on collateralized loans to depository institutions. They prescribe the bylaws

under which the bank's general business is conducted, and oversee management of the bank. The directors appoint all officers and recommend their salaries, decide on promotion or change in office personnel, supervise internal auditing, and approve the annual budget for their bank.

#### **Directors of Federal Reserve Branch Banks**

Branches have either five or seven directors. A majority of these are appointed by the board of directors of the parent Reserve bank; the others are appointed by the Fed's board of governors. The chair of a branch bank board is chosen from among the directors appointed by the board of governors. Branch bank directors must be individuals whose business and financial interests are primarily within and representative of the branch territory. Directors serve for three years when the branch board consists of seven people, or for two years when the branch board consists of five people.

Branches perform for their territories most of the functions performed at the district level.

### **Federal Reserve District Banks**

#### **DISTRICT 1**

(northern CT, MA, ME, NH, RI, VT)

#### **Federal Reserve Bank of Boston**

600 Atlantic Ave.  
Boston, MA 02210  
(617) 973-3000  
Eric S. Rosengren, president

#### **DISTRICT 2**

(southern CT, northern NJ, NY, PR, VI)

#### **Federal Reserve Bank of New York**

33 Liberty St.  
New York, NY 10045  
(212) 720-5000  
TTY (212) 720-5387  
William C. Dudley, president

#### **DISTRICT 3**

(DE, southern NJ, eastern and central PA)

#### **Federal Reserve Bank of Philadelphia**

10 Independence Mall  
Philadelphia, PA 19106  
(215) 574-6000  
Charles I. Plosser, president

#### **DISTRICT 4**

(eastern KY, OH, western PA, northern WV)

#### **Federal Reserve Bank of Cleveland**

1455 E. 6th St.  
Cleveland, OH 44114  
(216) 579-2000  
Sandra Pianalto, president

#### **Cincinnati Branch**

150 E. 4th St.  
Cincinnati, OH 45202  
(800) 432-1343  
Jeff Van Treese, vice president

#### **Pittsburgh Branch**

717 Grant St.  
Pittsburgh, PA 15219  
(412) 261-7800  
Robert B. Schaub, vice president

#### **DISTRICT 5**

(DC, MD, NC, SC, VA, eastern and southern WV)

#### **Federal Reserve Bank of Richmond**

701 E. Byrd St.  
Richmond, VA 23219  
(804) 697-8000  
Jeffrey M. Lacker, president

#### **Baltimore Branch**

502 S. Sharp St.  
Baltimore, MD 21201  
(410) 576-3300  
David E. Beck, vice president

#### **Charlotte Branch**

530 E. Trade St.  
Charlotte, NC 28202  
(704) 358-2100  
Jeffery S. Kane, vice president

#### **DISTRICT 6**

(AL, FL, GA, southern LA, southern MS, central and eastern TN)

#### **Federal Reserve Bank of Atlanta**

1000 Peachtree St. N.E.  
Atlanta, GA 30309-4470  
(404) 498-8500  
Dennis P. Lockhart, president

#### **Birmingham Branch**

524 Liberty Pkwy.  
Birmingham, AL 35242-7531  
(205) 968-6700  
Julius Weyman, vice president

#### **Jacksonville Branch**

800 Water St.  
Jacksonville, FL 32204  
(904) 632-1000  
Christopher Oakley, vice president

#### **Miami Branch**

9100 N.W. 36th St.  
Miami, FL 33178-2425  
(305) 591-2065  
Juan Del Busto, vice president

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### **Nashville Branch**

301 8th Ave. North  
Nashville, TN 37203-4407  
(615) 251-7100  
Lee Jones, vice president

### **New Orleans Branch**

525 St. Charles Ave.  
New Orleans, LA 70130-1630  
(504) 593-3200  
Robert J. Musso, vice president

### **DISTRICT 7**

(IA, northern IL, central and northern IN, southern MI, southern WI)

### **Federal Reserve Bank of Chicago**

230 S. LaSalle St.  
Chicago, IL 60604-1413  
(312) 322-5322  
Charles L. Evans, president

### **Detroit Branch**

1600 E. Warren St.  
Detroit, MI 48207-1063  
(313) 961-6880  
Robert Wiley, vice president

### **DISTRICT 8**

(AR, southern IL, southern IN, western KY, northern MS, eastern MO, western TN)

### **Federal Reserve Bank of St. Louis**

One Federal Reserve Bank Plaza  
Broadway and Locust Sts.  
St. Louis, MO 63102  
(314) 444-8444  
James Bullard, president

### **Little Rock Branch**

Stephens Building  
111 Center St., #1000  
Little Rock, AR 72201  
(501) 324-8300  
Robert A. Hopkins, vice president

### **Louisville Branch**

National City Tower  
101 S. Fifth St., #1920  
Louisville, KY 40202  
(502) 568-9200  
Maria G. Hampton, vice president

### **Memphis Branch**

200 N. Main St.  
Memphis, TN 38103  
(901) 523-7171  
Martha Perine Beard, vice president

### **DISTRICT 9**

(northern MI, MN, MT, ND, SD, northwestern WI)

### **Federal Reserve Bank of Minneapolis**

90 Hennepin Ave.  
Minneapolis, MN 55401  
(612) 204-5000  
Gary H. Stern, president

### **Helena Branch**

100 Neill Ave.  
Helena, MT 59601  
(406) 447-3800  
Raymond Paul Drake, vice president

### **DISTRICT 10**

(CO, KS, western MO, NE, northern NM, OK, WY)

### **Federal Reserve Bank of Kansas City**

1 Memorial Drive  
Kansas City, MO 64198  
(816) 881-2000  
Thomas M. Hoenig, president

### **Denver Branch**

1020 16th St.  
Denver, CO 80202  
(303) 572-2300  
Mark Snead, vice president

### **Oklahoma City Branch**

226 Dean A. McGee Ave.  
Oklahoma City, OK 73102  
(405) 270-8400  
Chad Wilkerson, vice president

### **Omaha Branch**

2201 Farnam St.  
Omaha, NE 68102  
(402) 221-5500  
Jason Henderson, vice president

### **DISTRICT 11**

(northern LA, southern NM, TX)

### **Federal Reserve Bank of Dallas**

2200 N. Pearl St.  
Dallas, TX 75201  
(214) 922-6000  
Richard W. Fisher, president

### **El Paso Branch**

301 E. Main St.  
El Paso, TX 79901  
(915) 521-5200  
Robert W. Gilmer, vice president

### **Houston Branch**

1801 Allen Pkwy.  
Houston, TX 77019  
(713) 483-3000  
Robert Smith III, vice president

**San Antonio Branch**

126 E. Nueva St.  
San Antonio, TX 78204  
(210) 978-1200  
Blake Hastings, vice president

**DISTRICT 12**

(AK, AZ, CA, HI, ID, NV, OR, UT, WA)

**Federal Reserve Bank of San Francisco**

101 Market St.  
San Francisco, CA 94105  
(415) 974-2000  
TTY (415) 393-1900  
Janet L. Yellen, president

**Los Angeles Branch**

950 S. Grand Ave.  
Los Angeles, CA 90015  
(213) 683-2300  
Mark L. Mullinix, vice president

**Phoenix Branch**

1550 N. 47th Ave.  
Phoenix, AZ 85043  
(602) 477-7700  
Mark L. Mullinix, vice president

**Portland Branch**

1500 S.W. 1st Ave., #100  
Portland, OR 97201  
(503) 276-3000  
Mary Lee, vice president

**Salt Lake City Branch**

120 S. State St.  
Salt Lake City, UT 84111  
(801) 322-7900  
Andrea P. Wolcott, vice president

**Seattle Branch**

2700 Naches Ave. S.W.  
Renton, WA 98057  
(425) 203-0800  
Mark Gould, vice president

■ **CONGRESSIONAL ACTION**

**Congressional Liaison**

Laricke D. Blanchard . . . . . (202) 452-3003

**Committees and Subcommittees**

**HOUSE FINANCIAL SERVICES COMMITTEE**

**Subcommittee on Domestic Monetary Policy and Technology**

2129 RHOB, Washington, DC 20515-6050  
(202) 225-4247

**SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE**

SDOB-534, Washington, DC 20510-6075  
(202) 224-7391

**Legislation**

The Federal Reserve System was established under authority of the **Federal Reserve Act**, approved Dec. 23, 1913 (38 Stat. 251, 12 U.S.C. 221). The act was substantially amended by the **Banking Act of 1933**, also known as the **Glass-Steagall Act** (48 Stat. 162, 12 U.S.C. 227) and the **Banking Act of 1935** (49 Stat. 684, 12 U.S.C. 228). This legislation, as amended, embodies the basic authorization for the activities of the Federal Reserve System.

The Fed also has responsibility for the administration of other legislation. Although it has supervisory powers over all member banks, its regulatory powers for the legislation listed below extend only to state-chartered banks that have voluntarily become members of the system. The following is a list of the major legislation administered in part by the Federal Reserve. The regulation letter in brackets after a statute refers to the Federal Reserve regulation that covers that law.

**Federal Trade Commission Act of 1914** (38 Stat. 719, 15 U.S.C. 41). Signed by the president Sept. 26, 1914. Prohibited unfair or deceptive banking practices. [Regulation AA]

**Securities Act of 1933** (48 Stat. 74, 15 U.S.C. 77a). Signed by the president May 27, 1933. Originally administered by the Federal Trade Commission, the act exempted banks from registering securities.

**Securities Exchange Act of 1934** (48 Stat. 881, 15 U.S.C. 78b). Signed by the president June 6, 1934. Required registration of securities (applicable to state member banks with more than \$1 million in assets and more than 500 stockholders). [Regulations T, U, G, and X]

**Defense Production Act of 1950 and Executive Order 10480** (64 Stat. 798, 50 U.S.C. app. 2091). Signed by the president Sept. 8, 1950. Guaranteed the financing of contractors, subcontractors, and others involved in national defense work. [Regulation V]

**Bank Holding Company Act of 1956** (70 Stat. 133, 12 U.S.C. 1841). Signed by the president May 9, 1956. Regulated the creation and expansion of bank holding companies. [Regulation Y]

**Bank Mergers and Consolidation Act of 1960** (74 Stat. 129, 12 U.S.C. 1828). Signed by the president May 13, 1960. Required that all proposed bank mergers receive prior approval from the federal regulatory agency that will have jurisdiction over the surviving bank.

**Bank Service Corporation Act** (76 Stat. 1132, 12 U.S.C. 1861). Signed by the president Oct. 23, 1962. Permitted certain federally supervised banks to form service corporations to perform clerical, bookkeeping, and data processing functions.

**Bank Mergers Act of 1966** (80 Stat. 7, 12 U.S.C. 1828). Signed by the president Feb. 21, 1966. Established a procedure for review of proposed bank mergers so as to eliminate the necessity for dissolution of merged banks.

**Truth in Lending Act** (82 Stat. 146, 15 U.S.C. 1601). Signed by the president May 29, 1968. Required lenders and merchants to inform customers of the total cost of loans and installment purchase plans in terms of annual rates to be charged; permitted customers to make valid cost comparisons between lending rates or installment plans of different stores or lending institutions. Also prohibited unsolicited distribution of credit cards and limited the owner's liability for unauthorized use of lost or stolen cards. [Regulation Z]

**Bank Protection Act of 1968** (82 Stat. 294, 12 U.S.C. 1881). Signed by the president July 7, 1968. Required establishment of security system standards for banking institutions. [Regulation P]

**Credit Control Act of 1969** (83 Stat. 376, 12 U.S.C. 1901). Signed by the president Dec. 23, 1969. Authorized the board of governors, at the direction of the president, to impose controls on all forms of consumer credit.

**Currency and Foreign Transactions Reporting Act** (84 Stat. 1118, 31 U.S.C. 1051). Signed by the president Oct. 26, 1970. Required banks, citizens, and businesses to maintain adequate records of foreign currency transactions. [Regulations M, N]

**Fair Credit Reporting Act** (84 Stat. 1128, 15 U.S.C. 1681). Signed by the president Oct. 26, 1970. Regulated credit information and use. [Regulation Z]

**NOW Accounts Act** (87 Stat. 342, 12 U.S.C. 1832). Signed by the president Aug. 16, 1973. Regulated interest-bearing checking accounts. [Regulation J]

**Equal Credit Opportunity Act** (88 Stat. 1521, 15 U.S.C. 1691). Signed by the president Oct. 28, 1974. Prohibited credit discrimination against women; amended in 1975 to include discrimination based on age, race, color, religion, or national origin. [Regulation B]

**Home Mortgage Disclosure Act of 1975** (89 Stat. 1125, 12 U.S.C. 2801). Signed by the president Dec. 31, 1975. Required lending institutions within standard metropolitan statistical areas (SMSAs) to disclose the number and amount of mortgage loans made annually to determine if banks are discriminating against certain city neighborhoods by refusing to make mortgage loans regardless of the creditworthiness of the potential borrower (practice known as "redlining"). [Regulation C]

**Consumer Leasing Act of 1976** (90 Stat. 257, 15 U.S.C. 1601). Signed by the president March 23, 1976. Required full disclosure of terms of leases of personal property, including vehicles, appliances, and furniture. [Regulation Z]

**Community Reinvestment Act of 1977** (91 Stat. 1147, 12 U.S.C. 2901-2905). Signed by the president Oct. 12, 1977. Required federal regulators of banks and savings and loan associations to encourage institutions they regulate to help meet the credit needs of their communities, particularly low- and moderate-income neighborhoods. [Regulation BB]

**International Banking Act of 1978** (92 Stat. 607, 12 U.S.C. 3101-3108). Signed by the president Sept. 17, 1978. Provided for the federal regulation of foreign banks in domestic financial markets.

**Electronic Fund Transfer Act of 1978** (92 Stat. 3728, 15 U.S.C. 1601 note). Signed by the president Nov. 10,

1978. Established rules relating to consumer liability for unauthorized use of an electronic fund transfer card and unsolicited issuance of cards by financial institutions. Prohibited creditors from making automatic repayment of loans a condition of extending credit; overdraft credit plans were exempted. [Regulation E]

**Financial Institutions Regulatory and Interest Rate Control Act of 1978** (92 Stat. 3641, 12 U.S.C. 226 note). Signed by the president Nov. 10, 1978. Regulated the activities of individual bank officers. Provided for tighter controls on insider lending and interlocking directorates among financial institutions and expanded the authority of bank regulators.

**Depository Institutions Deregulation and Monetary Control Act of 1980** (94 Stat. 132, 12 U.S.C. 226 note). Signed by the president March 31, 1980. Extended reserve requirements to all financial institutions. Phased out interest rate ceilings over a six-year period. Allowed thrift institutions to offer a wider range of financial services.

**Garn-St. Germain Depository Institutions Act of 1982** (96 Stat. 1469, 12 U.S.C. 226 note). Signed by the president Oct. 15, 1982. Expanded the FDIC's powers to assist troubled banks by allowing either direct or merger-related assistance. Allowed commercial banks and mutual savings banks, which were in danger of closing, to be acquired on an interstate and/or cross-industry basis. Provided increased powers for federally chartered savings and loan associations and savings, including more liberal chartering options; the ability to offer stock; the authority to accept certain types of demand deposits; expanded real estate investment authority; and the ability to invest in a broad range of government securities.

**International Lending Supervision Act of 1983** (97 Stat. 1278, 12 U.S.C. 3901). Signed by the president Nov. 30, 1983. Increased the oversight responsibilities of the Federal Reserve in terms of the international lending procedures of U.S. banks. Required federal banking agencies to establish minimum capital levels for banking institutions, accounting fee regulations on international loans, and regulations for collection and disclosure of international lending data regarding the status of banks' outstanding loans to particular countries. Also required banks to maintain special reserves against loans that were unlikely to be paid off by a foreign borrower.

**Competitive Equality Banking Act of 1987** (101 Stat. 581, 12 U.S.C. 1841 note). Signed by the president Aug. 10, 1987. Redefined "banks" as institutions that take deposits or write commercial loans. Prohibited limited service banks from engaging in banking activities without regulation.

**Expedited Funds Availability Act** (101 Stat. 635, 12 U.S.C. 4001). Signed by the president Aug. 10, 1987. Mandated timetables for check clearing and availability of funds. Required the Federal Reserve to reduce the amount of time for checks to clear.

**Federal Deposit Insurance Corporation Improvement Act of 1991** (105 Stat. 2236, 12 U.S.C. 1811). Signed by the president Dec. 19, 1991. Required the most cost-effective method of resolving banks in danger of failing and improved supervisory and examination procedures. It also made additional resources available to the Bank

Insurance Fund. Gave the Federal Reserve Board jurisdiction over all foreign banks in the United States.

**Depository Institutions Disaster Relief Act of 1992** (106 Stat. 2771, 12 U.S.C. 1811 note). Signed by the president Oct. 23, 1992. Facilitated recovery from recent disasters by providing greater flexibility for depository institutions and their regulators.

**Futures Trading Practices Act of 1992** (106 Stat. 3628, 7 U.S.C. 1 note). Signed by the president Oct. 28, 1992. Title 5 directed any contract market in stock index futures or options on stock index futures to submit to the board of governors any rule establishing or changing levels of either initial or maintenance margin on such contracts. Also permitted the board to delegate to the Commodity Futures Trading Commission its authority over margin levels for stock index contracts.

**Housing and Community Development Act of 1992** (106 Stat. 3672, 42 U.S.C. 5301 note). Signed by the president Oct. 28, 1992. Established regulatory structure for government-sponsored enterprises, combated money laundering, and provided regulatory relief to financial institutions.

**Depository Institutions Disaster Relief Act of 1993** (107 Stat. 752, 12 U.S.C. 4008 note). Signed by the president Aug. 12, 1993. Authorized the board to make exceptions to the Truth in Lending Act and Expedited Funds Availability Act within major disaster areas.

**Government Securities Act Amendments of 1993** (107 Stat. 2344, 15 U.S.C. 78a note). Signed by the president Dec. 17, 1993. Extended and revised rulemaking authority with respect to government securities under the federal securities laws.

**Home Ownership and Equity Protection Act of 1994** (108 Stat. 2160, 12 U.S.C. 4701 note). Signed by the president Sept. 23, 1994. Part of a larger bill. Under title I, subtitle B, section 157, Fed's board of governors was directed to: (1) study and report to Congress on the adequacy of federal consumer protections in connection with an open-ended credit transaction secured by the consumer's principal dwelling; (2) report to Congress on whether, for purposes of such transactions, a more appropriate interest rate index exists than the yield on Treasury securities; and (3) conduct periodic public hearings on the home equity loan market and the adequacy of existing consumer protection laws to protect low-income consumers.

**Interstate Banking Efficiency Act of 1994** (108 Stat. 2338, 12 U.S.C. 1811 note). Signed by the president Sept. 29, 1994. Permitted banks to operate networks of branch offices across state lines without having to set up separately capitalized subsidiary banks.

**Farm Credit System Reform Act of 1996** (110 Stat. 162, 12 U.S.C. 20001 note). Signed by the president Feb. 10, 1996. Required federal reserve banks to act as depositories, fiscal agents, or custodians of the Federal Agricultural Mortgage Corporation (FAMC). Required the book-entry system of the Fed to be made available to FAMC.

**Economic Growth and Regulatory Paperwork Reduction Act of 1996** (110 Stat. 3009-32, 5 U.S.C. 3109). Signed by the president Sept. 30, 1996. Authorized the board of governors to exempt those transactions from the Truth

in Lending Act (TILA) disclosure requirements when the board determined: (1) they are not necessary to effectuate its purposes; or (2) they do not provide a measurable benefit in the form of useful information or consumer protection. Required the board to publish its rationale for exemption at the time a proposed exemption is published for comment.

**Gramm-Leach-Bliley Act** (113 Stat. 1338, 12 U.S.C. 1811 note). Signed by the president Nov. 12, 1999. Title I repealed provisions of the Banking Act of 1933 and the Bank Holding Company Act of 1956 to allow affiliations between banks and any financial company, including brokerage and insurance firms. Gave the Federal Reserve supervisory oversight authority and responsibility for bank holding companies.

**To Amend the Federal Reserve Act to Broaden the Range of Discount Window Loans** (113 Stat. 1638). Signed by the president Dec. 6, 1999. Amended the Federal Reserve Act to allow the Federal Reserve to print more money for its "discount window," which extended credit to banks and served as a buffer against unexpected fluctuations in bank reserves. Permitted banks to offer additional types of collateral to receive credit at the discount window, including receipts of deposits and collections and agricultural securities.

**Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act)** (115 Stat. 272, 18 U.S.C. 1 note). Signed by the president Oct. 26, 2001. Title III, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, amended various federal banking laws, including the Bank Holding Company Act of 1956, Fair Credit Reporting Act, Federal Deposit Insurance Act, and Federal Reserve Act. Directed certain government agencies, principally the Treasury Department in consultation with the Fed, to investigate and curtail money laundering and other activities that might be undertaken to finance terrorist actions or disrupt legitimate banking operations. Required the Fed to consider an institution's ability to combat money laundering when evaluating proposed bank shares or mergers.

**Terrorism Risk Insurance Act of 2002** (116 Stat. 2322, 15 U.S.C. 6701, note). Signed by the president Nov. 26, 2002. Amended the Federal Reserve Act to state that certain actions that previously required the affirmative vote of five members of the board may nevertheless be taken on the unanimous vote of all members then in office if fewer than five.

**Check Clearing for the 21st Century Act or Check 21 Act** (117 Stat. 1177, 12 U.S.C. 5001-5018). Signed by the president Oct. 28, 2003. Made substitute checks the legal equivalent of the original during processing by banks so that the bank where the original check was deposited can transmit it electronically to the originating bank. Significantly shortened the time period between when a check is deposited and when the money was deducted from the check writer's account.

**Fair and Accurate Credit Transactions Act of 2003 (FACT Act)** (117 Stat. 1952, 15 U.S.C. 1681a). Signed by the president Dec. 4, 2003. Directed the federal banking

agencies, including the Fed, to coordinate regulations governing the accuracy and integrity of information provided by furnishers of consumer information to consumer reporting agencies.

**Housing and Economic Recovery Act of 2008** (122 Stat. 2654, 5 U.S.C. 301 and 552). Signed by the president July 30, 2008. Merged the Office of Federal Housing Enterprise Oversight and the Federal Housing Finance Board into the newly created Federal Housing Finance Agency (FHFA). Prescribed regulatory actions for undercapitalized regulated entities. Prescribed the minimum capital level for each Federal Home Loan Bank.

■ **INFORMATION SOURCES**

**Internet**

Board of Governors comprehensive Web site: [www.federalreserve.gov](http://www.federalreserve.gov). Includes information on Federal Reserve Banks nationwide and provides links to their Internet sites. Includes an extensive list of publications available.

**Telephone Contacts**

- Consumer Complaints. . . . . (888) 851-1920
- Federal Reserve Recording. . . . . (202) 452-3206
- Inspector General Hotline. . . . . (202) 452-6400
- Toll-free. . . . . (800) 327-3340
- Publications . . . . . (202) 452-3245
- TTY . . . . . (877) 766-8533

**Information and Publications**

**KEY OFFICES**

**Board of Governors Public Affairs**

20th St. and Constitution Ave. N.W., #B-2120  
 Washington, DC 20551  
 (202) 452-3204  
 Fax (202) 452-6481  
 Michelle A. Smith, assistant to the board

Acts as the spokesman for the board of governors and prepares all press releases. Pamphlets and audiovisual materials are available from Publications Services, which also maintains all mailing lists for publications.

**Board of Governors Consumer and Community Affairs**

20th St. and Constitution Ave. N.W.  
 Washington, DC 20551  
 (202) 452-3378  
 Sandra Braunstein, director

Administers the board’s consumer protection responsibilities. Writes rules to implement consumer-related laws, for which the board has administrative responsibility, supervises enforcement with regard to state member banks, and operates a program to monitor and respond to consumer complaints. Oversees a program that encourages

banks to engage in community economic development. Administers a program to educate financial institutions and assists the board’s Public Affairs office in developing consumer education materials. Also produces consumer education pamphlets, available on the Web site and from Publications Services.

**Federal Reserve Publications Services**

20th St. and Constitution Ave. N.W., #MP-510  
 M.S. 127  
 Washington, DC 20551  
 (202) 452-3245  
 Fax (202) 728-5886  
 E-mail: [publications-bog@frb.gov](mailto:publications-bog@frb.gov)  
 Linda Kyles, manager

Provides publications and price lists.

**Freedom of Information**

Board of Governors Office of the Secretary  
 20th St. and Constitution Ave. N.W., #MP-500  
 Washington, DC 20551  
 (202) 452-2407  
 Jeanne McLaughlin, FOIA Service Center manager  
 FOIA Service Center (202) 452-3684  
 Fax (202) 872-7565  
 Internet: [www.federalreserve.gov/generalinfo/foia/default.cfm](http://www.federalreserve.gov/generalinfo/foia/default.cfm)

**DATA AND STATISTICS**

See the Web site and extensive list of publications, below, for titles that include statistical information.

**MEETINGS**

The board of governors meets about two or three times a month, usually every other Monday, to consider matters relating to its supervisory, regulatory, and monetary responsibilities. Notices of open meetings are listed on the Web site and published in the *Federal Register*, as well as usually being available in advance from the Freedom of Information and Public Affairs offices and the Treasury Department press rooms. The board also maintains a “Sunshine” mailing list to announce meetings to interested members of the public. Information about agenda items may be obtained from the Web site, [www.federalreserve.gov](http://www.federalreserve.gov), or from Public Affairs, (202) 452-3204.

Notices of meetings closed to the public are listed on the Web site and published in the *Federal Register*, identifying the official designated to provide information about the meeting. After the meeting has been held, a cassette recording and agenda are available. Special facilities are provided in the Freedom of Information Office, Room MP-500, for listening to recordings; cassettes may also be purchased.

**PUBLICATIONS**

An extensive series of publications are available from the Web site, including publications available from the twelve Federal Reserve district banks. Also contact Federal Reserve Publications Services for specific titles. Titles include:

*Annual Report.* Reviews monetary policy and the state of the economy for the previous year and reports on system operations. Also contains statistical charts and tables. Free.

*Statistical Digest.* Provides economic and financial data for a broad range of users. Provides historical perspective and detailed series of statistics for years covered. No text accompanying tables; all explanations contained in notes to the tables.

*Federal Reserve Bulletin.* Quarterly; includes articles on selected topics in economics, domestic and international business activity, and recent developments in banking. Separate tables include substantial statistics related to activity of various sectors of the economy.

*Federal Reserve Regulatory Service.* Monthly; CD-ROM or loose-leaf service that includes all board statutes, rulings, regulations, staff opinions, and related interpretations and documents. Consists of three publications, with subject and citation indexes. The service includes the *Securities Credit Transaction Handbook* (Regulations T, U, and X and a list of over-the-counter margin stocks); *Monetary Policy and Reserve Requirements Handbook* (Regulations A, D, and Q); *Payment Systems Handbook* (Regulations CC, J, and EE), and the *Consumer and Community Affairs Handbook* (Regulations B, C, E, G, H, P, V, M, Z, AA, BB, DD, and FF). Handbooks also available individually.

*The Federal Reserve System: Purposes and Functions.* A detailed explanation of the work of the system, especially in developing monetary policy. Free.

*Index of Federal Reserve Economic Research.*

*In Plain English: Making Sense of the Federal Reserve.* Booklet, bonus activities, and DVD to download or up to 35 free-of-charge.

*Regulations of the Board of Governors of the Federal Reserve System.* Full texts of regulations A through EE; each regulation is issued as an individual booklet, updated. Free.

**Consumer Education Pamphlets.** Issued by the board of governors and suited for classroom use. Single and multiple copies available at no charge. Titles include:

*Consumer Handbook on Adjustable Rate Mortgages*

*Consumer Handbook to Credit Protection Laws*

*A Consumer's Guide to Mortgage Lock-Ins*

*A Consumer's Guide to Mortgage Refinancing*

*A Consumer's Guide to Mortgage Settlement Costs*

*Five Tips for Avoiding Foreclosure*

*Five Tips for Getting the Most from Your Credit Card*

*Five Tips for Improving Your Credit Score*

*A Guide to Business Credit for Women, Minorities, and Small Businesses*

*How to File a Consumer Complaint About a Bank*

*Making Deposits: When Will Your Money Be Available?*

*What You Should Know about Home Equity Lines of Credit*

*Series on the Structure of the Federal Reserve System:*

- *The Board of Governors of the Federal Reserve System*
- *The Federal Open Market Committee*
- *Federal Reserve Bank Board of Directors*
- *Federal Reserve Banks*

## Reference Resources

### LIBRARIES

#### Federal Reserve Law Library

20th St. and Constitution Ave. N.W., #B-1066

M.S. 7

Washington, DC 20551

(202) 452-3040

Fax (202) 452-3101

E-mail: rick.mckinney@frb.gov

Scott Finet, law librarian

Hours: 9:00 a.m. to 5:00 p.m.

Open to the public by appointment. Holds more than 26,000 volumes on banking legislation and regulation as well as an electronic collection. Interlibrary loan service available within the Washington, DC, area.

#### Federal Reserve Research Library

20th St. and Constitution Ave. N.W., #B-C-241

Washington, DC 20551

(202) 452-3398

Chris Vajs, chief librarian

Open to the public by appointment for research in fields of banking, finance, monetary and fiscal policy, economics, and the history and operation of the Federal Reserve System. Makes limited interlibrary loans within the Washington, DC, area.

### DOCKETS

Individual copies of each regulation are available on the Federal Reserve's Web site. They include the text of each regulation, text of relevant statutes, and, in some cases, a section on interpretations. Federal dockets are also available at [www.regulations.gov](http://www.regulations.gov). (See *appendix for Searching and Commenting on Regulations: Regulations.gov*.)

### Rules and Regulations

Federal Reserve System rules and regulations are published in the *Code of Federal Regulations*, Title 5, Chapter LVIII, Part 6801; Title 12, Chapter II, Parts 200-299. Proposed regulations, new final regulations, and updates to the *Code of Federal Regulations* are published in the daily *Federal Register*. (See *appendix for information on how to obtain and use these publications*.) The *Federal Register* and the *Code of Federal Regulations* may be accessed online at [www.gpoaccess.gov/fr/index.html](http://www.gpoaccess.gov/fr/index.html); the site contains a link to the federal government's regulatory Web site at [www.regulations.gov](http://www.regulations.gov) (see *appendix*).

The pamphlet, *A Guide to Federal Reserve Regulations*, gives a brief summary of the regulations. The *Guide* may be obtained from Federal Reserve Publications Services. Individual copies of each regulation also are available. They include the full text of each regulation, text of relevant statutes, and, in some cases, a section on interpretations.

## Other Information Sources

### NONGOVERNMENTAL RESOURCES

The following are some key resources for information on the Federal Reserve and related economic issues.

**American Banker**

1 State St. Plaza, 27th Floor  
New York, NY 10004  
(212) 803-8200  
(800) 221-1809  
Fax (212) 843-9600  
Internet: [www.americanbanker.com](http://www.americanbanker.com)

**American Bankers Association**

1120 Connecticut Ave. N.W.  
Washington, DC 20036  
(202) 663-5000  
Fax (202) 633-7543  
Internet: [www.aba.com](http://www.aba.com)

**American Business Conference**

1828 L St. N.W., #908  
Washington, DC 20036  
(202) 822-9300  
Fax (202) 467-4070  
Internet: [www.americanbusinessconference.org](http://www.americanbusinessconference.org)

**American Enterprise Institute for Public Policy Research**

Economic Policy Studies  
1150 17th St. N.W.  
Washington, DC 20036  
(202) 862-5800  
Fax (202) 862-7177  
Internet: [www.aei.org](http://www.aei.org)

**Bank Administration Institute**

115 S. La Salle St., # 3300  
Chicago, IL 60603-3801  
(312) 683-2464  
(888) 284-4078  
Fax (800) 375-5543  
E-mail: [info@bai.org](mailto:info@bai.org)  
Internet: [www.bai.org](http://www.bai.org)

**The Brookings Institution**

Economic Studies Program  
1775 Massachusetts Ave. N.W.  
Washington, DC 20036-2188  
(202) 797-4382  
Fax (202) 797-6181  
Internet: [www.brookings.edu](http://www.brookings.edu)

**Bureau of National Affairs, Inc.**

1801 S. Bell St.  
Arlington, VA 22202

(800) 372-1033  
Fax (703) 341-4634  
Internet: [www.bna.com](http://www.bna.com)

**The Business Council**

P.O. Box 20147  
Washington, DC 20041  
(202) 298-7650  
Fax (202) 785-0296  
Internet: [www.businesscouncil.com](http://www.businesscouncil.com)

**The Business Roundtable**

1717 Rhode Island Ave. N.W., #800  
Washington, DC 20036-3026  
(202) 872-1260  
Fax (202) 466-3509  
Internet: [www.businessroundtable.org](http://www.businessroundtable.org)

**Economic Policy Institute**

1333 H St. N.W., #300  
East Tower  
Washington, DC 20005  
(202) 775-8810  
Fax (202) 775-0819  
Internet: <http://epinet.org>; [www.epi.org](http://www.epi.org)

**The Heritage Foundation**

214 Massachusetts Ave. N.E.  
Washington, DC 20002-4999  
(202) 546-4400  
Fax (202) 546-8328  
Internet: [www.heritage.org](http://www.heritage.org)

**Journal of Money, Credit and Banking**

(Published on behalf of Ohio State University)  
Wiley-Blackwell, Inc.  
350 Main St.  
Malden, MA 02148  
(781) 388-8200  
(800) 835-6770  
Internet: [www.interscience.wiley.com](http://www.interscience.wiley.com)

**U.S. Chamber of Commerce**

Economic Policy  
1615 H St. N.W.  
Washington, DC 20062-2000  
(202) 463-5620  
Fax (202) 463-3174  
Internet: [www.uschamber.com](http://www.uschamber.com)