

Federal Funds Rate

Federal funds are unsecured loans that commercial banks make to one another to maintain their bank reserves at the Federal Reserve. These loans are usually made overnight and over-the-counter.

The federal funds rate is the interest rate that banks charge each other for these overnight loans to maintain their reserve requirements.

The Federal Reserve tries to maintain a federal funds rate that is consistent with its monetary policy. It tries to keep the federal funds rate low when it wants to stimulate the economy, and it tries to keep the rate high when it wants to cool off the economy.