

Federal Reserve System

The Federal Reserve System (i.e. the Fed) is the central banking system of the United States. It was created by an act of Congress on December 23, 1913.

The Fed is made up of 12 Federal Reserve District Banks, 25 branches and roughly 6,000 national and state banks. It is headed by a seven-member Board of Governors.

The primary responsibility of the Fed is to set the monetary policy of the United States. It does this in three different ways: by raising and lowering reserve requirements; by raising and lowering the discount rate for loans to commercial banks; by buying and selling securities, usually 3-month bills and notes issued by the U.S. Treasury.

Though the Fed is headed by a seven-member Board of Governors, this Board does not have sole discretion over monetary policy. Monetary policy is set by the Federal Open Market Committee (FOMC). The FOMC is made up of the seven-member Board of Governors and the 12 regional bank presidents. However, only five of the regional bank presidents vote at any one time.