The US Federal Reserve System

History, Function & Organization

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Early American Banking: 1791-1863
Banking in the America of 1863 was far from easy or dependable. The First Bank (1791-1811) and Second Bank (1816-1836) of the United States were the only official representatives of the U.S. Treasury - the only sources that issued and backed official U.S. money. All other banks were operated under state charter, or by private parties. Each bank issued its own individual, "banknotes." All of the state and private banks competed with each other and the two U.S. Banks to make sure that their notes were redeemable for full face value. As you traveled around the country, you never knew exactly what kind of money you would get from the local banks. With America's population growing is size, mobility, and economic activity, this multiplicity of banks and kinds of money soon grew chaotic.

The National Banks: 1863-1913
In 1863, Congress passed the first National Bank Act providing for a supervised system of "National Banks." The Act setup operational standards for the banks, established minimum amounts of capital to be held by the banks, and defined how the banks were to make and administer loans. In addition, the Act imposed a 10 percent tax on state banknotes, thus effectively eliminating non-federal currency from circulation.

What is a "National" Bank?
Any bank using the phrase, "National Bank" in its name must be a member of the Federal Reserve System. They must maintain minimum levels of reserves with one of the 12 Federal Reserve banks and must deposit a percentage of their customers' savings account and checking account deposits in a Federal Reserve bank. All banks incorporated under a national charter are required to become members of the Federal Reserve System. Banks incorporated under a state charter may also apply for Federal Reserve membership.

The Federal Reserve System: 1913 to Date
Functions of the Federal Reserve System

By 1913, America's economic growth both at home and abroad required a more flexible, yet better controlled and safer banking system. The Federal Reserve Act of 1913 established the Federal Reserve System as the central banking authority of the United States.

Under the Federal Reserve Act of 1913 and amendments over the years, the Federal Reserve System:

- Conducts America's monetary policy
- Supervises and regulates banks and protects consumers' credit rights
- Maintains the stability of America's financial system
- Provides financial services to the U.S. Government, the public, financial institutions, and foreign financial institutions

The Federal Reserve makes loans to commercial banks and is authorized to issue the Federal Reserve notes that make up America's entire supply of paper money.

Organization of the Federal Reserve System
Board of Governors

Overseeing the system, the Board of Governors of the Federal Reserve System, controls operations of the 12 Federal Reserve Banks, several monetary and consumer advisory committees and the thousands of member banks across the United States.

The Board of Governors sets minimum reserve limits (how much capital banks must have on hand) for all member banks, sets the discount rate for the 12 Federal Reserve Banks, and reviews the budgets of the 12 Federal Reserve Banks.

Source: http://usgovinfo.about.com/od/moneymatters/a/fedreserve.htm
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