

A Appendix: Federal Reserve Regulations

- A Extensions of Credit by Federal Reserve Banks**
Governs borrowing by depository institutions and others at the Federal Reserve discount window
- B Equal Credit Opportunity**
Prohibits lenders from discriminating against credit applicants, establishes guidelines for gathering and evaluating credit information, and requires written notification when credit is denied
- C Home Mortgage Disclosure**
Requires certain mortgage lenders to disclose data regarding their lending patterns
- D Reserve Requirements of Depository Institutions**
Sets uniform requirements for all depository institutions to maintain reserves either with their Federal Reserve Bank or as cash in their vaults
- E Electronic Funds Transfers**
Establishes the rights, liabilities, and responsibilities of parties in electronic funds transfers and protects consumers when they use such systems
- F Limitations on Interbank Liabilities**
Prescribes standards to limit the risks that the failure of a depository institution would pose to an insured depository institution
- G Disclosure and Reporting of CRA-Related Agreements**
Implements provisions of the Gramm-Leach-Bliley Act that require reporting and public disclosure of written agreements between (1) insured depository institutions or their affiliates and (2) nongovernmental entities or persons, made in connection with fulfillment of Community Reinvestment Act requirements
- H Membership of State Banking Institutions in the Federal Reserve System**
Defines the requirements for membership of state-chartered banks in the Federal Reserve System; sets limitations on certain investments and requirements for certain types of loans; describes rules pertaining to securities-related activities; establishes the minimum ratios of capital to assets that banks must maintain and procedures

for prompt corrective action when banks are not adequately capitalized; prescribes real estate lending and appraisal standards; sets out requirements concerning bank security procedures, suspicious-activity reports, and compliance with the Bank Secrecy Act; and establishes rules governing banks' ownership or control of financial subsidiaries

I Issue and Cancellation of Capital Stock of Federal Reserve Banks

Sets out stock-subscription requirements for all banks joining the Federal Reserve System

J Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire

Establishes procedures, duties, and responsibilities among (1) Federal Reserve Banks, (2) the senders and payors of checks and other items, and (3) the senders and recipients of Fedwire funds transfers

K International Banking Operations

Governs the international banking operations of U.S. banking organizations and the operations of foreign banks in the United States

L Management Official Interlocks

Generally prohibits a management official from serving two non-affiliated depository institutions, depository institution holding companies, or any combination thereof, in situations where the management interlock would likely have an anticompetitive effect

M Consumer Leasing

Implements the consumer leasing provisions of the Truth in Lending Act by requiring meaningful disclosure of leasing terms

N Relations with Foreign Banks and Bankers

Governs relationships and transactions between Federal Reserve Banks and foreign banks, bankers, or governments

O Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks

Restricts credit that a member bank may extend to its executive officers, directors, and principal shareholders and their related interests

P Privacy of Consumer Financial Information

Governs how financial institutions use nonpublic personal information about consumers

- Q Prohibition against Payment of Interest on Demand Deposits**
Prohibits member banks from paying interest on demand deposits
- S Reimbursement to Financial Institutions for Assembling or Providing Financial Records; Recordkeeping Requirements for Certain Financial Records**
Establishes rates and conditions for reimbursement to financial institutions for providing customer records to a government authority and prescribes recordkeeping and reporting requirements for insured depository institutions making domestic wire transfers and for insured depository institutions and nonbank financial institutions making international wire transfers
- T Credit by Brokers and Dealers**
Governs extension of credit by securities brokers and dealers, including all members of national securities exchanges (See also Regulations U and X.)
- U Credit by Banks and Persons Other Than Brokers and Dealers for the Purpose of Purchasing or Carrying Margin Stock**
Governs extension of credit by banks or persons other than brokers or dealers to finance the purchase or the carrying of margin securities (See also Regulations T and X.)
- V Fair Credit Reporting**
Implements the provisions of the Fair Credit Reporting Act applicable to financial institutions regarding obtaining and using consumer reports and other information about consumers, sharing such information among affiliates, furnishing information to consumer reporting agencies, and preventing identity theft
- W Transactions Between Member Banks and Their Affiliates**
Implements sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between a member bank and its affiliates
- X Borrowers of Securities Credit**
Applies the provisions of Regulations T and U to borrowers who are subject to U.S. laws and who obtain credit within or outside the United States for the purpose of purchasing securities
- Y Bank Holding Companies and Change in Bank Control**
Regulates the acquisition of control of banks and bank holding companies by companies and individuals, defines and regulates the nonbanking activities in which bank holding companies (includ-

ing financial holding companies) and foreign banking organizations with United States operations may engage, and establishes the minimum ratios of capital to assets that bank holding companies must maintain

Z Truth in Lending

Prescribes uniform methods for computing the cost of credit, for disclosing credit terms, and for resolving errors on certain types of credit accounts

AA Unfair or Deceptive Acts or Practices

Establishes consumer complaint procedures and defines unfair or deceptive practices in extending credit to consumers

BB Community Reinvestment

Implements the Community Reinvestment Act and encourages banks to help meet the credit needs of their entire communities

CC Availability of Funds and Collection of Checks

Governs the availability of funds deposited in checking accounts and the collection and return of checks

DD Truth in Savings

Requires depository institutions to provide disclosures to enable consumers to make meaningful comparisons of deposit accounts

EE Netting Eligibility for Financial Institutions

Defines financial institutions to be covered by statutory provisions that validate netting contracts, thereby permitting one institution to pay or receive the net, rather than the gross, amount due, even if the other institution is insolvent

B Appendix: Glossary of Terms

This glossary gives basic definitions of terms used in the text. Readers looking for more comprehensive explanations may want to consult textbooks in economics, banking, and finance.

A

agreement corporation

Corporation chartered by a state to engage in international banking; so named because the corporation enters into an “agreement” with the Board of Governors to limit its activities to those permitted an Edge Act corporation. Typically organized as a subsidiary of a bank, an agreement corporation may conduct activities abroad that are permissible to foreign banks abroad but that may not otherwise be permissible for U.S. banks.

automated clearinghouse (ACH)

Electronic clearing and settlement system for exchanging electronic credit and debit transactions among participating depository institutions. The Federal Reserve Banks operate an automated clearinghouse, as do private organizations.

B

balances

See **Federal Reserve balances**.

Bank for International Settlements (BIS)

International organization established in 1930 and based in Basel, Switzerland, that serves as a forum for central banks for collecting information, developing analyses, and cooperating on a wide range of policy-related matters; also provides certain financial services to central banks.

bank holding company

Company that owns, or has controlling interest in, one or more banks. The Board of Governors is responsible for regulating and supervising bank holding companies, even if the bank owned by the holding company is under the primary supervision of a different federal agency (the Comptroller of the Currency or the Federal Deposit Insurance Corporation).

Bank Holding Company Act of 1956

Federal legislation that establishes the legal framework under which bank

holding companies operate and places the formation of bank holding companies and their acquisition of banking and nonbanking interests under the supervision of the Federal Reserve.

banking organization

A bank holding company (consolidated to include all of its subsidiary banks and nonbank subsidiaries) or an independent bank (a bank that is not owned or controlled by a bank holding company).

bank regulation

Actions to make and issue rules and regulations and enforce those rules and other laws governing the structure and conduct of banking.

bank supervision

Oversight of individual banks to ensure that they are operated prudently and in accordance with applicable statutes and regulations.

Basel Committee on Banking Supervision

An international committee of bank supervisors, associated with the BIS, that is headquartered in Basel, Switzerland, and is composed of bank supervisors from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Basel I

Informal name for the 1988 agreement—the International Convergence of Capital Measurement and Capital Standards—under which national bank supervisors for the first time agreed on an international framework for capital adequacy guidelines. Also known as the Basel Accord.

Basel II

Informal name for the 2004 agreement updating the Basel Accord. Also known as the New Basel Accord, Basel II has three pillars: minimum capital requirements, supervisory oversight, and market discipline.

Board of Governors

Central, governmental agency of the Federal Reserve System, located in Washington, D.C., and composed of seven members, who are appointed by the President and confirmed by the Senate. The Board, with other components of the System, has responsibilities associated with the conduct of monetary policy, the supervision and regulation of certain banking organizations, the operation of much of the nation's payments system, and the administration of many federal laws that protect consumers in credit transactions. The Board also supervises the Federal Reserve Banks.

book-entry securities

Securities that are recorded in electronic records, called book entries, rather than as paper certificates. (*Compare* **definitive securities**.)

C**Call Report**

Informal name for quarterly Reports of Condition and Income.

capital

In banking, the funds invested in a bank that are available to absorb loan losses or other problems and therefore protect depositors. Capital includes all equity and some types of debt. Bank regulators have developed two definitions of capital for supervisory purposes: tier 1 capital, which can absorb losses while a bank continues operating, and tier 2 capital, which may be of limited life and may carry an interest obligation or other characteristics of a debt obligation, and therefore provides less protection to depositors than tier 1 capital.

capital market

The market in which corporate equity and longer-term debt securities (those maturing in more than one year) are issued and traded. (*Compare* **money market**.)

cash

U.S. paper currency plus coin.

central bank

Principal monetary authority of a nation, which performs several key functions, including conducting monetary policy to stabilize the economy and level of prices. The Federal Reserve is the central bank of the United States.

check clearing

The movement of a check from the depository institution at which it was deposited back to the institution on which it was written, the movement of funds in the opposite direction, and the corresponding credit and debit to the accounts involved. Check clearing also encompasses the return of a check (for insufficient funds, for example) from the bank on which it was written to the bank at which it was deposited, and the corresponding movement of funds. The Federal Reserve Banks operate a nationwide check-clearing system.

check truncation

The practice of removing an original paper check from the check-clearing process and sending in its place an alternative paper or electronic version of the essential information on the check.

clearing

General term that may refer to check clearing or to the process of matching trades between the sellers and buyers of securities and other financial instruments and contracts.

commercial bank

Bank that offers a variety of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. Commercial banks can be contrasted with investment banking firms, which generally are involved in arranging for the sale of corporate or municipal securities, and broker-dealer firms, which buy and sell securities for themselves and others. (*Compare savings bank.*)

commercial paper

Short-term, unsecured promissory note issued by an industrial or commercial firm, a financial company, or a foreign government.

Consumer Advisory Council

Group, created under the Federal Reserve Act, composed of thirty members who represent the interests of a broad range of consumers and creditors. The council meets with the Board of Governors three times a year on matters concerning consumers and the consumer protection laws administered by the Board.

corporate bond

Interest-bearing or discounted debt obligation issued by a private corporation.

contractual clearing balance

An amount a depository institution may contract to maintain in its account at a Federal Reserve Bank in addition to any reserve balance requirement. This amount helps ensure that the institution can meet its daily transaction obligations without overdrawing its account. Balances maintained to satisfy the contractual clearing balance earn credits that can be used to pay for services provided by the Federal Reserve Banks.

correspondent bank

Bank that accepts the deposits of, and performs services for, another bank (called a respondent bank).

credit risk

The risk that economic loss will result from the failure of an obligor to repay financial institutions according to the terms and conditions of a contract or agreement.

credit union

Financial cooperative organization whose membership consists of individuals who have a common bond, such as place of employment or residence or membership in a labor union. Credit unions accept deposits from members, pay interest (in the form of dividends) on the deposits out of earnings, and use their funds mainly to provide consumer installment loans to members.

currency

Paper money that consists mainly of Federal Reserve notes. Other types of currency that were once issued by the United States include silver certificates, United States notes, and national bank notes.

D**daylight overdraft**

A negative balance in an institution's Federal Reserve Bank account at any time during the operating hours of the Fedwire Funds Service.

daylight-overdraft posting rules

A schedule used to determine the timing of debits and credits to an institution's Federal Reserve Bank account for various transactions processed by the Reserve Banks.

definitive securities

Securities that are recorded on engraved paper certificates and payable to the bearers or to specific, registered owners. (*Compare* **book-entry securities**.)

demand deposit

A deposit that the depositor has a right to withdraw at any time without prior notice to the depository institution. By law, no interest can be paid on such deposits. Demand deposits are commonly offered in the form of checking accounts.

depository institution

Financial institution that makes loans and obtains its funds mainly through accepting deposits from the public; includes commercial banks, savings and loan associations, savings banks, and credit unions.

derivative

A financial instrument whose value depends upon the characteristics and value of an underlying commodity, currency, or security.

discounting

Practice of extending credit in which the borrower endorses a negotiable instrument or other commercial paper in the borrower's portfolio over to the lender in exchange for funds from the lender in the amount of the instrument's face value less the interest due over the term of the loan, that is, the "discounted" value.

discount rate

Officially the primary credit rate, it is the interest rate at which an eligible depository institution may borrow funds, typically for a short period, directly from a Federal Reserve Bank. The law requires that the board of directors of each Reserve Bank establish the discount rate every fourteen days, subject to review and determination by the Board of Governors.

discount window (the window)

Figurative expression for the Federal Reserve facility that extends credit directly to eligible depository institutions (those subject to reserve requirements); so named because, in the early days of the Federal Reserve System, bankers would come to a Reserve Bank teller window to obtain credit.

discount window credit

Credit extended by a Federal Reserve Bank to an eligible depository institution. All discount window borrowing must be secured by collateral. Three types of discount window credit are available to eligible depository institutions:

- **primary credit**
Credit extended to generally sound depository institutions at a rate above the target federal funds rate on a very short-term basis as a backup source of funding.
- **seasonal credit**
Credit extended by a Federal Reserve Bank to depository institutions that have difficulty raising funds in national money markets to help meet temporary needs for funds resulting from regular, seasonal fluctuations in loans and deposits. The interest rate charged is based on market rates.
- **secondary credit**
Credit extended to depository institutions ineligible for primary credit, at a rate above the primary credit rate, either on a very short-term basis (when consistent with a timely return to market sources of funds) or for a longer term (to facilitate the orderly resolution of serious financial difficulties).

E

easing

Federal Reserve action to lower the federal funds rate. The action is undertaken when economic activity needs to be stimulated. (*Compare tightening.*)

Edge Act corporation (or Edge corporation)

Corporation chartered by the Federal Reserve to engage in international banking. The Board of Governors acts on applications to establish Edge Act corporations and also examines the corporations and their subsidiaries. Typically organized as a subsidiary of a bank, an Edge Act corporation may conduct activities abroad that are permissible to foreign banks abroad but that may not otherwise be permissible to U.S. banks. Named after Senator Walter Edge of New Jersey, who sponsored the original legislation to permit formation of such organizations. (*Compare agreement corporation.*)

elastic currency

Currency that can, by the actions of the central monetary authority, expand or contract in amount warranted by economic conditions.

electronic funds transfer (EFT)

Transfer of funds electronically rather than by check or cash. The Federal Reserve's Fedwire Funds Service and automated clearinghouse services are EFT systems. (EFTs subject to the Electronic Funds Transfer Act are more narrowly defined.)

Eurocurrency liabilities

A generic term referring to liabilities in a bank located in a country other than the one that issues the currency in which the liability is denominated. Despite its name, Eurocurrency need not be a liability of a European banking office nor denominated in European currency. Not to be confused with the euro, the name of the common currency of twelve (as of 2004) European Union countries.

Eurodollar deposits

Dollar-denominated deposits in banks and other financial institutions outside the United States; includes deposits at banks not only in Europe, but in all parts of the world.

excess reserves

Amount of funds held by an institution in its account at a Federal Reserve Bank in excess of its required reserve balance and its contractual clearing balance.

F

Federal Advisory Council

Advisory group made up of one representative (in most cases a banker) from each of the twelve Federal Reserve Districts. Established by the Federal Reserve Act, the council meets periodically with the Board of Governors to discuss business and financial conditions and to make recommendations.

federal agency securities

Interest-bearing obligations issued by federal agencies and government-sponsored entities, such as the Federal Home Loan Banks, the Federal Farm Credit Banks, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Tennessee Valley Authority. Some federal agency securities are backed by the U.S. government while others are not.

Federal Financial Institutions Examination Council (FFIEC)

Group of representatives of the federal banking regulatory agencies—the Board of Governors, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration—established to help maintain uniform standards for examining and supervising federally insured depository institutions.

federal funds transactions

Short-term transactions in immediately available funds—between depository institutions and certain other institutions that maintain accounts with the Federal Reserve—that involve lending balances at the Federal Reserve; usually not collateralized.

federal funds rate

Rate charged by a depository institution on an overnight loan of federal funds to another depository institution; rate may vary from day to day and from bank to bank.

Federal Open Market Committee (FOMC, or the Committee)

Twelve-voting-member committee made up of the seven members of the Board of Governors; the president of the Federal Reserve Bank of New York; and, on a rotating basis, the presidents of four other Reserve Banks. Nonvoting Reserve Bank presidents also participate in Committee deliberations and discussion. The FOMC generally meets eight times a year in Washington, D.C., to set the nation's monetary policy. It also establishes policy relating to System operations in the foreign exchange markets.

Federal Reserve Act

Federal legislation, enacted in 1913, that established the Federal Reserve System.

Federal Reserve balances

The amount of funds held by a depository institution in its account at its Federal Reserve Bank.

Federal Reserve Bank

One of the twelve operating arms of the Federal Reserve System, located throughout the nation, that together with their Branches carry out various System functions, including providing payment services to depository institutions, distributing the nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as fiscal agent for the U.S. government.

Federal Reserve District (Reserve District, or District)

One of the twelve geographic regions served by a Federal Reserve Bank.

Federal Reserve float

Float is credit that appears on the books of the depository institution of both the check writer (the payor) and the check receiver (the payee) while a check is being processed. Federal Reserve float is float present during the Federal Reserve Banks' check-clearing process. To promote efficiency in the payments system and provide certainty about the date that deposited funds will become available to the receiving depository institution (and the payee), the Federal Reserve Banks credit the accounts of banks that deposit checks according to a fixed schedule. However, processing certain checks and collecting funds from the banks on which these checks are written may take more time than the schedule allows. Therefore, the accounts of some banks may be credited before the Federal Reserve Banks are able to collect payment from other banks, resulting in Federal Reserve float.

Federal Reserve note

Paper currency issued by the Federal Reserve Banks. Nearly all the nation's circulating currency is in the form of Federal Reserve notes, which are printed by the Bureau of Engraving and Printing, a bureau of the U.S. Department of the Treasury. Federal Reserve notes are obligations of the Federal Reserve Banks and legal tender for all debts.

Federal Reserve Regulatory Service

Monthly subscription service that includes all statutes and regulations for which the Federal Reserve has responsibility, Board of Governors interpretations and rulings, official staff commentaries, significant staff opinions, and procedural rules under which the Board operates.

Federal Reserve System

The central bank of the United States, created by the Federal Reserve Act and made up of a seven-member Board of Governors in Washington, D.C., twelve regional Federal Reserve Banks, and Branches of the Federal Reserve Banks.

Fedwire Funds Service

Electronic funds transfer network operated by the Federal Reserve Banks. It is usually used to transfer large amounts of funds from one institution's account at the Federal Reserve to another institution's account. It is also used by the U.S. Department of the Treasury, other federal agencies, and government-sponsored enterprises to collect and disburse funds.

Fedwire Securities Service

Electronic vault that stores records of book-entry securities holdings and a transfer and settlement mechanism used by depository institutions to transfer custody of book-entry securities from one depository institution to another. The securities on the Fedwire Securities Service include U.S. Treasury securities, U.S. agency securities, mortgage-backed securities issued by government-sponsored enterprises, and securities of certain international organizations.

financial holding company

A bank holding company that has met the capital, managerial, and other requirements to take advantage of the expanded affiliations allowed under the Gramm-Leach-Bliley Act.

financial institution

Institution that uses its funds chiefly to purchase financial assets, such as loans or securities (as opposed to tangible assets, such as real estate). Financial institutions can be separated into two major groups according to the nature of the principal claims they issue: (1) depository institutions (also called depository intermediaries), such as commercial banks, savings and loan associations, savings banks, and credit unions, which obtain funds largely by accepting deposits from the public and (2) nondepositories (sometimes called nondepository intermediaries), such as life insurance and property-casualty insurance companies and pension funds, whose claims are the policies they sell or their promise to provide income after retirement.

fiscal agency services

Services performed by the Federal Reserve Banks for the U.S. government and other organizations, including maintaining accounts for the U.S. Department of the Treasury, paying checks and making electronic payments on behalf of the Treasury, and selling and redeeming marketable Treasury securities and savings bonds.

fiscal policy

Federal government policy regarding taxation and spending, set by Congress and the President.

flexible exchange rates

Arrangements in which the rate of exchange between countries' currencies (the foreign exchange rate) is allowed to fluctuate in response to market forces of supply and demand.

foreign currency operations

Transactions in the foreign exchange markets involving the purchase of the currency of one nation with that of another. Also called foreign exchange transactions.

foreign exchange intervention

A foreign currency operation (*see above*) designed to influence the value of the dollar against foreign currencies, typically with the aim of stabilizing disorderly markets.

foreign exchange markets

Markets in which foreign currencies are purchased and sold.

foreign exchange rate

Price of the currency of one nation in terms of the currency of another nation.

G**government securities**

Securities issued by the U.S. Treasury or federal agencies.

Gramm-Leach-Bliley Act

Federal legislation that allowed affiliations among banks, securities firms, and insurance companies under a financial holding company structure. The act reaffirmed the Federal Reserve's role as "umbrella supervisor" over organizations that control banks, while also requiring that bank regulators and functional regulators supervise subsidiaries within a financial holding company.

gross domestic product (GDP)

Total value of goods and services produced by labor and property located in the United States during a specific period.

Group of Seven (G-7)

International group made up of seven leading industrial nations—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States—whose finance ministers and central bank governors meet occasionally to discuss economic policy.

I

interest-rate risk

Risk of gain or loss in the value of a portfolio as a result of changes in market interest rates.

international banking facility

Specially designated activities of a bank located in the United States that are treated as those of an offshore bank by U.S. regulatory authorities. Dollar deposits in such a facility are considered to be Eurodollars.

International Monetary Fund (IMF)

International organization established for lending funds to member nations to promote international monetary cooperation among nations, to facilitate the expansion and balanced growth of international trade, and to finance temporary balance-of-payments deficits, usually in conjunction with macroeconomic adjustment programs.

L

liquidity

Quality that makes an asset easily convertible into cash with relatively little loss of value in the conversion process. Sometimes used more broadly to encompass cash and credit in hand and promises of credit to meet needs for cash.

liquidity risk

In banking, the risk that a depository institution will not have sufficient cash or liquid assets to meet the claims of depositors and other creditors.

M

M1

Measure of the U.S. money stock that consists of currency held by the public, traveler's checks, demand deposits, and other checkable deposits.

M2

Measure of the U.S. money stock that consists of M1, savings deposits (including money market deposit accounts), time deposits in amounts of less than \$100,000, and balances in retail money market mutual funds. Excludes individual retirement account (IRA) and Keough balances at depository institutions and retail money funds.

M3

Measure of the U.S. money stock that consists of M2, time deposits of \$100,000 or more at all depository institutions, repurchase agreements in amounts of \$100,000 or more, Eurodollars, and balances held in institutional money market mutual funds.

margin requirement

Buying on margin refers to buying stocks or securities with borrowed money (usually borrowed from a brokerage firm or bank). The margin requirement is the minimum amount (expressed as a percentage) the buyer must put up (rather than borrow). The Federal Reserve Board sets margin requirements.

market interest rates

Rates of interest determined by the interaction of the supply of and demand for funds in freely functioning markets.

market risk

The risk that a banking organization may incur losses due to the change in market value of an asset or liability on its balance sheet.

member bank

Depository institution that is a member of the Federal Reserve System. All national banks are automatically members of the System; state-chartered banks may choose to apply to join the System.

monetary aggregates

Aggregate measures through which the Federal Reserve monitors the nation's monetary assets: M1, M2, and M3.

monetary policy

A central bank's actions to influence the availability and cost of money and credit, as a means of helping to promote national economic goals. Tools of monetary policy include open market operations, direct lending to depository institutions, and reserve requirements.

monetize

Action in which a central bank purchases an object that is not money (for example, gold) and pays for it by creating balances at the central bank. The action permits an increase in the money stock.

money

Anything that serves as a generally accepted medium of exchange, a standard of value, and a means of saving or storing purchasing power. In the United States, currency (the bulk of which is Federal Reserve notes) and coin as well as funds in deposit accounts at depository institutions are examples of money.

money market

Figurative expression for the informal network of dealers and investors over which short-term debt securities are purchased and sold. Money market securities generally are highly liquid securities that mature in less than one year, often less than ninety days. (*Compare* **capital market**.)

money stock

Total quantity of money available for transactions and investment; measures of the U.S. money stock include M1, M2, and M3. (Also referred to as the money supply or, simply, money.)

mutual savings bank

Savings bank owned by its depositors (contrasted with a stock savings bank, which issues common stock to the public).

N

national bank

A commercial bank that is chartered by the Office of the Comptroller of the Currency, which is a bureau of the U.S. Department of the Treasury; by law, national banks are members of the Federal Reserve System.

net debit cap

The maximum uncollateralized daylight-overdraft position that a depository institution is permitted to incur in its Federal Reserve Bank account at any point in the day, or on average over a two-week period.

nominal interest rates

Current stated rates of interest paid or earned. (*Compare* **real interest rates**.)

nonmember bank

State-chartered commercial bank that is not a member of the Federal Reserve System.

nonpersonal time deposit

Time deposit held by a depositor other than an individual (for example, a corporation).

O**official foreign exchange reserves**

Assets denominated in foreign currencies held by a country's monetary authorities (in the United States, held by the Federal Reserve System and the Treasury Department).

open market

Freely competitive market.

open market operations

Purchases and sales of securities, typically U.S. Treasury securities, in the open market, by the Open Market Trading Desk at the Federal Reserve Bank of New York as directed by the Federal Open Market Committee, to influence interest rates. Purchases increase the supply of Federal Reserve balances to depository institutions; sales do the opposite.

outright transaction

“Permanent” purchase or sale of securities in the open market, or the redemption of securities, by the Federal Reserve to adjust the supply of balances at the Federal Reserve Banks over the long term. (Contrasts with transactions intended to adjust the supply of balances only temporarily. *See repurchase agreement and reverse repurchase agreement.*)

over the counter

Figurative term for the means of trading securities that are not listed on an organized stock exchange such as the New York Stock Exchange. Over-the-counter trading is done by broker-dealers who communicate by telephone and computer networks.

P**paper**

General term for short-term debt instruments such as commercial paper.

payments system

Collective term for mechanisms (both paper-based and electronic) for moving funds, payments, and money among financial institutions throughout the nation. The Federal Reserve plays a major role in the nation's payments system through distribution of currency and coin, pro-

cessing of checks, and electronic transfer of funds; various private organizations also perform payments system functions.

portfolio

Collection of loans or assets, classified by type of borrower or asset. For example, a bank's portfolio might include loans, investment securities, and assets managed in trust; the loan portfolio might include commercial, mortgage, and consumer installment loans.

presentment fee

Fee that a bank receiving a check imposes on the bank collecting payment.

prompt corrective action

Supervisory framework, created under the Federal Deposit Insurance Corporation Improvement Act of 1991, that links enforcement actions closely to the level of capital held by banks.

R

real interest rates

Interest rates adjusted for the expected erosion of purchasing power resulting from inflation. Technically defined as nominal interest rates minus the expected rate of inflation. (*Compare* **nominal interest rates**.)

reciprocal currency (swap) arrangements

Short-term reciprocal arrangements between a Federal Reserve Bank and individual foreign central banks. By drawing on a swap the foreign central bank obtains dollars that can be used to conduct foreign exchange intervention in support of its currency or to lend to its domestic banking system to satisfy temporary liquidity demands. For the duration of the swap, the Federal Reserve Bank obtains an equivalent amount of foreign currency along with a commitment from the foreign central bank to repurchase the foreign currency at a preset exchange rate.

Reports of Condition and Income

Quarterly financial report that all banks, savings and loan associations, Edge and agreement corporations, and certain other types of organizations must file with a federal regulatory agency. Informally called a Call Report.

repurchase agreement (RP or repo)

A transaction in which the Federal Reserve enters into an agreement with a primary dealer to acquire securities from the dealer for a specified

principal amount at an agreed-upon interest rate and to return the securities on a specified future date. The maturity date may be the next day or many days later, with the maximum length set by the FOMC. These transactions permit the Federal Reserve to increase the supply of Federal Reserve balances for the length of the agreement.

required reserve balance

That portion of its required reserves that a depository institution must hold in an account at a Federal Reserve Bank. This portion is the difference between the institution's reserve requirement and its vault cash.

required reserve ratio

The percentage of reservable liabilities that depository institutions must set aside in the form of reserves.

required reserves

Funds that a depository institution is required to maintain in the form of vault cash or, if vault cash is insufficient to meet the requirement, in the form of a balance maintained directly with a Reserve Bank or indirectly with a pass-through correspondent bank. The required amount varies according to the required reserve ratios set by the Board and the amount of reservable liabilities held by the institution.

reservable liabilities

Those obligations on a depository institution's balance sheet that are subject to reserve requirements. Transaction deposits, nonpersonal time deposits, and Eurocurrency liabilities are all subject to reserve requirements; however, the required reserve ratios for nonpersonal time deposits and Eurocurrency liabilities are zero.

reserve requirements

Requirements set by the Board of Governors for the amounts of certain liabilities that depository institutions must set aside in the form of reserves.

reverse repurchase agreement

A transaction—the opposite of a repurchase agreement—in which the Federal Reserve enters into an agreement with a primary dealer to sell securities from the System portfolio for a specified principal amount at an agreed-upon interest rate and to receive the securities back from the dealer on a specified future date. The maturity date may be the next day or many days later, with the maximum length set by the FOMC. These transactions permit the Federal Reserve to decrease the supply of Federal Reserve balances for the length of the agreement.

S

savings and loan association (S&L)

Historically, depository institution that accepted deposits mainly from individuals and invested heavily in residential mortgage loans; although still primarily residential lenders, S&Ls now have many of the powers of commercial banks.

savings bank

Depository institution historically engaged primarily in accepting consumer savings deposits and in originating and investing in residential mortgage loans; now may offer checking-type deposits and make a wider range of loans. (*Compare* **commercial bank**.)

savings bond

A nonmarketable debt obligation of the U.S. government. Savings bonds are available in both paper and book-entry form and can be purchased with an initial investment of as little as \$25. Investors can purchase paper savings bonds in person from many depository institutions, by mail from a Reserve Bank or the Treasury, or online. Book-entry bonds are available from the Treasury online.

securities

Paper certificates (definitive securities) or electronic records (book-entry securities) evidencing ownership of equity (stocks) or debt obligations (bonds).

securitization

The process of packaging and selling similar financial instruments, such as loans and other receivables, in the form of “asset-backed” securities that can be traded on secondary markets. Securitization allows financial institutions to transfer some of the risks of ownership to parties more willing or able to manage them.

self-regulatory organizations

Associations of broker-dealers or others that have responsibility, under the oversight of the Securities and Exchange Commission, to regulate their own members through the adoption and enforcement of rules of conduct for fair, ethical, and efficient practices. Examples include the National Association of Securities Dealers and the New York Stock Exchange.

settlement

In banking, the process of recording the debit and credit positions of two parties in a transfer of funds. Also, the delivery of securities by a seller and the payment by the buyer.

shock

Unanticipated or unusual event that has a noticeable impact on the economy or a financial system.

special drawing rights (SDRs)

Type of international reserve asset created by the International Monetary Fund and allocated, on occasion, to the nations that are members of the IMF.

state bank

Bank that is chartered by a state; may or may not be a member of the Federal Reserve System.

subsidiary

Company that is controlled by another corporation (called the parent corporation), typically through stock ownership or voting control.

substitute check

A paper reproduction of an original check that contains an image of the front and back of the original check and is suitable for automated processing, just as the original check is. The Check Clearing for the 21st Century Act, commonly known as Check 21, allows depository institutions to truncate original checks, process check information electronically, and deliver substitute checks to depository institutions if they require paper checks.

swap

An agreement between two parties to exchange cash flows of underlying securities. For example, in an interest rate swap, the most common type of swap, one party agrees to pay a fixed interest rate in return for receiving a variable rate from the other party.

swap arrangement

See **reciprocal currency arrangement**.

System Open Market Account

The Federal Reserve's portfolio of U.S. Treasury securities. Purchases and sales in this account—open market operations—are under the overall supervision of the manager of the System Open Market Account, subject to the policies and rules of the Federal Open Market Committee.

systemic risk

Risk that a disruption at a firm, in a market segment, to a settlement system, or in a similar setting will cause widespread difficulties at other firms, in other market segments, or in the financial system as a whole.

T

thrift institution

A general term encompassing savings banks, savings and loan associations, and credit unions.

Thrift Institutions Advisory Council

Group established by the Board of Governors to obtain information and opinions on the needs and problems of thrift institutions. Made up of representatives of savings and loan associations, savings banks, and credit unions.

tightening

Federal Reserve action to raise interest rates. Undertaken when inflation is a concern. (*Compare* **easing**.)

time deposit

Funds deposited in an account that has a fixed term to maturity and technically cannot be withdrawn before maturity without advance notice (for example, a certificate of deposit). Time deposits may earn interest.

Trading Desk (the Desk)

The group at the Federal Reserve Bank of New York that conducts open market operations for the Federal Reserve System and intervenes in foreign currency markets for the Federal Reserve and Treasury.

transaction account

A checking account or similar deposit account from which transfers of funds can be made. Demand deposit accounts, NOW (negotiable order of withdrawal) accounts, and credit union share draft accounts are examples of transaction accounts.

U

U.S. Treasury securities

Obligations of the U.S. government issued by the U.S. Department of the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. All marketable Treasury securities have a minimum purchase amount of \$1,000 and are issued in \$1,000 increments. There are three types of marketable Treasury securities: bills, notes, and bonds.

- **Treasury bill (T-bill)**

Short-term U.S. Treasury security having a maturity of up to one year. T-bills are sold at a discount. Investors purchase a bill at a price lower than the face value (for example, the investor might buy a

\$10,000 bill for \$9,700); the return is the difference between the price paid and the amount received when the bill is sold or it matures (if held to maturity, the return on the T-bill in the example would be \$300).

- **Treasury note**

Intermediate-term security having a maturity of one to ten years.

Notes pay interest semiannually, and the principal is payable at maturity.

- **Treasury bond**

Long-term security having a maturity of longer than ten years. Bonds pay interest semiannually, and the principal is payable at maturity.

The Treasury Department also issues several types of nonmarketable securities, including savings bonds.

V

vault cash

Cash on hand at a depository institution to meet day-to-day business needs, such as cashing checks for customers. Can be used to satisfy the institution's reserve requirement.

W

wire transfer

Electronic transfer of funds; usually involves large-dollar payments.