The Federal Reserve System
Purposes & Functions

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Based on and derived from The Federal Reserve System: Purposes and Functions

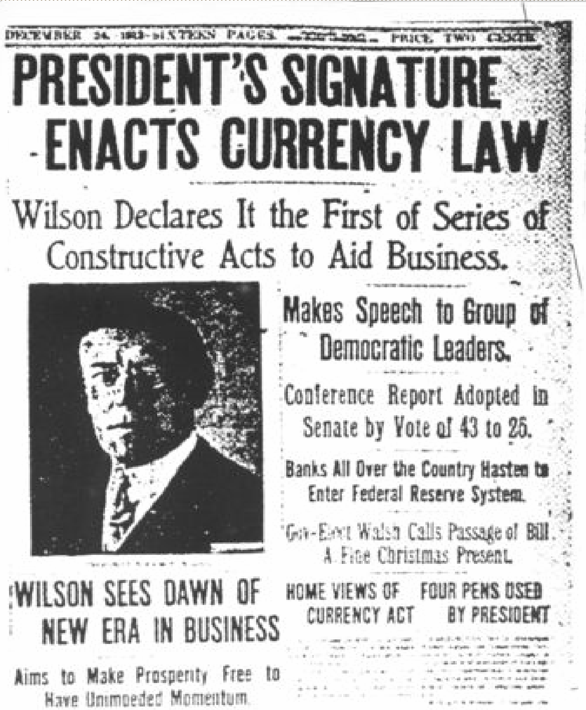
Outline

- **Overview of the Federal Reserve System**
- Monetary policy and the economy
- Implementation of monetary policy
- The Federal Reserve in the international sphere
- Supervision and Regulation
- Consumer and Community Affairs

The Federal Reserve's Functions

- Conduct the nation's monetary policy in pursuit of full employment and stable prices
- Supervise and regulate banking institutions, so as to ensure the safety and soundness of the nations banking and financial system and to protect the credit rights of consumers
- Maintain the stability of the financial system and contain systemic risk that may arise in financial markets
- Provide financial services to the U.S. government, public, financial institutions, and foreign official institutions.

Macroeconomic Objectives



PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 26.

Banks All Over the Country Hasten to Enter Federal Reserve System.

A Fine Christmas Present.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to Have Unimpeded Momentum.

HOME VIEWS OF CURRENCY ACT

FOUR PENS USED BY PRESIDENT

President Woodrow Wilson signed the Federal Reserve Act December 23rd 1913.

- Economic Growth in line with the economy's potential to expand;
- A high level of employment;
- Stable prices;
- Moderate long-term interest rates.

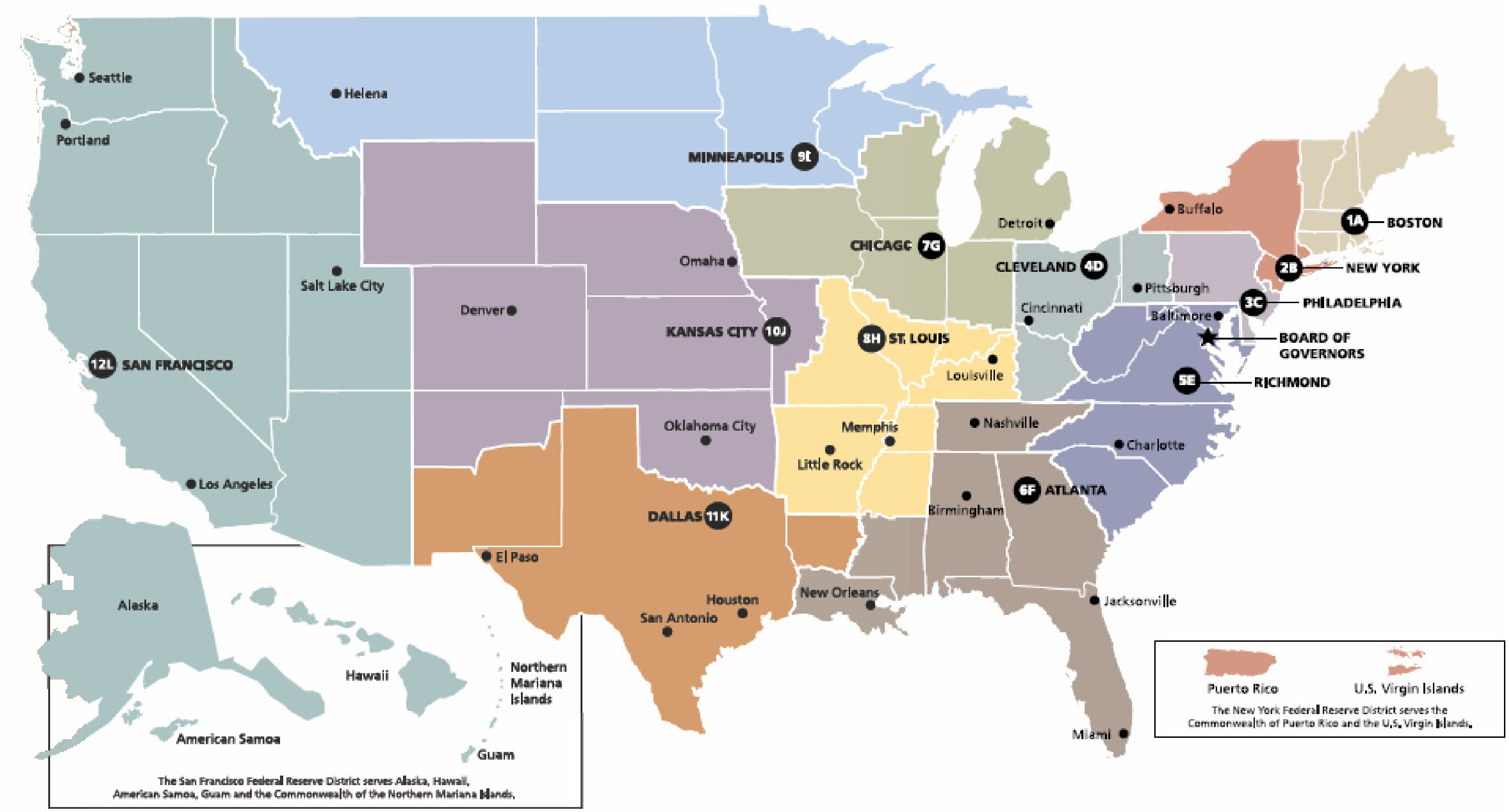
Structure of the System

- **Board of Governors, Washington D.C**
  - **7 governors, appointed by the President, confirmed by Senate**
  - **Staff of 1800, including 250 economists**
- 12 Federal Reserve Banks

Structure of the System

- Board of Governors, Washington D.C
- **12 Federal Reserve Banks**
  - **9 member Board of Directors**
    - **3 members appointed by Board of Governors**
    - **6 members elected by member banks**
    - **25 total banks and branch offices as of 2004**

Federal Reserve Banks and Branches



Sources of Income

- Primarily from interest on U.S. government securities acquired through open market operations: $36 billion in 2006
- Other sources: interest on foreign currency investments, interest on loans to depository institutions: $477 million in 2006
- Fees received for services provided to depository institutions: $909 million in 2006
  - Check clearing
  - Funds transfers
  - Automated clearinghouse operations
- After dividends are paid to member banks ($871 million), profits are deposited into U.S. Treasury—$28.5 billion 2006.

2005 Income and Expenses

Thousands of dollars

Item	Total
CURRENT INCOME	
Loans	7,453
U.S. Treasury securities	28,958,637
Foreign currencies	282,772
Priced services	900,959
Compensation received for check services provided[1]	483,381
Other	96,154
Total	30,729,357
CURRENT EXPENSES	
Salaries and other personnel expenses	1,345,171
Retirement and other benefits	398,173
Net periodic pension costs[2]	−7,183
Fees	110,156
Travel	58,849
Software expenses	123,740
Postage and other shipping costs	91,465
Communications	39,198
Materials and supplies	44,739
Building expenses	
Taxes on real estate	32,431
Property depreciation	88,592
Utilities	37,424
Rent	37,165
Other	34,872
Equipment	
Purchases	25,873
Rentals	5,173
Depreciation	91,517
Repairs and maintenance	78,727
Earnings-credit costs	212,773
Compensation paid for check services costs incurred[1]	483,381
Other	68,829
Recoveries	−88,186
Expenses capitalized[3]	−26,794
Total	3,286,085
Reimbursements	−396,540
Net expenses	2,889,544

2005 Income and Expenses cont…

PROFIT AND LOSS

Current net income	27,839,813
Additions to and deductions from (–) current net income[4]	
Other additions	933
Losses on foreign exchange transactions	–2,723,131
Interest expense on reverse repurchase agreements	–808,808
Other deductions	–45,875
Total deductions	**–3,577,814**
Net addition to or deduction from (–) current net income	–3,576,881
Cost of unreimbursed Treasury services	22
Assessments by Board	
Board expenditures[5]	265,742
Cost of currency	477,087
Net income before payment to U.S. Treasury	23,520,080
Dividends paid	780,863
Payments to U.S. Treasury (interest on Federal Reserve notes)	21,467,545
Transferred to/from surplus	1,271,672
Surplus, January 1	11,629,504
Surplus, December 31	12,901,176

Operations of Principal Departments

Operation	2005	2004	2003	2002
Millions of pieces (except as noted)				
Currency processed	36,463	36,242	34,832	34,208
Currency destroyed	6,551	6,748	7,375	8,363
Coin received[1]	56,080	55,655	48,138	**43,445**
Checks handled				
U.S. government checks	215	234	267	289
Postal money orders	176	187	198	216
Other	12,195	13,904	15,806	16,587
Government securities transfers	22	20	20	17
Transfer of funds	132	125	123	115
Automated clearinghouse transactions				
Commercial	7,339	6,486	5,588	4,986
Government	964	941	914	883
Food stamps redeemed	1	48	287	500
Millions of dollars				
Currency processed	639,832	625,127	584,915	565,302
Currency destroyed	83,187	90,943	101,338	92,511
Coin received[1]	5,412	5,403	4,879	**4,579**
Checks handled				
U.S. government checks	250,865	277,649	308,055	307,627
Postal money orders	28,395	29,045	29,197	30,161
Other	14,379,874	14,287,740	15,431,625	15,033,298
Government securities transfers	368,896,819	313,425,252	267,644,194	228,907,121
Transfer of funds	518,546,592	469,898,863	436,706,269	405,761,750
Automated clearinghouse transactions				
Commercial	12,801,914	12,543,907	13,951,600	13,135,350
Government	3,156,556	2,913,189	2,810,283	2,711,384
Food stamps redeemed	2	239	1,510	2,543

Employment

Federal Reserve Bank (including Branches)	President[1]	Other officers		Employees			Total	
	Salary (dollars)[2]	Number	Salaries (dollars)[2]	Number: Full-time	Number: Part-time	Salaries (dollars)[2]	Number	Salaries (dollars)[2]
Boston[3]	355,600	62	10,095,965	927	98	59,160,815	1,088	69,612,380
New York	327,800	271	50,656,321	2,594	54	196,934,336	2,920	247,918,457
Philadelphia	293,700	53	7,735,500	912	36	48,862,872	1,002	56,892,072
Cleveland	249,000	60	8,780,700	1,481	36	70,106,859	1,578	79,136,559
Richmond	262,800	69	9,771,300	1,629	67	91,936,492	1,766	101,970,592
Atlanta	355,600	77	12,185,600	1,917	41	101,452,089	2,036	113,993,289
Chicago[3]	355,600	84	12,367,949	1,325	57	81,933,636	1,467	94,657,185
St. Louis	295,700	73	10,227,500	972	54	51,984,088	1,100	62,507,288
Minneapolis	355,600	43	6,221,000	1,164	121	60,410,547	1,329	66,987,147
Kansas City	323,800	73	10,761,200	1,237	47	66,213,955	1,358	77,298,955
Dallas	262,800	54	7,838,405	1,199	25	60,943,991	1,279	69,045,196
San Francisco	310,700	73	12,606,008	1,626	30	106,306,340	1,730	119,223,048
Federal Reserve Information Technology	. . .	36	5,432,900	700	3	56,009,962	739	61,442,862
Office of Employee Benefits	. . .	7	1,412,100	34	0	2,721,309	41	4,133,409
Total	**3,748,700**	**1,035**	**166,092,448**	**17,717**	**669**	**1,054,977,290**	**19,433**	**1,224,818,438**

Federal Open Market Committee

- Membership
  - 7 members of the Board of Governors;
  - President of the Federal Reserve Bank of New York;
  - President from 4 other Federal Reserve Banks, on a rotating basis.
- Responsibilities
  - Oversee open market operations
  - Set discount rate

Other Federal Reserve Councils

- **Federal Advisory Council:** One member from each Federal Reserve District. Required by law to meet four times each year with the Board of Governors in Washington, D.C., to discuss banking matters.
- **Consumer Advisory Council:** 30 members. Meets with the Board three times a year on matters concerning consumers and consumer credit protection laws.
- **Thrift Institutions Advisory Council:** is not a statutory mandated body. Meets with the Board three times a year to discuss special needs and problems of thrift institutions.

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Monetary Policy and the Economy

- **Goals of monetary policy**
- How monetary policy affects the economy
- Limitations of monetary policy
- Guides to monetary policy

Goals of Monetary Policy

- Spelled out in the Federal Reserve Act, which specifies that the Board and FOMC should seek "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."
- In the long run price stability can help achieve maximum sustainable output growth and employment. In the short run some tension can exist between the two goals.
- Beyond the level of prices and output, the Federal Reserve can contribute to financial stability by acting to contain financial disruptions and preventing their spread outside the financial sector.

Monetary Policy and the Economy

- Goals of monetary Policy
- **How monetary policy affects the economy**
- Limitations of monetary policy
- Guides to monetary policy

How monetary policy affects the economy

- The Federal Reserve’s Open Market Desk sets the federal funds rate via daily intervention in the Treasury security RP market in NYC
- The federal funds rate is the interest rate at which depository institutions buy/sell deposits at the Federal Reserve Banks
- The federal funds rate and Treasury RP rates are benchmarks for overnight rates (effect primary dealer cost-of-carry for their inventories of Treasury securities)
- The FOMC sets a target for the federal funds rate at a level it believes will foster stable prices and employment.

How monetary policy affects the economy

- Short-term rates (such as Treasury bill rates) tend to follow the federal funds rate up and down
- In general:
  - If the economy slows and employment softens, policy makers will be inclined to ease monetary policy (lower rates) to stimulate aggregate demand—so long as inflation isn't increasing
  - If the economy is expanding and inflation is rising, policy makers will be inclined to tighten monetary policy (raise rates) to constrain inflationary pressures—especially when employment is increasing.

Monetary Policy and the Economy

- Goals of monetary policy
- How monetary policy affects the economy
- **Limitations of monetary policy**
- Guides to monetary policy

Limitations

- Many things affect aggregate demand and supply. Monetary policy is only one of them.
- Some can be anticipated, such as changes in fiscal policy that change taxes and spending
- Others are totally unpredictable and influence the economy in unforeseen ways, such as
  - Demand side: shifts in consumer and business confidence, and changes in the lending posture of commercial banks.
  - Supply side: natural disasters, disruptions in the oil market, financial crises, agricultural losses, and changes in productivity growth.

Monetary Policy and the Economy

- Goals of monetary policy
- How monetary policy affects the economy
- Limitations of monetary policy
- **Guides to monetary policy**

Guides to Monetary Policy

Although the goals of monetary policy are clearly spelled out in law, the means to achieve those goals are not. For this reason, some have suggested that the Federal Reserve pay close attention to guides that are intermediate between its target rate and the economy.

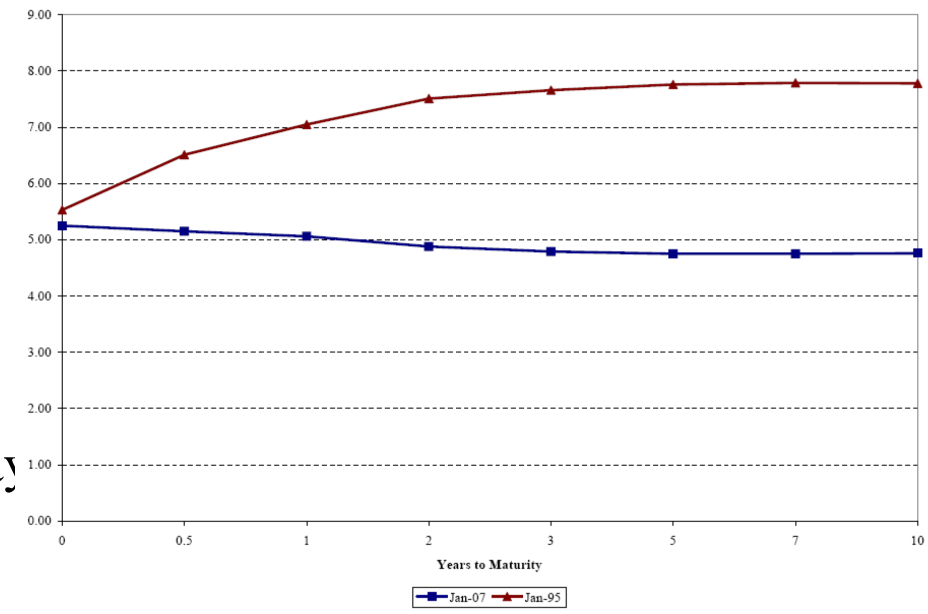
Guides to Monetary Policy

- **Monetary aggregates**
  - M1: Currency + checkable deposits
  - M2: M1 + savings deposits + retail money market mutual funds (except retirement accounts)
- **Interest rates (Yield curve)**
- The "Taylor Rule"
- Foreign exchange rates

The Yield Curve

The yield curve is the difference between the interest rate on a longer-term and shorter term instruments, Example: (January 2007):

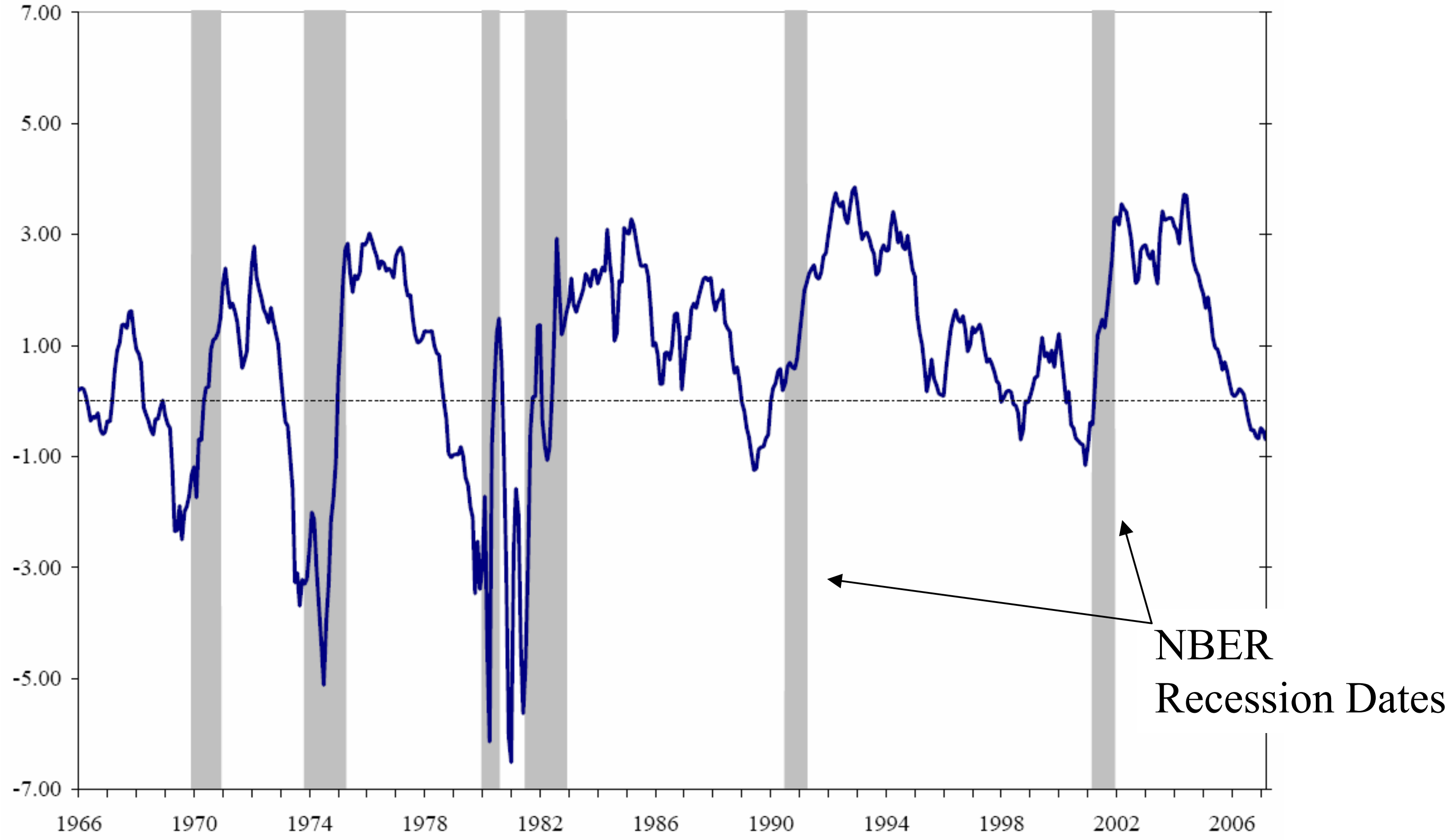
Fed Funds Rate	=	5.25%
10-yr Bond Rate	=	4.76%
Yield Curve	=	-0.49%



If the yield curve is “steeply” positive it may be a signal that monetary policy is too expansive.

If the yield curve is negative, it may be a signal that monetary policy is too restrictive.

10-year Bond minus Fed Funds Rate



The yield curve predicted 12 of the last 9 recessions!?

Yield Curve Inversions and Cycle Peaks					NBER Business Cycle Peaks*				
Beginning month	Duration (months)	Max spread	Next peak	Month to peak*	Peak	Previous inversion*	Duration (months)	Max spread	Lead (months)*
Jan 1966	1	–.10	Dec 1969	47	Jul 1953	—			
Sep 1966	6	–.49	Dec 1969	39	Aug 1957	—			
Dec 1968	3	–.28	Dec 1969	12	Apr 1960	—			
Apr 1969	1	–.17	Dec 1969	8	Dec 1969	Jun 1969	9	–.51	6
Jun 1969	9	–.51	Dec 1969	6	Nov 1973	Jun 1973	16	–1.6	5
Jun 1973	16	–1.6	Nov 1973	5	Jan 1980	Nov 1978	18	–3.3	14
Nov 1974	1	–.04	Jan 1980	62	Jul 1981	Oct 1980	12	–3.5	9
Nov 1978	18	–3.3	Jan 1980	14	Jul 1990	Nov 1989	2	–.16	8
Oct 1980	12	–3.5	Jul 1981	9	Mar 2001	Jul 2000	7	–.70	8
Jun 1989	2	–.16	Jul 1990	13					
Nov 1989	2	–.08	Jul 1990	8					
Jul 2000	7	–.70	Mar 2001	8					

NOTE: * Number of months between initial inversion and cycle peak.

In Short, the variability of inversions episodes suggests caution when interpreting changes in the yield curve.

Guides to Monetary Policy

- Monetary aggregates (M1,M2,M3)
- Interest rates (Yield curve)
- **The "Taylor Rule"**
- Foreign exchange rates

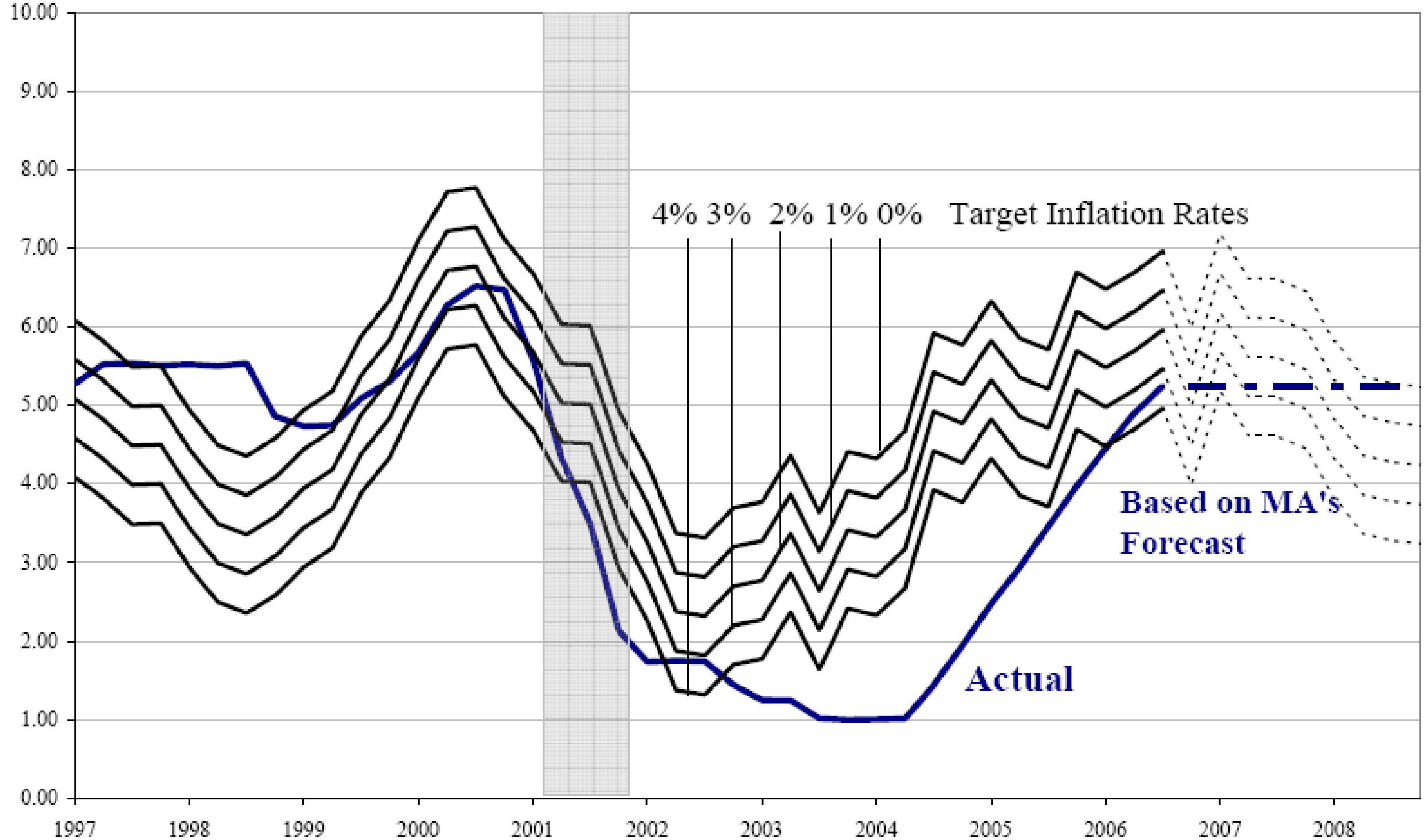
The Taylor Rule

- Equation proposed in 1993 by Stanford economist John Taylor to describe Greenspan’s 1988-1992 policymaking.
- Today, widely used to describe Fed policymaking process.
- The rule proposes that the target federal funds rate should be set as the sum of three factors:
  - The level of a market-determined “real” overnight rate when the economy is quietly growing at its potential
  - The distance between actual inflation and the desired targeted rate
  - The distance between actual output (GDP) and the desired/estimated potential level (the “full employment” level)
- The rule recommends:
  - When inflation increases, increase the federal funds rate target by more than the inflation increase
  - Respond to both inflation and GDP growth

The Taylor Rule

- $i = \pi + r^* + 0.5(\pi - \pi^*) + 0.5(y)$,
- where:
  - i = federal funds rate,
  - r^* = equilibrium real federal funds rate,
  - π = actual inflation rate,
  - π^* = target inflation rate,
  - y = output gap $(100(y^r - y^p)/y^p)$.
- Taylor gave equal weights to output and inflation.

The Taylor Rule



Guides to Monetary Policy

- Monetary aggregates (M1,M2,M3)
- Interest rates (Yield curve)
- The "Taylor Rule"
- Foreign exchange rates
  - Interpreting the meaning of exchange rate movements can be difficult, but new data is available throughout the day.
  - In general, a decline (increase) in the value of the dollar could indicate that monetary policy has become (or is expected to become) more accommodative (restrictive).

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Implementation of Monetary Policy

- **The market for federal reserve balances**
- Controlling the federal funds rate
- The discount window

The market for reserve balances

Securities portfolio
- holdings of U.S. Treasury securities and repurchase agreements
- purchases or sales of securities are called open market operations
- purchases increase balances

Required reserve balances
- held to satisfy reserve requirements
- do not earn interest

Loans
- credit extended to depository institutions through discount window
- making a loan increases balances

Contractual clearing balances
- held to meet contractually agreed-upon amount
- generate earnings credits that defray cost of Federal Reserve priced services

Autonomous factors
- other items on the Federal Reserve's balance sheet such as Federal Reserve notes, Treasury's balance at the Federal Reserve, and Federal Reserve float
- can add or drain balances

Excess reserves
- held to provide additional protection against overnight overdrafts and reserve or clearing balance deficiencies

Consolidated balance sheet of the Federal Reserve Banks, December 31, 2004

Millions of dollars

Assets		Liabilities	
Securities	717,819	Federal Reserve notes	719,436
Repurchase agreements	33,000	Reverse repurchase agreements	30,783
Loans	43	Balance, U.S. Treasury account	5,912
Float	927	Other liabilities and capital	27,745
All other assets	56,130	Balances, all depository institutions	24,043

Implementation of Monetary Policy

- The market for federal reserve balances
- **Controlling the Federal Funds rate**
- The discount window

Controlling the Federal Funds rate

- Open market operations: The New York Fed buys and sells Treasury securities under both repurchase agreements and outright sales/purchases
- Few banks are constrained by statutory reserve requirements today
- The most important demand for deposits at Federal Reserve Banks is for clearing checks and electronic payments
- The day-to-day demand for deposits at the Federal Reserve is the more important

Controlling the Federal Funds rate

Reserve requirement ratios, 2004

Category	Reserve requirement
Net transaction accounts	
$0 to $6.6 million	0 percent of amount
Over $6.6 million and up to $45.4 million	3 percent of amount
Over $45.4 million	$1,164,000 plus 10 percent of amount over $45.4 million
Nonpersonal time deposits	0 percent
Eurocurrency liabilities	0 percent

Implementation of Monetary Policy

- The market for federal reserve balances
- Controlling the federal funds rate
- **The discount window**
  - **Functions**
  - **Types of credit**
  - **Collateral**

The discount window

- Two primary functions
  - Makes Federal Reserve balances available to depository institutions on demand – at a penalty rate, subject to previously deposited collateral
  - Serves as a backup source of liquidity for individual depository institutions
- Although the volume of discount window borrowing is relatively small, it plays an important role in containing upward pressures on the federal funds rate.

Types of Credit

- Primary Credit
  - Available on demand to sound depository institutions.
  - Collateral backing required
  - Expected to be used as a backup, rather than a regular, source of funding.
  - Interest charge is 100 basis points above the FOMC target
- Secondary Credit
  - For those institutions that are not eligible for primary credit.
  - It is extended on a short term basis, typically overnight.
  - The rate on secondary credit is typically 50 basis points above primary credit.
  - Secondary credit may not be used to fund an expansion of the borrowers assets.

Discount window collateral

- By law, all discount window loans must be secured by collateral to the satisfaction of the lending Reserve Bank.
- Most loans that are not past due and most investment-grade securities held be depository institutions are acceptable as collateral.
- Reserve Banks must be able to establish a legal right in the event of default to be first in line to take possession of and, if necessary, sell all collateral that secures discount window loans.

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International Sphere

- **International linkages**
- Foreign currency operations
- International Banking

Linkages

- U.S. monetary policy actions influence exchange rates. The dollar’s exchange value, in terms of other currencies
- The dollar’s exchange value is one of the channels through which U.S. monetary policy affects the U.S. economy.

For example:

Fed raises interest rates→ the exchange value of the dollar would generally rise→ increasing the price of U.S goods traded in foreign currency and lowering the price of imports→ restraining exports and boosting imports.

International Sphere

- International linkages
- **Foreign currency operations**
  - Sterilization
  - U.S. foreign currency resources
- International Banking

Foreign Exchange Intervention

- The Fed buys and sells dollars in exchange for foreign currency—under the direction of the FOMC and cooperation with the U.S. Treasury, which has overall responsibility for U.S. international financial policy.
- Under flexible exchange rates, the main aim of the Fed has been to counter disorderly conditions in exchange markets through the purchase of sale of foreign currencies (called foreign exchange intervention operations)
- The Fed offsets, or “sterilizes,” the effects of intervention through open market operations; otherwise the intervention could cause the fed funds rate to move away from the target.
- The main source of foreign currencies used in U.S. intervention operations currently is U.S. holdings of foreign exchange reserves valued at about $40 billion.

International Sphere

- International linkages
- Foreign currency operations
- **International banking**

International Banking

- The Fed is interested in the international activities of banks, both domestic and foreign
- Such activities often substitute for domestic banking activities
- Need to be monitored to interpret U.S. monetary and credit conditions.
- Much of the activity of foreign branches and subsidiaries of U.S. banks has been Eurocurrency business (US dollar-denominated deposits offshore).

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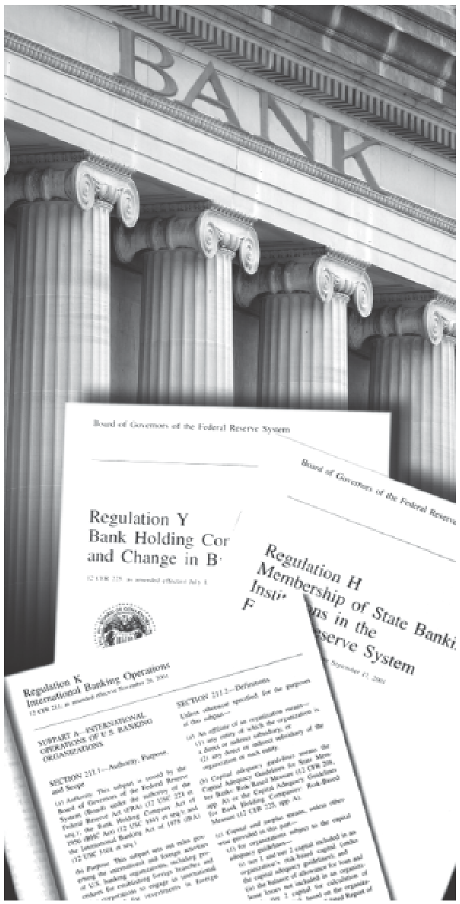
Supervision and Regulation



- **Responsibilities of the federal banking agencies**
- Supervisory process
- Regulatory functions

The Agencies

- Shared responsibility with:
  - the Office of the Comptroller of the Currency (OCC),
  - the Federal Deposit Insurance Corporation (FDIC),
  - and the Office of Thrift Supervision (OTS) at the federal level,
  - State banking departments.
- Banks chartered by the state government are referred to as state banks; banks that are charted by the OCC are referred to as national banks.

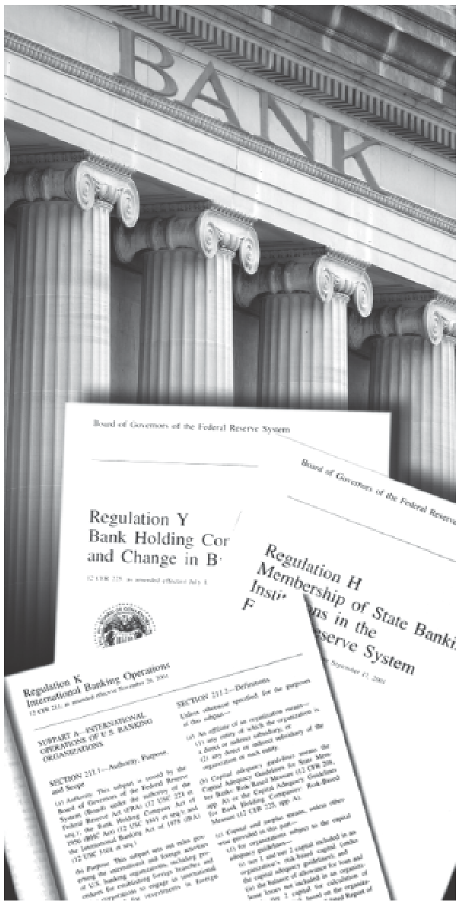
Federal Reserve Responsibilities

- The Fed has primary authority for state banks that elect to become members of the Federal Reserve System.
- State banks that are not members are supervised by the FDIC.
- The OCC supervises national banks. All national banks must become members of the Federal Reserve System.
- The Fed has supervisory authority for all bank holding companies.

Federal supervisor and regulator of corporate components of banking organizations in the United States

Component	Supervisor and regulator
Bank holding companies (including financial holding companies)	FR
Nonbank subsidiaries of bank holding companies	FR/Functional regulator[1]
National banks	OCC
State banks	
Members	FR
Nonmembers	FDIC
Thrift holding companies	OTS
Savings banks	OTS/FDIC/FR
Savings and loan associations	OTS
Edge and agreement corporations	FR
Foreign banks[2]	
Branches and agencies[3]	
State-licensed	FR/FDIC
Federally licensed	OCC/FR/FDIC
Representative offices	FR

Supervision and Regulation



- Responsibilities of the federal banking agencies
- **Supervisory process**
- Regulatory functions

Supervisory Process

- Main objective: evaluate and maintain the over-all safety and soundness of the banking organization.
- Supervisory process:
  - On-site examinations and inspections: typically every 12 months.
  - Off-site surveillance and monitoring: Banks that have assets of less than $250 million and that meet certain management, capital, and other criteria may be examined once every 18 months.

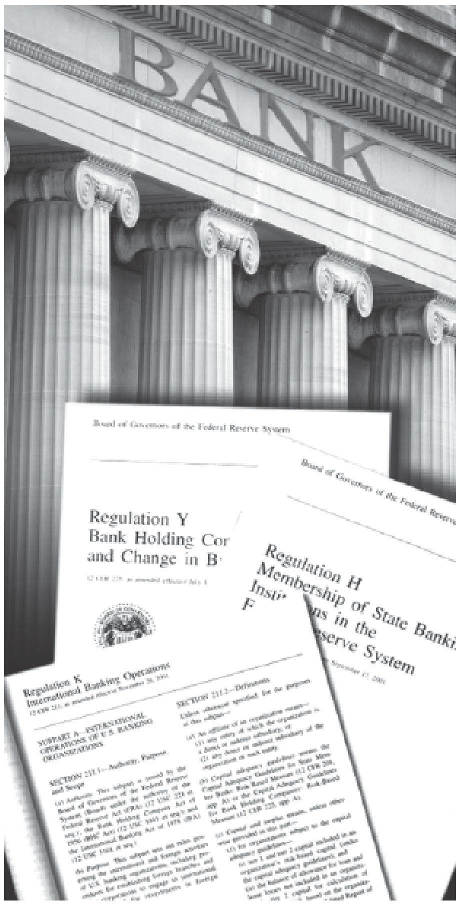
Supervisory process

- Risk-focused supervision
- Supervisory rating system
- Financial Regulatory Reports
- Off-site monitoring
- Accounting policy and disclosure
- **Anti-Money-Laundering Program**
- Business continuity
- Other Supervisory Activities
  - Enforcement
  - Supervision of international operations of U.S. banking organizations
  - Supervision of U.S. activities of Foreign Banking Organizations
  - Supervision of transactions with affiliates

Anti-money-laundering program

- To enhance domestic security following 9/11, Congress passed the USA Patriot Act, which contained provisions for fighting international money laundering and for blocking terrorists' access to the U.S. financial system. The provisions of the act that affect banking organizations were generally set for as amendments to the Bank Secrecy Act (BSA), which was enacted in 1970.
- The BSA requires financial institutions doing business in the United States to report large currency transitions and to retain certain records, including information about personal involved in the large currency transactions and about suspicious activity related to possible violations of federal law.
- The Treasury maintains primary responsibility for issuing and enforcing regulations. However the Treasury has delegated to the agencies responsibility for monitoring banks' compliance with BSA.

Supervision and Regulation



- Responsibilities of the federal banking agencies
- Supervisory process
- **Regulatory functions**

Regulatory functions

- Bank mergers
  - If the resulting institution would be a state member bank, the Fed must act on the proposed bank merger in accordance with the Bank Merger Act of 1960.
- Bank acquisitions
  - Under the Bank Holding Company Act, a firm that seeks to become a bank holding company must first obtain approval from the Fed.
- Capital adequacy standards
  - Financial disclosures by state member banks
  - Securities credit
- CASSIDI

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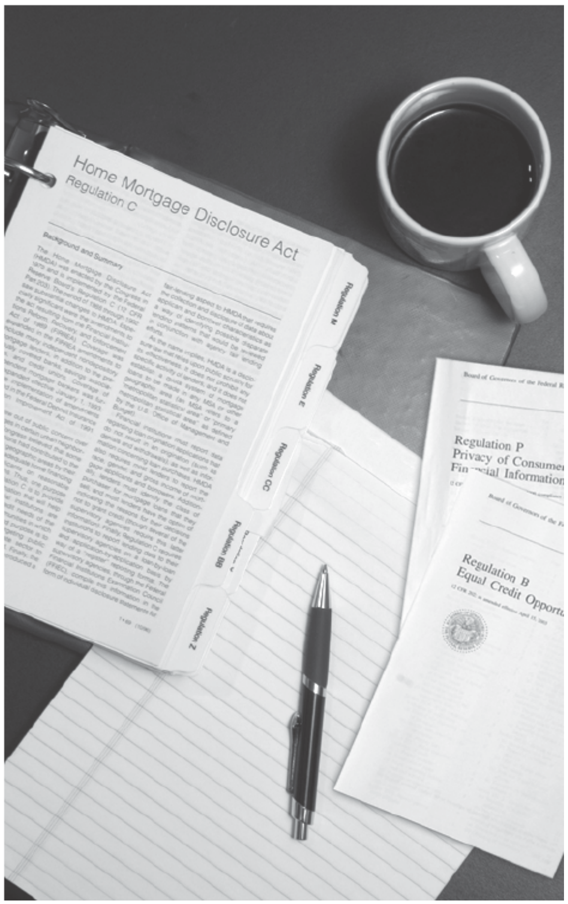
Consumer Protection and Community Affairs

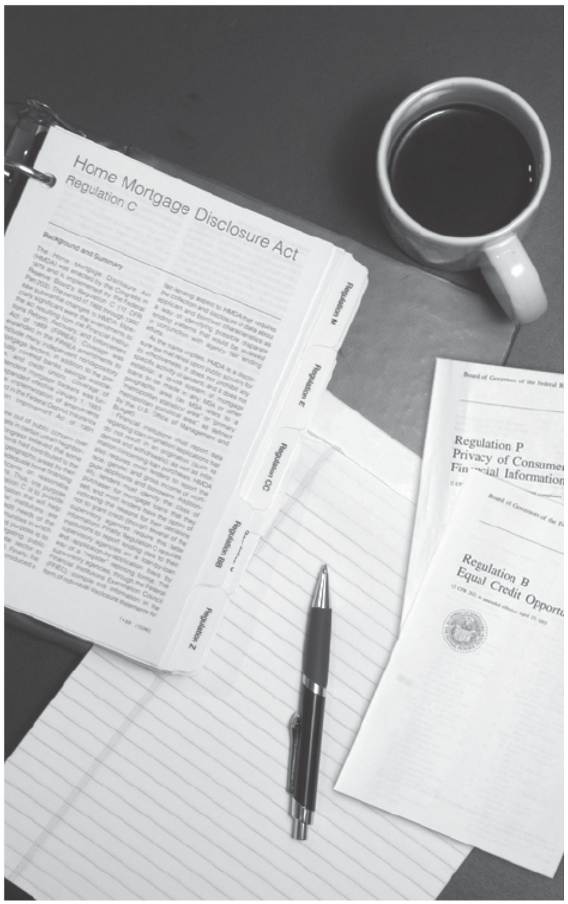


- **Community Affairs**
- Consumer Protection

Community Affairs

- **Each office responds to local needs and establishes its own programs to**
  - foster depository institutions' active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets;
  - encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners;
  - develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations; and
  - promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs.

Consumer Protection and Community Affairs



- Community Affairs
- **Consumer Protection**
  - **Writing and interpreting regulations**
  - **Educating consumers about consumer protection laws**
  - **Enforcing consumer protection laws**
  - **Consumer complaint program**
  - **Consumer Protection Laws**

Consumer protection

- Writing and interpreting regulations
  - Congress Passed the Truth in Lending Act to ensure consumer had adequate information about credit. The Fed implemented that law by writing Regulation Z, which requires banks and other creditors to provide detailed information to consumers about the terms and cost of consumer credit for mortgages, car loans, credit and charge cards and other credit products.
- Educating consumers about protection laws
  - The board maintains a consumer information website with educational materials related to consumer protection. In addition the board staff uses consumer surveys and focus groups to learn more about what issues are important to consumers.
- Enforcing Consumer Protection Laws
  - Each Reserve Bank has specially trained examiners who regularly evaluate banks' compliance with consumer protection laws and their Community Reinvestment Act performance.
- Consumer Complaint Program
  - The Fed maintains information on consumer inquires and complaints in a database, which it regularly reviews to identify potential problems, as required by the Federal Trade Commission Improvement Act, to uncover potentially unfair or deceptive practices within the banking industry.

Consumer Protection Laws

- **Fair Housing Act (1968):** prohibits discrimination in the extension of housing credit on the basis of race, color, religion, national origin, sex, handicap, or family status.
- **Truth in Lending Act (1968):** Requires uniform methods for computing the cost of credit and for disclosing credit terms. Gives borrowers the right to cancel, within three days, certain loans secured by their residences. Prohibits the unsolicited issuance of credit cards and limits cardholder liability for unauthorized use. Also imposes limitations on home equity loans with rates or fees above a specified threshold.
- **Fair Credit Reporting Act (1970):** Protects consumers against inaccurate or misleading information in credit files maintained by credit-reporting agencies; requires credit reporting agencies to allow credit applicants to correct erroneous reports.
- **Flood Disaster Protection Act (1973):** Requires flood insurance on property in a flood hazard area that comes under the National Flood Insurance Program.

Consumer Protection Laws

- **Fair Credit Billing Act (1974):** Specifies how creditors must respond to billing-error complaints from consumers; imposes requirements to ensure that creditors handle accounts fairly and promptly. Applies primarily to credit and charge accounts. Amended the Truth in Lending Act.
- **Real Estate Settlement Procedures Act(1974):** Requires that the nature and costs of real estate settlements be disclosed to borrowers. Also protects borrowers against abusive practices, such as kickbacks, and limits the use of escrow accounts.
- **Home Mortgage Disclosure Act (1975):** Requires mortgage lenders to annually disclose to the public data about the geographic distribution of their applications, originations, and purchases of home-purchase and home-improvement loans and refinancing. Requires lenders to report data on the ethnicity, race, sex, income of applicants and borrowers, and other data. Also directs the Federal Financial Institutions Examination Council, of which the Federal Reserve is a member, to make summaries of the data available to the public.
- **Community Reinvestment Act (1977):** Encourages financial institutions to help meet the credit needs of their entire communities, particularly low- and moderate-income neighborhoods.

Consumer Protection Laws

- **Right to Privacy Act (1978):** Protects bank customers from the unlawful scrutiny of their financial records by federal agencies and specifies procedures that government authorities must follow when they seek information about a customer's financial records from a financial institution.
- **Fair Credit and Charge Card Disclose Act (1988):** requires that applications for credit cards that are made available to the public contain key terms of the account.
- **Truth in Savings Act (1991):** Requires that depository institutions disclose to depositors certain information about their accounts—including the annual percentage yield, which must be calculated in a uniform manner—and prohibits certain methods of calculating interest. Regulates advertising of savings accounts (amended Truth in Lending Act)
- **Fair and accurate Credit Transaction Act (2003):** Enhances consumers ability to combat identity theft, increases the accuracy of consumer reports, allows consumers to exercise greater control over the type and amount of marketing solicitations they receive, restricts the use and disclosure of sensitive medical information, and establishes uniform national standards in the regulation of consumer reporting.

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