

The Cash Lifecycle Video Transcript

Every day, we use cash to purchase goods and services. But where does it come from and what happens to it once it leaves our wallets?

The lifecycle of U.S. currency and coin is a complex system, with the Federal Reserve Board of Governors, the 12 regional Federal Reserve Banks, the U.S. Treasury's Bureau of Engraving and Printing, and the U.S. Mint having important and unique responsibilities. Financial institutions, armored carriers, and other service providers also play an important role, working to provide currency to consumers and merchants. Join us as we follow the money from production to destruction and learn how each organization plays a key role in providing the currency and coin we use for our day-to-day transactions.

The Federal Reserve System was established in 1913 to serve as the central bank of the United States. One of its core functions is supplying the public with an elastic supply of currency and coin. In practice, this means that the Federal Reserve ensures that there's enough currency in circulation to meet the public's demand.

The Federal Reserve System is overseen by the Federal Reserve Board of Governors. Located in Washington D.C., the Board supervises the 12 regional Reserve Banks that are the operating arms of the Federal Reserve System. The Board of Governors also plays an important role in issuing U.S. currency.

The 12 Reserve Banks that make up the Federal Reserve System provide services to financial institutions, which in turn provide services to businesses and the general public.

The Federal Reserve System is divided into 12 Districts, which are headquartered in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Many Districts also have branch offices and cash processing operation centers that assist in the effective distribution of currency and coins to better serve the public.

For example, the Federal Reserve's 12th District serves the largest geographic region, including nine western U.S. states, as well as American Samoa, Guam, and the Northern Mariana Islands.

The Federal Reserve's 12th District is headquartered in San Francisco, California, with cash processing locations in San Francisco; Los Angeles, CA; Seattle, WA; Salt Lake City, UT; and Phoenix, AZ.

In addition, the 12th District hosts the Federal Reserve System's Cash Product Office, or the CPO for short. The CPO is responsible for strategic leadership to Reserve Bank cash departments. It provides technology solutions and operational support, as well as financial reporting and administrative guidance to ensure that cash operations in each Reserve Bank meet strict controls for the quality and integrity of U.S. currency and coin. The CPO also conducts market research and works directly with financial institutions and retailers to analyze trends in cash usage over time. While headquartered in the San Francisco office, the CPO has teams in Cleveland, OH; Los Angeles; Richmond, VA; and Seattle.

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It is the responsibility of the Federal Reserve to process and distribute coin and currency to financial institutions. However, two agencies in the U.S. Department of the Treasury actually produce our nation's supply of currency and coin.

Currency is printed by the Bureau of Engraving and Printing, and coins are produced by the U.S. Mint.

Each year, the Federal Reserve Board of Governors determines the number of new Federal Reserve notes that are needed and submits a print order to the Bureau of Engraving and Printing. The order reflects the Federal Reserve's estimate of the amount of currency that the public will need in the upcoming year.

The Bureau of Engraving and Printing manufactures the currency notes at its facilities in Washington, DC, and Fort Worth, Texas.

Like the Bureau of Engraving and Printing, the U.S. Mint is part of the Department of the Treasury. The Mint is headquartered in Washington, D.C., with coin production facilities in Philadelphia and Denver.

The Mint typically produces about 7 billion coins for circulation per year. Ninety percent of the Mint's production is in the circulating coins that we use regularly, such as the penny, nickel, dime, quarter, half-dollar, and dollar coins. They also produce limited edition, commemorative coins to honor a person, place, or event, and these coins can be purchased directly from the U.S. Mint's website.

The Bureau of Engraving and Printing and U.S. Mint ship new currency and coin to the Federal Reserve Banks. New coins are shipped in bulk bags, and new currency is shipped in distinctive colored packages, called "cashpaks."

When financial institutions, such as commercial banks, credit unions, and savings & loans, need currency for their customers, they can place an order with their local Federal Reserve Bank, which in turn supplies the requested currency using a mix of recirculated currency and coin along with new currency and coin.

Financial institutions manage the day-to-day transactions with the public by supplying currency and coin to their customers and accepting deposits. During its time in circulation, a single note can move back and forth between you, a store, restaurant, bank, and the Federal Reserve many times.

When a commercial bank has more currency or coin than it needs, it can deposit the surplus with its local Federal Reserve Bank.

Commercial banks coordinate with armored carriers to deliver their deposits and pick-up their orders with the Federal Reserve.

When deposits are returned to the Federal Reserve, they are processed on machines that count, sort, and repackage the currency for recirculation with the next order. The currency sorting machines are able to determine whether a note is genuine. If it is genuine, then it is packaged for reuse in a future order.

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However, if a genuine note is too damaged or soiled for recirculation, then the Federal Reserve will destroy these unfit notes in order to maintain the authenticity and quality of currency in circulation.

For example, in 2012, the Federal Reserve destroyed more than 4.6 billion pieces of unfit or damaged currency notes and ordered almost 8.4 billion pieces of new currency from the Bureau of Engraving and Printing.

Notes that may not be genuine are separated and sent to the local U.S. Secret Service office. The Secret Service also receives potential counterfeit notes from financial institutions and merchants.

The United States Secret Service is a federal law enforcement agency established in 1865 to suppress the counterfeiting of U.S. currency. The Secret Service is headquartered in Washington, D.C., and has more than 150 offices throughout the United States and abroad. Since the counterfeiting of currency is a crime, the Federal Reserve works with the U.S. Secret Service to help identify notes for further investigation.

As you can see, the currency and coins that we receive from our local bank, store, or restaurant have traveled many miles to reach our wallets. The processing and handling of coins and currency notes is a complex process, but maintaining a smooth flow of coin and currency between the U.S. Treasury, Federal Reserve, the commercial banking system, businesses, and you is one of the Federal Reserve's most critical jobs.