Glossary of Key Terms

Automated Clearinghouse (ACH): The Fed's electronic clearing and settlement system for exchanging electronic transactions among participating banks. These transactions are usually substitutes for recurring payments, such as payroll or loan payments.

Bankers' bank: The Fed is often called the bankers' bank because it provides banks with financial services, such as check processing, electronic payments, and new currency and coin.

Bank examination: A periodic review where regulators visit a bank to check its compliance with regulations and review the safety and soundness of the bank.

Bank holding company: A corporation that owns one or more banks.

Bank regulation: Actions to make, issue, and enforce specific rules and regulations governing the structure and conduct of banking under the authority of legislation.

Bank runs: Occasions when banks' depositors would literally "run" to the bank to withdraw their money when they thought their bank might close or fail.

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

Board of Governors of the Federal Reserve System: Central, governing agency of the Federal Reserve System, located in Washington, DC, and composed of seven members, who are appointed by the President and confirmed by the U.S. Senate.

Central bank: Principal monetary authority of a nation, which performs several key functions, including issuing currency and regulating the supply of money and credit in the economy. The Federal Reserve is the central bank of the United States.

Check clearing: The movement of a check from the institution at which it was deposited back to the institution on which it was written, and the corresponding credit and debit to the accounts involved.

Currency: Any form of money in actual use as a medium of exchange, including paper currency or coins.

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

Discount rate: Interest rate at which an eligible depository institution may borrow funds, typically overnight or 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 the approval of the Board of Governors of the Federal Reserve.

Discount window: Figurative expression for Federal Reserve facility for extending credit or loans directly to eligible depository institutions.

Electronic payments: Payments completed by the transfer of funds electronically rather than by check or cash.

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European Central Bank (ECB): The central bank for Europe's single currency, the euro. The ECB's main task is to maintain its purchasing power and thus price stability in the euro area. The euro area comprises the 12 European Union countries that have introduced the euro since 1999.

Excess reserves: Amount of reserves held by an institution in excess of its reserve requirement and required clearing balance.

Federal Deposit Insurance Corporation (FDIC) Insurance: Deposit accounts such as checking, savings accounts, money market deposit accounts, and certificates of deposit (CDs) are insured up to $100,000 per depositor per insured bank. FDIC insurance does not cover money invested in stocks, bonds, mutual funds, life insurance policies, annuities, or municipal securities, even if they were purchased from an insured bank. (If someone has deposits at one insured bank totaling more than $100,000, different ownership categories of accounts are separately insured up to $100,000.)

Federal funds rate: Interest rate charged by a bank on an overnight sale of federal funds to another bank.

Federal Open Market Committee (FOMC): Twelve-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. The FOMC meets eight times a year to set Federal Reserve guidelines regarding the purchase and sale of government securities in the open market as a means of influencing the volume of bank credit and money in the economy. The other seven Federal Reserve Bank presidents also participate at FOMC meetings but do not vote on policy decisions.

Federal Reserve Bank: One of the 12 operating arms of the Federal Reserve System, located throughout the nation, that together with their branches carry out various System functions, including operating a nationwide payments system, distributing the nation's currency and coin, supervising and regulating banks, analyzing economic conditions, and serving as banker for the U.S. Treasury.

Federal Reserve System: The central bank of the United States, created by Congress and made up of a seven-member Board of Governors in Washington, D.C., 12 regional Federal Reserve Banks, and their 25 Branches.

Fedwire: Electronic funds transfer network operated by the Federal Reserve. Fedwire is usually used to transfer large amounts of funds and U.S. government securities from one bank's account at the Federal Reserve to another bank's account.

Financial shock: Events in financial markets that impact the economy. Shocks are unexpected and unpredictable (e.g., 1987 Stock Market Crash, 1997 Asian Financial Crisis).

Float: Money that appears simultaneously in the Federal Reserve accounts of two depository institutions. These institutions include commercial banks, savings and loans, savings banks, and credit unions. When check clearing is delayed, funds in the process of collection appear in the accounts of both the institutions that receive the checks for deposit and the institutions upon which the checks are drawn or written. Thus, float inflates, for a brief time, the amount of money in the banking system.

Glossary of Key Terms

Government securities: Securities, such as bills, notes, and bonds issued by the U.S. Treasury or federal agencies.

Interest: The money a borrower pays (a lender charges) for the use of money over a period of time.

Interest rates: Rates of interest paid on deposits and other investments, determined by the interaction of the supply of and demand for funds in the money and capital markets.

Liquidity: The ability of a bank or business to meet its current obligations or the quality that makes an asset quickly and readily convertible into cash with relatively little loss of value in the conversion process.

Long-term interest rates or bond rates: Interest rates on loan contracts or debt instruments such as Treasury bonds, agency securities, municipal bonds—having maturities greater than one year. Often called capital market rates.

Member bank: Depository institution that is a member of the Federal Reserve System. All federally chartered banks are automatically members of the System; state-chartered banks may elect to join the System.

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, discount policy, and reserve requirements.

Money: Anything that serves as a generally accepted medium of exchange, unit of measure, and store of value.

Mortgage interest rates: The interest rate charged on mortgages.

Open market operations: Purchases and sales of government and certain other securities in the open market through the Domestic Trading Desk at the Federal Reserve Bank of New York, with the purpose of influencing the volume of money and credit in the economy.

Payments system: Collective term for mechanisms (both paper-backed and electronic) for moving funds, payments, and money among banks throughout the nation. The Federal Reserve plays a major role in the nation's payments system through distribution of the currency and coin, the processing of checks, and the electronic transfer of funds.

Reserve requirements: Percentage of deposits that depository institutions must keep on reserve in their cash vaults or on deposit at a Federal Reserve Bank.

Short-term interest rates: Interest rates on loan contracts—or debt instruments such as Treasury bills, bank certificates of deposit, or commercial paper—with maturities of one year or less. Often called money market rates.

State-chartered member banks: A bank that is chartered by a state and has elected to join the Federal Reserve System.

Swap lines: Short-term exchanges of credit between central banks. For the Federal Reserve, swap lines or swap arrangements provide a way of supplying temporary dollar reserve balances to the international banking system.

U.S. Treasury securities: Interest-bearing obligations of the U.S. government issued by the U.S. Department of the Treasury as a means of borrowing money. There are three types of marketable Treasury securities—bills, notes, and bonds.