FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

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FEDERAL RESERVE GLOS'SA-RY

TO THE CHIEF EXECUTIVE OFFICER
OF THE MEMBER BANK ADDRESSED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The enclosed booklet, "Federal Reserve Glos'sa-ry", is provided in an effort to improve the general understanding of the Federal Reserve System's operations and responsibilities. This booklet will help in the translation of various terminology and statements relating to the Federal Reserve.

Additional copies may be obtained from the Bank and Public Information Department, Ext. 6261.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

FEDERAL RESERVE

glos'sa-ry

introduction

Public understanding of the responsibilities of the Federal Reserve System is sometimes made difficult by the terms used in discussing the financial system. Some of the terminology relates to general economic concepts; some originates in banking; and some relates uniquely to the Federal Reserve.

These days, it would be quite reasonable for an expert in "EFTS" to inform a co-worker that she used a "debit card" at a "POS" to purchase a tennis racket. This glossary will help in the translation of this and other statements about our financial system.

Board of Governors
of the Federal Reserve System
Washington, D.C. 20551
December 1979

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monetary policy

Money Anything that serves as a generally accepted medium of exchange, a standard of value, and a means to save or store purchasing power. In the U.S., paper currency (nearly all of which consists of Federal Reserve notes), coin and checking account balances at banks are examples of money.[1]

Monetary Policy Federal Reserve actions to influence the cost and availability of money and credit, as a means of helping to promote high employment, economic growth, price stability, and a satisfactory pattern of international transactions. Tools of monetary policy include open market operations, the discount rate, and reserve requirements.

Money Stock M1, the basic money supply, is defined to include checking accounts and currency and coin in circulation outside the Treasury, the Federal Reserve Banks, and commercial bank vaults; M2 includes M1 plus savings and time deposits at commercial banks other than large, negotiable certificates of deposit (CD's); M3 includes M2 plus time and savings deposits at mutual savings banks and savings and loan associations, and shares at credit unions; still broader definitions of money include other liquid assets such as large negotiable CD's, U.S. Savings Bonds, and short-term marketable U.S. government securities.[1]

Federal Open Market Committee (FOMC) Consists of the seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the Federal Reserve Bank of New York is a permanent member while the other Federal Reserve Presidents serve on a rotating basis. The Committee generally meets once every 4 to 6 weeks to set Federal Reserve guidelines regarding purchases and sales of Government securities in the open market as a means of influencing the volume of bank credit and money. The FOMC also establishes policy relating to System operations in the foreign exchange markets.

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1 Recent financial innovations have complicated the definition of "money." For example, NOW accounts, share drafts at credit unions, and the automatic transfer of savings to checking accounts (ATS) all permit deposit-type accounts other than demand deposits (checking accounts) to serve the payments function of "money."

For this reason, the Board's staff has proposed a set of revised definitions of money supply measures which does away with bank/non-bank distinctions, includes within the banking system all depositary institutions, and groups the monetary aggregates by type of deposit. (See the January 1979 *Federal Reserve Bulletin.*)

Open Market Operations Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the banking system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

The Desk The trading desk at the New York Federal Reserve Bank, through which open market purchases and sales of government securities are made. The desk maintains direct telephone communication with major government securities dealers. A "foreign desk" at the New York Federal Reserve Bank conducts transactions in the foreign exchange market.

Discount Window Figurative expression for Federal Reserve facility for extending credit directly to member banks. In early years of the System bankers came to a Reserve Bank teller window to obtain credit.

Discount Rate The interest rate at which member banks may borrow funds for short periods directly from the Federal Reserve Banks. The law requires the board of directors of each Reserve Bank to establish the discount rate every 14 days subject to the approval of the Board of Governors in Washington.

Lender of Last Resort As the nation's central bank, the Federal Reserve has the authority to act as "lender of last resort" by extending credit to non-member banks or to other entities in unusual circumstances involving a national or regional emergency, where failure to obtain credit would have a severely adverse impact on the economy.

Reserve Requirements Percentage of customer deposits that banks must set aside in the form of reserves. The reserve requirement ratio determines the expansion of deposits that can be supported by each additional dollar of reserves. The Board of Governors can raise or lower reserve requirements for member banks within limits specified by law. Reserve requirements act as lending controls (lowering reserve requirements allows more bank lending; raising requirements, less lending).

Bank Reserves The balances set aside by banks to meet reserve requirements. For member banks balances are held in the form of vault cash and deposits at the Federal Reserve Banks.

Federal Funds Historically, reserve balances that member banks lend each other, usually on an overnight basis. Federal funds now include certain other kinds of borrowing by commercial banks from other types of depositary institutions and Federal agencies.

Demand Deposit A checking account. Demand deposits are transferred by check and may be withdrawn without advance notice.

Negotiable Order of Withdrawal (NOW Account) An interest earning account on which checks may be drawn, currently offered by commercial banks, mutual savings banks and savings and loan associations in Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont.

Velocity The rate at which money is spent on goods and services within a given period (usually measured as the ratio of GNP to the money stock). Greater velocity means that a given quantity of money is used for a greater dollar volume of transactions.

Certificate of Deposit (CD) A form of time deposit at a bank or savings institution; a time deposit cannot be withdrawn before a specified maturity date without being subject to an interest penalty for early withdrawal. Small-denomination CDs are often purchased by individuals. Large CDs of

$100,000 or more are often in negotiable form, meaning they can be sold or transferred among holders before maturity.

Deposit Ceiling Rates of Interest Maximum interest rates that can be paid on savings and time deposits at federally insured commercial banks, mutual savings banks, savings and loan associations and credit unions. Ceilings are established by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration.

Federal Reserve Notes Nearly all of the nation's circulating paper currency consists of Federal Reserve notes printed by the Treasury Department and issued to the Federal Reserve Banks which put them into circulation through the commercial banking system. Federal Reserve notes are obligations of the U.S. government.

Treasury Securities Interest-bearing obligations of the U.S. government issued by the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. Marketable Treasury securities fall into three categories—bills, notes, and bonds. The Federal Reserve System holds more than $100 billion of these obligations, acquired through open market operations.

Treasury Bills Short-term U.S. Treasury securities issued in minimum denominations of $10,000 and usually having initial maturities of 3, 6, or 12 months. Investors purchase bills at prices lower than the face value of the bills; the return to the investor is the difference between the price paid for the bills and the amount received when the bills are sold or when they mature. Treasury bills are issued in book entry form only; that is, the purchaser receives a receipt, rather than an engraved certificate. Treasury bills are the type of security used most frequently in open market operations.

Treasury Notes Intermediate-term coupon-bearing U.S. Treasury securities having initial maturities of from 1 to 10 years and issued in denominations of $1,000 or more, depending on the maturity of the issue. Notes pay interest semi-annually, and the principal is payable at maturity. Notes are issued in registered or bearer form.

Treasury Bonds Long-term U.S. Treasury securities having initial maturities of more than 10 years and issued in denominations of $1,000 or more, depending on the specific issue. Bonds pay interest semi-annually, with principal payable at maturity. As is the case with notes, bonds are issued in registered or bearer form.

Repurchase Agreements When the Federal Reserve makes a repurchase agreement with a government security dealer, it buys a security for immediate delivery with an agreement to sell the security back at the same price by a specific date (usually within 15 days) and receives interest at a specific rate. This arrangement allows the Federal Reserve to inject reserves on a temporary basis to meet a temporary need and to withdraw these reserves as soon as the need has passed.

Matched Sale-Purchase Agreements When the Federal Reserve makes a matched sale purchase agreement, it sells a security outright for immediate delivery to a dealer or foreign central bank, with an agreement to buy the security back on a specific date (usually within 7 days) at the same price. The reverse of repurchase agreements, matched sale-purchase agreements allow the Federal Reserve to absorb reserves on a temporary basis.

Fiscal Agency Services Services performed by the Federal Reserve Banks for the U.S. government. These include maintaining accounts for the Treasury Department, paying checks drawn on the Treasury, and selling and redeeming Savings Bonds and other government securities.

Fiscal Policy Government policy regarding taxation and spending. Fiscal policy is made by Congress and the Administration.

payments mechanism

Payments Mechanism Systems designed for the movement of funds, payments and money between financial institutions throughout the nation. The Federal Reserve plays a major role in the nation's payments mechanism through distribution of currency and coin, check processing, wire transfers, and automated clearinghouses. Various private associations also perform many payments mechanism operations.

Check Clearing The movement of checks from the banks where they are deposited back to those on which they are written, and funds movement in the opposite direction. This process results in credits to the accounts of the banks of deposit and corresponding debits to the accounts of the paying bank. The Federal Reserve operates a nationwide check clearing system, though many checks are cleared by private sector arrangements.

Regional Check Processing Center (RCPC) A Federal Reserve check processing operation that clears checks drawn on banks located within a specified area. RCPCs expedite collection and settlement of checks within the area on an overnight basis.

Float Checkbook money that for a period of time appears on the books of both the check writer and the check receiver due to the normal lag in the check collection process. *Federal Reserve Float* often arises during the Federal Reserve's check collection process. In order to promote an efficient payments mechanism with certainty as to the date funds become available, the Federal Reserve credits the reserve accounts of banks depositing checks within two business days of the deposit; however, more time may be needed to process certain checks and collect funds from the banks on which these checks are drawn. This policy results in credit being given to some banks before the Federal Reserve is able to obtain payment from other banks.

Electronic Fund Transfer Systems (EFTS) A variety of systems and technologies for transferring funds electronically rather than by check. Includes Fedwire, Bankwire, automated clearinghouses, and point of sale systems.

Fedwire The Federal Reserve Communications System. An electronic communications network interconnecting Federal Reserve offices, the Board, member banks, the Treasury, and other government agencies. Fedwire is used for transferring member bank reserve account balances and government securities, as well as for transmission of Federal Reserve administrative, supervisory, and monetary policy information.

Culpeper Switch A computerized Federal Reserve facility located in Culpeper, Virginia, which serves as a central relay point for messages transmitted electronically between Federal Reserve districts on the Fedwire. Messages moving billions of dollars of funds and securities daily are processed by Culpeper in electronically coded form. They originate in commercial banks, are sent to Reserve Banks, and then are transmitted to Culpeper, where they are switched to other Reserve Banks and, in turn, to other commercial banks.

Bankwire An electronic communications network similar to the Fedwire but owned by an association of banks and used to transfer messages between subscribing banks.

Automated Clearinghouse (ACH) A computer based clearing and settlement operation, often operated by a Federal Reserve Bank, established for the exchange of electronic, paperless transactions among participating banks. Such electronic transactions are substitutes for paper checks normally used to make recurring payments such as payroll or mortgage payments.

Point of Sale (POS) Point of Sale systems allow for transfer of funds between accounts, authorization for credit, verification of checks and provision of related services at the time of purchase. POS terminals are located in some shopping areas and allow customers of participating financial institutions to effect transactions through the use of machine-readable debit cards.

Automated Teller Machines (ATM) Computer-controlled terminals located on bank premises or elsewhere, through which customers of financial institutions may make deposits, withdrawals, or other transactions as they would through a bank teller.

financial regulators and institutions

Federal Reserve System The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, 12 regional Reserve Banks, and about 5,600 commercial banks that are members of the System. All national banks are members; state-chartered banks may elect to become members, and state members are supervised by the Board of Governors and the Reserve Banks. Approximately 39 percent of all banks are member banks. However, most large banks belong to the System so that member banks account for approximately 72 percent of all bank deposits.

Comptroller of the Currency An officer of the Treasury Department, the Comptroller of the Currency is responsible for chartering national banks and has primary supervisory authority over them. All national banks are required to be members of the Federal Reserve System and are insured by the Federal Deposit Insurance Corporation.

Federal Deposit Insurance Corporation (FDIC) Agency of the federal government that insures accounts at most commercial banks and mutual savings banks. The FDIC also has primary federal supervisory authority over insured state banks that are not members of the Federal Reserve System.

Federal Home Loan Bank Board The agency of the federal government that supervises all federal savings and loan associations and federally insured state-chartered savings and loan associations. The FHLBB also operates the Federal Savings and Loan Insurance Corporation, which insures accounts at federal savings and loan associations and those state-chartered associations that apply and are accepted. In addition, the FHLBB directs the Federal Home Loan Bank System, which provides a flexible credit facility for member savings institutions to promote the availability of home financing. The FHL Banks also own the Federal

Home Loan Mortgage Corporation, established in 1970 to promote secondary markets for mortgages.

National Credit Union Administration The federal government agency that supervises, charters, and insures federal credit unions. NCUA also insures state-chartered credit unions that apply and qualify for insurance. As of October 1979, the NCUA will also operate a credit facility for member credit unions.

Financial Institution An institution that uses its funds chiefly to purchase financial assets (deposits, loans, bonds) as opposed to tangible property. Financial institutions can be classified according to the nature of the principal claims they issue: nondeposit intermediaries include, among others, life and property/casualty insurance companies and pension funds, whose claims are the policies they sell, or the promise to provide income after retirement; depositary intermediaries obtain funds mainly by accepting deposits from the public. Here is a list of the major depositary institutions.

Commercial Banks are allowed to engage in more varied lending activities and to offer more financial services than are the other depositary institutions. For example, in many states only commercial banks are permitted to offer checking accounts. Commercial banks are owned by stockholders and operated for profit.

Savings and Loan Associations, also sometimes called building and loan associations, cooperative banks, or homestead associations, accept deposits of individuals' savings, and channel their funds primarily into residential mortgage loans. Most savings and loan associations are technically owned by the depositors who receive shares in the association for their deposits.

Mutual Savings Banks also accept individuals' savings deposits, and place most of their funds into mortgage loans. These institutions are prominent in many of the northeastern states. A savings bank is in between a commercial bank and a savings and loan association in terms of the diversity of its assets and liabilities. Most savings banks are authorized to offer checking-type accounts.

Credit Unions are financial cooperative organizations of individuals with a common affiliation (such as employment, labor union membership, or residence in the same neighborhood). Credit unions accept deposits of members' savings in the form of share purchases, pay interest (dividends) on them out of earnings, and primarily provide consumer credit to members.

Thrift Institution is the general term for mutual savings banks, savings and loan associations, and credit unions.

Correspondent Bank	A bank that accepts deposits of and performs banking services for other banks, which usually are located in cities or towns other than that of the correspondent bank.
Bank Holding Company	A company that owns or controls one or more banks. The Board has responsibility for regulating and supervising bank holding companies, such as approving acquisitions and mergers and examining such companies. This authority applies even though the banks under the holding company may be under the primary supervision of the Comptroller of the Currency or the FDIC.
Permissible Nonbank Activities	Financial activities closely related to banking that may be engaged in by bank holding companies, either directly or through nonbank subsidiaries. Examples are owning finance companies and engaging in mortgage banking. The Board determines which activities are closely related to banking. Before making such activities permissible, the Board must also determine that performance of the activities by bank holding companies is in the public interest.

Grandfathered Activities Nonbank activities, some of which would normally be impermissible for bank holding companies, but which were acquired or engaged in before a particular date. Such activities may be continued under the "grandfather" clause of the Bank Holding Company Act—some until 1981 and some indefinitely.

Edge Corporation A corporation formed by a U.S. bank for the purpose of engaging in foreign banking and financing. The Board acts upon applications by member banks to establish Edge corporations. It also examines Edge corporations and their subsidiaries. The Edge corporation gets its name from Senator Walter Edge of New Jersey, the sponsor of the original legislation to permit formation of such organizations.

Cease-and-Desist Order An order issued after notice and opportunity for hearing, requiring a bank, a holding company, or a bank official to terminate unlawful, unsafe or unsound banking practices. Cease-and-desist orders are issued by the federal bank regulatory agencies under the Financial Institutions Supervisory Act and can be enforced directly by the courts.

foreign

Current Account Balance The difference between the nation's total exports of goods, services, and transfers and its total imports of them. It excludes transactions in financial assets and liabilities.

Trade Deficit Refers to the amount by which merchandise imports exceed merchandise exports.

Foreign Exchange Transactions Purchase or sale of one currency with another. Foreign exchange rates refer to the number of units of one currency needed to purchase one unit of another, or the value of one currency in terms of another.

Foreign Exchange Desk The foreign exchange trading desk at the New York Federal Reserve Bank. The desk undertakes operations in the exchange markets for the account of the Federal Open Market Committee, as agent for the U.S. Treasury and as agent for foreign central banks.

International Monetary Fund (IMF) The IMF grew out of the Bretton Woods Conference of 1944. The main functions of the International Monetary Fund are to lend funds to member nations to finance temporary balance of payments problems, to facilitate the expansion and balanced growth of international trade, and to promote international monetary cooperation among nations. The IMF also creates special drawing rights (SDRs), which provide member nations with a source of additional reserves.

Currently, the IMF has 138 members, including the United States. Member nations are required to subscribe to a Fund quota, paid mainly in their own currency.

Special Drawing Rights (SDRs) A type of international money created by the IMF and allocated to its member nations. Although SDRs are only accounting entries (not actual coin or paper, and not backed by precious metal), they are an international reserve asset. Subject to certain conditions of the IMF, a nation that has a balance of payments deficit can use SDRs to settle debts to another nation or to the IMF.

Eurodollars Deposits denominated in U.S. dollars at banks and other financial institutions outside the United States. Although this name originated because of the large amounts of such deposits held at banks in Western Europe, similar deposits in other parts of the world are also called Eurodollars.

Bank for International Settlements (BIS) The BIS, located in Basle, Switzerland, was established in 1930 to administer the post-World War I reparations agreements. Since the 1960s, the BIS has evolved into an important international monetary institution, and it has provided a forum in which central bankers meet and consult on a monthly basis. As an independent financial organization, the BIS performs a variety of banking, trustee, and agent functions, primarily with central banks.

At present the BIS has 29 members, 20 of which are central banks. The Federal Reserve is represented at BIS meetings, but is not a member. The BIS is the only international financial institution in which most Eastern European countries are members. The Soviet Union, East Germany, and Albania, however, are not members.

Swap Arrangements Short-term reciprocal lines of credit between the Federal Reserve and 14 foreign central banks as well as the Bank of International Settlements. Through a swap transaction, the Federal Reserve can, in effect, borrow foreign currency in order to purchase dollars in the foreign exchange market. In doing so the demand for dollars is increased and the dollar's foreign exchange value is increased. Similarly, the Federal Reserve can temporarily provide dollars to foreign central banks through swap arrangements.

consumer credit

Credit The promise to pay in the future in order to buy or borrow in the present; a sum of money due a person or a business.

Creditworthiness Past and future ability to repay debts.

Credit History The record of how a person has borrowed and repaid debts.

Credit Scoring System A statistical system used to rate credit applicants according to various characteristics related to creditworthiness.

Credit Card Any card, plate, or coupon book used from time to time or repeatedly up to a certain limit to borrow money or buy goods and services on credit.

Debit Card A plastic card, similar in appearance to a credit card, that customers may use to make purchases through a point of sale terminal. The machine-readable card allows immediate withdrawal from the customer's checking or savings account with the money being transferred to the merchant's account.

Annual Percentage Rate The cost of credit on a yearly basis expressed as a percentage.

Finance Charge The total dollar amount paid to get credit.

Asset Property that can be used to repay debt, such as stocks and bonds or a car.

Collateral Property offered to support a loan or credit and subject to seizure on default.

Security Property pledged to the creditor in case of a default; see collateral.

Security Interest	The creditor's right to take property or a portion of property offered as security.
Liability on an Account	Legal responsibility to repay debt.
Default	Failure to meet the terms of a credit agreement.
Open End Credit	A line of credit that may be used repeatedly up to a certain limit, also called a charge account or revolving credit.
Open End Lease	A lease that may involve a balloon payment based on the value of the property when it is returned.
Balloon Payment	A large extra payment that may be charged at the end of a loan or lease.
Co-signer	Another person who signs for a loan and assumes equal liability for it.
Service Charge	A component of some finance charges, such as the fee for triggering an overdraft checking account into use.
Points	Some extra percent of the amount borrowed, included as part of the loan fee. Finance charges paid at the beginning of a first mortgage in addition to monthly interest; each point equals one percent of the amount financed.

Overdraft Checking Account A line of credit that allows a person to write checks for more than the actual balance, with a finance charge on the overdraft.

Appraisal Fee The charge for estimating the value of property offered as security.

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