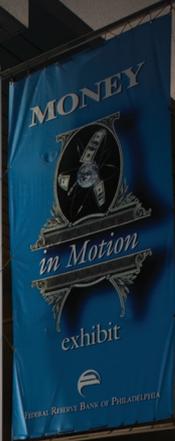


WHO WE ARE, WHAT WE DO

FEDERAL RESERVE BANK OF PHILADELPHIA

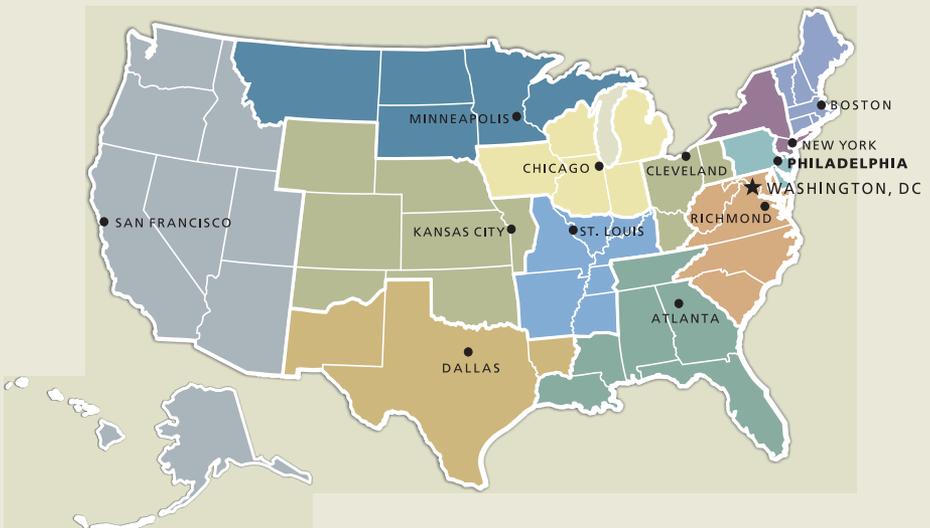


Who We Are, What We Do: An Overview	3
Congress Gave the Fed a Unique Structure	4
Conducting the Nation’s Monetary Policy	5
Supervising & Regulating Financial Institutions.....	6
Performing Services for the U.S. Treasury.....	7
Supporting the Nation’s Payment System	8
Community Development’s Function & Mission.....	10
Money in Motion Exhibit.....	11

WHO WE ARE, WHAT WE DO: AN OVERVIEW OF THE FEDERAL RESERVE BANK OF PHILADELPHIA AND THE FEDERAL RESERVE SYSTEM

The Federal Reserve Bank of Philadelphia serves the Third Federal Reserve District, which consists of eastern Pennsylvania, southern New Jersey, and Delaware. It is one of the 12 regional Reserve Banks that, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System. As the nation's central bank, the Federal Reserve System works to ensure the strength and integrity of the economy and financial system.

The Fed's basic mission is to create the financial conditions that foster economic growth: stable prices, sound banking practices, and a reliable payments system. In pursuit of its mission, the Fed operates in four distinct but interconnected areas: conducting the nation's monetary policy, supervising and regulating financial institutions, performing services for the U.S. Treasury, and supporting an effective and efficient payments system.

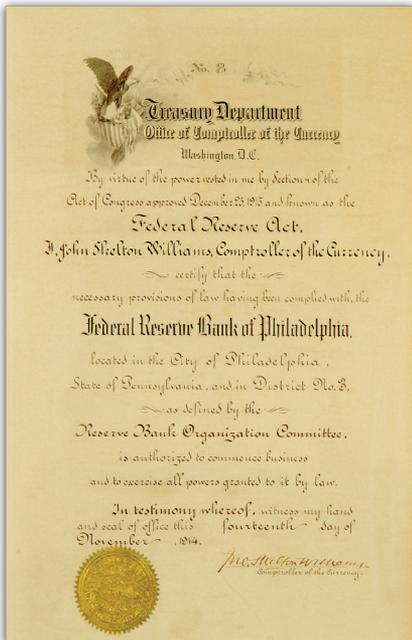


CONGRESS GAVE THE FED A UNIQUE STRUCTURE

Congress created the Federal Reserve in 1913 and designed its decentralized structure of 12 individual Reserve Banks, overseen by a seven-member Board of Governors in Washington, D.C. The Fed's unique public/private structure operates independently within government but not independent of it. The Board of Governors, appointed by the President of the United States and confirmed by the Senate, represents the public sector, or

government side, of the Fed. The Reserve Banks and the local citizens who serve on their boards of directors represent the private sector. This structure imposes accountability while avoiding centralized governmental control of banking and monetary policy.

To further protect its independence, the Federal Reserve receives no government appropriations from Congress. The Fed finances its activities mainly with the interest earned from the government securities it has acquired to implement monetary policy. Other sources of income include revenue received from providing services to financial institutions, interest on loans to depository institutions, and interest on foreign currency investments. Any earnings the Fed makes above the cost of operations are turned over to the U.S. Treasury.



CONDUCTING THE NATION'S MONETARY POLICY

Although all of the Fed's roles are vital to maintaining a stable, growing economy, monetary policy is the most visible to many citizens. Monetary policy refers to the actions taken by the Federal Reserve to influence the supply of money and credit to meet the goals set by Congress. The Federal Reserve Act states that the Fed should conduct monetary policy to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

The Fed's monetary policy-making body is the Federal Open Market Committee, or FOMC. This group comprises the seven Fed Governors, the president of the Federal Reserve Bank of New York, and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis. All 12 Reserve Bank presidents attend the



FOMC meetings, participate in the discussions, and contribute to the Committee's assessment of the economy and policy options.

SUPERVISING & REGULATING FINANCIAL INSTITUTIONS

The Federal Reserve works with other federal and state authorities to promote safety and soundness in the financial industry and sets specific guidelines for the structure and conduct of banking. The Board of Governors leads this effort, with the staffs at the 12 Reserve Banks operating under delegated authority from the Board. In the Third District, the Supervision, Regulation & Credit (SRC) Department of the Philadelphia Fed supervises and regulates the domestic and foreign operations of financial holding companies, bank holding companies, savings and loan holding companies, and state-chartered member banks. SRC also supervises U.S. branches, agencies, and nonbank operations of foreign banks located in the Third District.



In its supervisory role, SRC assesses the conditions and risk-management processes of these institutions and their compliance with relevant laws and regulations. SRC also provides liquidity to all eligible Third District depository institutions and administers the Federal Reserve System's payments system risk policy through its discount window operations.

PERFORMING SERVICES FOR THE U.S. TREASURY

The Federal Reserve Banks perform fiduciary services for the U.S. Treasury. The Fed maintains the Treasury's funds account and clears checks drawn on that account, thereby acting as the federal government's bank.

The Reserve Bank also conducts nationwide auctions of Treasury securities, through which the Treasury raises money to finance government spending and refinance debt. The Philadelphia Fed maintains the Collateral Management System, a web-based application that records, manages, values, and monitors collateral for the U.S. Treasury and

on behalf of the entire Federal Reserve System for the Reserve Banks' discount window lending. Philadelphia also maintains the system that manages the checkbook of the U.S. Treasury. This system, known as the Treasury Check Information System, reconciles government checks and also provides the functionality to handle any check-related claim cases.



SUPPORTING THE NATION'S PAYMENT SYSTEM

The Federal Reserve plays a major role in the smooth functioning of the payments system, which helps ensure the nation's economic growth and financial stability. The 12 Reserve Banks provide banking services to depository institutions by distributing and receiving currency and coin, maintaining accounts, and providing payment services.

Cash Services

An important job of the Federal Reserve is to function as the "banks' bank," ensuring that institutions have enough currency and coin on hand to meet current demand, which varies with the level of economic activity and fluctuates based on seasonal demand. The Philadelphia Fed is authorized to issue cash to financial institutions within its District.

Additional currency and coin put into circulation to meet seasonal demand is eventually returned to the depository institutions by businesses. So to reduce the excess currency and coin held in their vaults, depository institutions typically return the excess cash to the Reserve Bank, where it is credited to their accounts. The process is reversed when the institutions need to replenish or increase their cash supplies.



Check Processing

The Check Clearing for the 21st Century Act of 2003 (Check 21) promoted the greater use of electronic processing of check images rather than paper checks. This legislation, plus the greater use of electronic payments, has led to a major reduction in paper check processing and dramatic changes in the way the Fed processes checks.

To promote an efficient and reliable payment system, the Federal Reserve has adapted its operations to accommodate the continuing shift from paper checks to electronic payments by consolidating its check-processing operations into two sites: The Atlanta Fed handles electronic check processing and the Cleveland Fed, paper check processing.

Electronic Payments

The automated clearinghouse (ACH), developed jointly by the private sector and the Federal Reserve in 1972, is an electronic system for processing payments. Businesses use

ACH to make direct deposits for payroll, to move funds from one corporate account to another, and to make payments to other businesses. The U.S. government uses ACH for direct deposit of Social Security benefits, Veterans Affairs benefits, and receipt of business and consumer tax payments. Consumers use ACH to make payments on insurance premiums, mortgages, loans, and other bills.

The Federal Reserve Banks' Fedwire services are designed to offer a secure, reliable method of handling large-value, time-critical payments and maintaining and transferring U.S. government and certain government agency, government-sponsored enterprises, and international organization book-entry securities. The Fed's goal in offering these services is to foster the integrity, efficiency, and accessibility of U.S. wholesale payments and settlement systems in support of domestic financial stability and economic growth in a global context.

COMMUNITY DEVELOPMENT'S FUNCTION & MISSION

The Philadelphia Fed's Community Development Studies and Education Department supports the Federal Reserve System's economic growth objectives by promoting community development in low- and moderate-income communities and fair and impartial access to credit in underserved markets. Through meetings, conferences, and research, the department encourages financial institutions to provide credit and other banking services to all communities, including traditionally underserved markets.

The department also facilitates cooperation among community organizations, government agencies, financial institutions, and other community development practitioners, and through research promotes a better understanding of the processes and resources that support successful community



development programs. The department also helps create greater public awareness of the benefits and risks of financial services products, consumers' rights, and the economic and personal financial literacy of educators, their students, and the general public.

As part of its outreach efforts, the department hosts a biennial conference on reinventing older communities. This conference brings together community developers, bankers, researchers, funders,

planners, and government representatives to share best practices and current research. Community Development also maintains a strong educational effort for the professional de-

velopment of financial educators of low-income adults and economic education programs to train teachers on how to incorporate economic concepts into lessons in K-12 classrooms.

MONEY IN MOTION EXHIBIT

Philadelphia is the home of the first and second banks of the United States, the nation's early attempts to establish a central bank. The Philadelphia Fed has captured the story of central banking in the United States with its permanent exhibit Money in Motion. The exhibit, which opened in July 2003 to broaden the Bank's public outreach and take advantage of its unique tourist location on Independence Mall, is free and interactive. It offers a fun and informative way for visitors to explore the nation's financial history,

learn about the evolution of the U.S. payments system, test their knowledge of the banking industry, and trace the life cycle of U.S. currency.



For additional copies of this brochure, call or write:
Federal Reserve Bank of Philadelphia
Public Affairs — Publications
P.O. Box 66
Philadelphia, PA 19105-0066
215-574-6115

Visit our website at
www.philadelphiafed.org



FEDERAL RESERVE BANK OF PHILADELPHIA

Ten Independence Mall
Philadelphia, PA 19106