

Understanding the Federal Reserve (Fed) and the Federal Open Market Committee (FOMC)

Snapshot summary

The Fed is the central bank of the United States. It seeks to provide the nation with a stable financial system and healthy economy. The Fed's "dual mandate" is to promote maximum employment and stable prices. The FOMC is the mouthpiece of the Fed and implements monetary policy. The FOMC meets eight times a year, distributing announcements and holding press conferences led by the chairperson which serve to guide the market's expectations for future policy actions.



The five key functions of the Fed

In order to achieve its broad goal of promoting the health and stability of the US economy/financial system, the Fed performs the below five functions as stated in its own words.

The Fed...

1. Conducts the nation's monetary policy
2. Promotes financial system stability
3. Supervises and regulates financial institutions
4. Fosters payment and settlement system safety and efficiency
5. Promotes consumer protection and community development

How is the Federal Reserve structured?

The Fed is organized into three entities.



Board of Governors: The board of governors, also referred to as the Federal Reserve Board (FRB), is constructed of seven members who provide leadership for the entire Federal Reserve system. Its primary focus is to craft the nation's monetary policy. The chair of the board serves as the spokesperson. Headquartered in Washington, D.C., the FRB, along with the New York Fed, is responsible for the lion's share of bank supervision. The governors hold 14-year terms, staggered by two years, and are nominated by the US President and confirmed by the Senate. The Chair, Vice Chair of the Board, and Vice Chair of Supervision are selected in the same way from among the governors and serve four-year terms but can be reappointed. The Fed submits reports on monetary policy and economic developments to Congress, accompanied by testimony from the Fed chairperson.



Regional reserve banks: The 12 regional reserve banks serve as the operating arms of the Fed, providing financial services, passing data and insights to the Fed and monitoring the economy. The regional bank Presidents are nominated by a subset of each respective bank's Board of Directors that represent the public's interests and approved by the Fed Board of Governors for 5-year terms. Regional bank Presidents may be reappointed for additional terms.

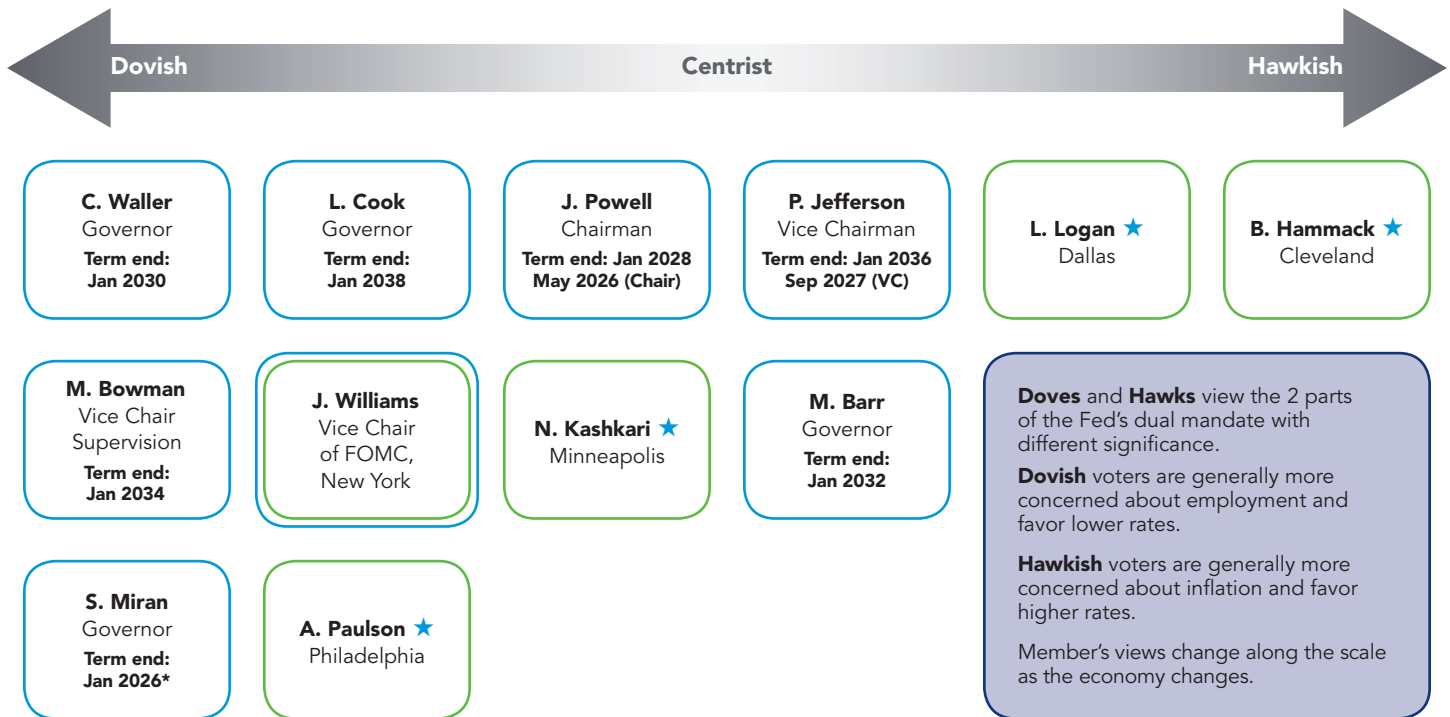


Federal Open Market Committee (FOMC): Meeting eight times a year, the FOMC determines the stance and details of monetary policy. While all regional bank presidents participate in the discussions, only four (determined on a rotating basis) join the governors and the head of the New York branch (a permanent voting member) to vote. The market views these "policymakers" as being "hawks or doves," with the former seen as supporting higher rates and "tighter" policy to restrain inflation and the latter advocating lower rates and "looser" course of action to promote proper levels of employment. Those who do not fall definitely into either camp are viewed as monetary policy "centrists".

The graphic included here provides a visual for understanding the views of each of the FOMC policymakers. Within the FOMC, each member is free to contribute their own views and thoughts towards what policy actions might help drive economic improvement and there is often a range of respected opinions. Even during official votes for policy action, members may choose to “dissent” and vote for alternative action.

The 2026 voting FOMC

Classifications are taken from the Bloomberg Economics Fed Spectrometer (published 12/31/25)



★ Voting Regional FRB Presidents in 2026

- Board Of Governors/ Permanent Voting Member
- Fed Bank Presidents (J. Williams is a Permanent Voting Member)

Updated 1/1/26.

Source: Bloomberg.

*Confirmed on 9/15 to serve the remaining term of Governor Kuglar. On leave from post as Chair of Council of Economic Advisers.

The remaining alternate and non-voting members

| | |
|--|----------|
| S. Shukla, First VP of FRB of New York | N/A |
| T. Barkin, Richmond | Hawkish |
| R. Bostic, Atlanta | Centrist |
| M. Daly, San Francisco | Dovish |
| A. Goolsbee, Chicago | Centrist |
| S. Collins, Boston | Centrist |
| A. Musalem, St. Louis | Hawkish |
| J. Schmid, Kansas City | Hawkish |

As of 1/15/26.

2026 FOMC meeting schedule

| | |
|-----------|---------|
| January | 27-28 |
| March | 17-18** |
| April | 28-29 |
| June | 16-17** |
| July | 28-29 |
| September | 15-16** |
| October | 27-28 |
| December | 8-9** |

**Meeting associated with the release of a Summary of Economic Projections.

During half of the FOMC meetings, the group publishes a Summary of Economic Projections (SEP). This document details the group’s views and outlook on the economy, specially including projections for real gross domestic product growth, unemployment and inflation rates, and the path of the federal funds rate. The market views the SEP as a tool in understanding the Fed’s decisions and assessing potential future actions.

Monetary policy key terms

The Fed uses a combination of tools to conduct monetary policy:

- **Open market operations:** Process by which the Fed buys and sells government and other securities in the market to increase or lower the amount of money in the banking system in hopes of raising or lowering interest rates and stimulating or dampening bank lending.
- **Federal funds rate:** Figure referenced when banks and other depository institutions lend money to each other. Historically, it has been a specific figure; in recent years, policymakers have allowed it to float within a target range. This affects the interest rates of consumer and business loans.
- **Discount window lending:** This tool provides temporary funding in the form of loans to banks as a source of liquidity. It acts as a ceiling for the target range of the federal funds rate.
- **Interest on Reserve Balances (IORB):** The rate at which the Fed charges banks that are holding funds that are above the Fed's required amounts in reserve with the central bank to induce banks to lend money.
- **Overnight reverse repurchase agreement facility (ON RRP):** The Fed offers qualifying large institutions the ability to deposit funds overnight and earn interest. This acts as a floor for the target range of the federal funds rate.

Quantitative easing (QE) vs. quantitative tightening (QT) and the Fed's balance sheet

QE and QT are considered non-traditional monetary policy tools. The use of either impacts the size of the Fed's balance sheet.

- **QE:** The Fed may implement QE if the economy is weak. During QE, the Fed purchases securities (like Treasuries or mortgage-backed securities) to inject cash into the market and stimulate the economy. This increases the size of the Fed's balance sheet. The goal is to lower interest rates and increase lending/borrowing, therefore promoting economic growth.
- **QT:** The Fed may implement QT in order to slow down the economy and fight high inflation. During QT, the Fed shrinks its balance sheet by letting its holdings mature and not repurchasing new holdings, or by actively selling securities back to the market. This reduces the liquidity of the overall market and is aimed at increasing interest rates, making borrowing more costly and lowering inflation.
- **The Fed's balance sheet:** How much the Fed holds on its balance sheet is closely watched by the market. The Fed publishes an updated balance sheet weekly and its size and trending direction can act as a driver or sign of economic growth/slowdown as explained by QE/QT.



The Federal Reserve is a complex organization which aims to support the health and stability of the US economy and financial system through the execution of its dual mandate to promote maximum employment and stable prices.

Why was the Federal Reserve created?

In the late 19th and early 20th centuries, financial panics were a constant threat to the US economy. With little regulation, the fragile banking system could buckle under a failure of even one or two institutions, leading customers of all stripes to lose confidence in their banks. A severe panic in 1907 caused the New York Stock exchange to plummet and led to a run on banks across the country. A distressed Wall Street turned to renowned banker J.P. Morgan to navigate the crisis, which he largely did through force of will—including once locking bankers in a room until they agreed on a recovery plan.

This led many to realize that the US needed an official monetary system. Congress established the Federal Reserve in 1913, granting it more responsibilities and greater independence over the years.



An independent government agency

Congress established the Fed as an independent government agency with its own Board of Governors. It was structured to be funded by interest on government securities and not funded by Congress. Historically, legislators prevented elected officials and other federal government appointees from serving in the bank in any capacity. It is not uncommon for US Presidents and Fed Chairpersons to be at odds. Politicians tend to focus on the short term to maintain electability or legacy of their time in office, while the central bank takes a longer view appropriate to the slow pace of change in an economy. So, maintaining political independence has historically been baked into the responsibilities of the Fed's Chairperson.

Today, the Federal Reserve and its members are closely watched and scrutinized by the market, politicians, investors and more. To learn more about the Fed today, you can read our latest *Insights* on FederatedHermes.com/us or check out the education tab on our Liquidity Management Resource Center.