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Federal Reserve Bank of Minneapolis

The Minneapolis Fed is led by president and CEO Neel Kashkari. The Ninth District, with headquarters in Minneapolis and a branch in Helena, Montana, serves North Dakota, South Dakota, Montana, Minnesota, northwestern Wisconsin, and the Upper Peninsula of Michigan.



Federal Reserve Bank of Minneapolis building © Federal Reserve Bank of Minneapolis

by Tu-Uyen Tran, Federal Reserve Bank of Minneapolis

Not long after the Federal Reserve Bank of Minneapolis first opened to the public in 1914, its chairman, John H. Rich, declared that

"providing safe and adequate protection to every member bank" was the bank's ["foundation purpose."](#)

While banks didn't suffer as much as businesses and farms did during the frequent bank panics that gripped the nation in those years, Rich said, protecting the latter two required the government to protect the former.

Today, the Minneapolis Fed continues to help member banks and pay close attention to the needs of businesses and farms, among other functions, but it defines [its mission](#) more broadly based on the [dual mandate](#) from Congress: "We serve the public by pursuing a growing economy and stable financial system that works for all of us."

A lot has changed since the Bank's early days. Congress has given the Federal Reserve System more responsibilities. The Ninth District, a region spanning six states served by the Minneapolis Fed, has a bigger, more diverse economy. The Bank's operations are far larger, and the way it operates is very different.

For example, the check-processing department that had been at the Minneapolis Fed since the very beginning was shuttered in 2010. However, the Bank is now one of two Reserve Banks managing electronic funds transfers for the entire Federal Reserve System. Such technology was barely imaginable in 1914, when funds were transferred by telegraph.

This article will explore some of the Minneapolis Fed's core functions and how they've evolved over the past 100-plus years.

How the Ninth District took shape

The [Federal Reserve Act of 1913](#) called for a central bank with powers spread out across eight to 12 Reserve Banks, each serving its own district and overseen by a Board of Governors in Washington, D.C. Thirty-seven cities competed to host one of those Reserve Banks.

Minneapolis business leaders argued that their city should be chosen because it was the [banking hub](#) for the "Northwest," a vast region stretching as far as the Pacific Ocean. Agriculture in the region

depended largely on Minneapolis banks for financing. The city was a railroad hub. It had the biggest population. It was "the world's greatest milling city."

"The financial supremacy of Minneapolis over St. Paul, Duluth, or any other city in the Northwest, is beyond question," the city's boosters crowed.

The [Reserve Bank Organization Committee](#), tasked with siting Reserve Banks, relied primarily on the [preferences](#) of commercial banks. In most states that now make up the Ninth District, Minneapolis was top pick among banks, which shows that the city was the banking hub. The committee drew district lines based partly on this and partly on the amount of capital that commercial banks in a given district had.

At first, the Minneapolis Fed's only location was its headquarters in Minneapolis. In Helena, Montana, business leaders saw other Reserve Banks opening branches and wanted a branch in their city. While Helena was on the district's western edge, there was a concentration of member banks there that was not well served by their distance from Minneapolis. Helena, the business leaders said, was "[virtually equidistant](#)" from member banks in Great Falls, Billings, Bozeman, Butte, and Missoula.

When the Helena branch opened in 1921, it was the smallest city with a Reserve Bank branch.

Changing perspectives on monetary policy

One of the Federal Reserve's best known roles today is conducting monetary policy, primarily through the Federal Open Market Committee (FOMC). Minneapolis Fed presidents often make news as voting members of the FOMC, especially when they [dissent](#).

In the early days of the Federal Reserve System, there was no FOMC, and Reserve Bank presidents were less concerned about the economy outside their district. Open-market operations—the buying and selling of securities—were mostly a way for Reserve Banks to earn revenue; their potency in monetary policy was not recognized

until the early 1920s. To influence their district's economy, Reserve Banks used one of the most [important tools](#), discount rates, the interest they charge when member banks borrow from them.

The Minneapolis Fed reported [in 1915](#) that its lower discount rates caused big city banks to lower the interest they charged country banks, which allowed country banks to offer loans to farmers that they would not otherwise have made. "The steadying influence of the reserve bank has been very valuable to the agricultural and business interests of the district, because it has prevented uneasy financial conditions, and sharp fluctuations of rates, that might easily have been possible if the reserve bank had not been in existence."

Even after the FOMC [was created](#) during the Great Depression to coordinate open-market operations, Reserve Bank presidents didn't take an active role despite having a seat at the table. [For decades](#), they were content to vote with the majority.

"The presidents [weren't much interested](#)," said Frederick L. Deming, Minneapolis Fed president from 1957 to 1965. "As a matter of fact, nobody knew much about credit policy at that time, and it was run essentially from Washington and New York."¹

But as economic turmoil became more common in the 1960s, Reserve Bank presidents became interested and were more willing to rock the boat.

Minneapolis Fed presidents made waves in the 1970s for their dissent. In 1978, Mark Willes dissented seven times, more than any other Minneapolis Fed president since. This was the era of "stagflation," when inflation and unemployment rates were both high. Though FOMC members understood that they had to push interest rates up to tame inflation even if unemployment worsened in the short term, they couldn't resist the political backlash. Willes was pushing for even higher interest rates than other hawkish members.

His thinking was undergirded by "[rational expectations](#)," an economic theory that University of Minnesota economists working at the Minneapolis Fed expanded on for use in monetary policymaking. Policymakers at the time assumed that people would react to a given

policy in roughly the same way each time. Rational expectations theorists argued that people will change their reactions based on their expectations of current and future policies. If, for example, businesses learned that inflation-taming policies always faltered, they would act as if high inflation would inevitably return and not change their behavior in response to new inflation-taming policies.

The Federal Reserve would eventually tame stagflation through a more [disciplined policy](#) that restored its credibility.

Though Willes never won over his colleagues while serving on the FOMC, rational expectations theory has, over time, caused the committee to change not just how it formulates monetary policy but also how it [signals its intentions](#) to set public expectations. Five of the economists who worked on the theory at the Minneapolis Fed later won Nobel prizes.

In more recent times, Minneapolis Fed Presidents [Narayana Kocherlakota](#) and [Neel Kashkari](#) have also not been shy about dissenting, mostly calling for monetary policy that pushes unemployment rates lower. Their strongest objection in several cases was the way the FOMC communicated its intent, which they feared gave the public false expectations.

Shifting focus of bank supervision

Because the Federal Reserve was founded in part to prevent bank panics, bank supervision was among its original core functions.

But there wasn't much to do in the early days. The Minneapolis Fed didn't even have bank examiners until four years after the bank opened, and their initial duties were restricted to [new state-chartered member banks](#), not existing banks. Bank supervision at the time was meant to "[reinforce market discipline](#)" and was not as rigorous as they would become after the Great Depression showed the inadequacy of this approach.

The life of a Minneapolis Fed bank examiner in early decades was mostly spent on the road. In the Ninth District, there was a lot of distance to cover on primitive roads. In 1922, five examiners traveled

45,521 miles in the course of 152 examinations. One examiner said the job was probably best for young and single people.

Over the years, Reserve Banks have seen their supervision responsibilities grow, including enforcement of consumer protection laws, approval of mergers and acquisitions, and examination of holding companies, which far outnumber state member banks. For example, as of 2024, there were 42 state member banks and 373 holding companies in the Ninth District. To supervise them, the Minneapolis Fed employs 90 bank examiners, a quarter of them specializing in consumer affairs.

Compared to their predecessors, Minneapolis Fed bank examiners of today are on the road less thanks to modern telecommunications technology. In fact, during the COVID-19 pandemic, bank examinations were performed "100 percent off-site;" onsite examinations resumed in mid-2022.

Technology and the delivery of financial services

Providing services needed for an efficient and stable financial system is another original core function of Reserve Banks. But advancements in technology have drastically transformed the delivery of these services.

In the early days, one of the Minneapolis Fed's busiest departments was the Transit Department, responsible for processing checks. In 1920, the department handled 21.5 million items and its employees made up 40 percent of all Minneapolis Fed employees.

By 1981, the bank boasted the "second largest check processing operation in the Federal Reserve System" at its Minneapolis site. High-speed equipment processed 90,000 items per hour, 24 hours a day. Chartered aircraft delivered checks from the Helena branch to Minneapolis for overnight check clearing.

In the 2000s, as checks became a less popular form of payment and checks themselves could be transmitted electronically, the Federal Reserve began a consolidation effort that reduced some 45 check processing centers System-wide to one location at the Atlanta Fed.

The Minneapolis Fed unplugged its check processing machines for the last time in 2010 and eliminated 300 jobs; some employees transferred to new jobs at the Bank, but others left.

"I went to a lot of farewell parties. It wasn't fun for anybody," [Jim Lyon](#), the Minneapolis Fed's former first vice president, recalled.

But while the Minneapolis Fed lost some services to consolidation, it also gained.

In 2001, it became [one of two](#) reserve banks to run FedACH, the Fed's electronic funds transfer service used for direct payroll deposits and similar payments. For decades, beginning in the 1970s, every Reserve Bank provided this service to their members. Though the Federal Reserve had a telecommunications network, the volume of data was too great. Consolidation began in the 1990s as the network became more capable. Today the Minneapolis Fed is the physical location for a FedACH office but the employees now work for the Atlanta Fed.

In late 2020, the Minneapolis Fed was selected to host a support facility for [FedWire[®]](#), which allows commercial banks to transfer large funds to each other; the New York Fed is the only other FedWire facility. The Minneapolis Fed had provided this service before, when the technology was less developed, starting with [telegraph](#) lines, but lost it to consolidation in 1995.

Continuing to evolve

The Minneapolis Fed continues to evolve today, shaped by both its history and ongoing changes to our nation.

The Minneapolis Fed has long had an interest in equality, starting in the early 1980s when it formed a Community Development department in response to the [Community Reinvestment Act of 1977](#). The act requires Reserve Banks to ensure member banks provide loans within communities they serve, particularly low- and moderate-income households.

In 2017, Kashkari initiated the Opportunity and Inclusive Growth [Institute](#) at the Bank after observing racial and economic disparities in

the Ninth District. The Minneapolis Fed is also home to the [Center for Indian Country Development](#), which supports the economic prosperity of Native Nations.

More recently, the Minneapolis Fed was selected by the Board of Governors to manage the [Paycheck Protection Program](#) Liquidity Facility to help small businesses around the nation affected by the economic upheaval of the COVID-19 pandemic. The program, a joint effort with the U.S. Treasury, ensures as many lenders as possible, including financial institutions not involved in banking, have the cash on hand to provide more loans. It's based on a section of the Federal Reserve Act allowing Reserve Banks to lend money to non-banks using certain protocols in "unusual and exigent circumstances" if authorized by the Board of Governors. The section was [previously invoked](#) in the Great Depression, when it was added as an amendment, and, more recently, during the Great Recession.

That's a lot of change for an institution that started out with an almost purely regional focus on banking. But it also shows that serving the public by protecting the health of the economy remains in the Minneapolis Fed's DNA.

Endnotes

- 1 The Federal Reserve Board of Governors, whose members are appointed by the president of the United States, have more votes on the FOMC than reserve bank presidents by design. In addition, the president of the New York Fed is the only reserve bank president to have a permanent seat on the FOMC; all other reserve bank presidents are on rotation.

Written by Tu-Uyen Tran, Federal Reserve Bank of Minneapolis. Last updated June 25, 2024. See [disclaimer](#) and [update policy](#).

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