

Proudly Veteran-Owned!

Florida Government Finance Officers Association Palm Beach Chapter

Greg Pagans, Vice President

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Member of FINRA & SIPC; MSRB Registered.

About Multi-Bank Securities, Inc. *Proudly Veteran-Owned!*

- Headquartered in Southfield, MI
- Fort Lauderdale, FL, office since 1996
- Member of FINRA and SIPC; MSRB registered
 - Member since 1988 (CRD #22098)
 - Institutional fixed-income focus
- More than 5,000 institutional accounts
- Approved underwriter of U.S. agency securities
 - Fannie Mae
 - Freddie Mac
 - Farmer Mac
 - Federal Home Loan Banks
 - Federal Farm Credit Banks
- Major underwriter of certificates of deposit (CDs)



Disclaimer

- Multi-Bank Securities, Inc. (MBS)
 - Broker-dealer, **not** an investment advisor
 - Offers **no** regulatory/audit advice
- Greg Pagans, Vice President
 - Institutional fixed-income focus
 - FINRA-registered representative
 - Series 6, 7, 24, 50 and 63
 - CRD #1585380

Central Banking in the U.S.

Part I:

The Federal Reserve and What It Means to You

Before the Federal Reserve

- Banking in the early U.S. *before* the Federal Reserve System
- The Federal Reserve Act of 1913
- Recent actions and the Open Market Committee

Central Bank

- Government needs fiscal agent for general/commercial business
- National bank that operates:
 - To **establish** monetary and fiscal policy
 - To **control** the money supply and interest rate
 - As a **depository** for collecting taxes and making short-term loans to government
 - As a **holding site** for incoming and outgoing monies
- *Not* authorized in U.S. Constitution

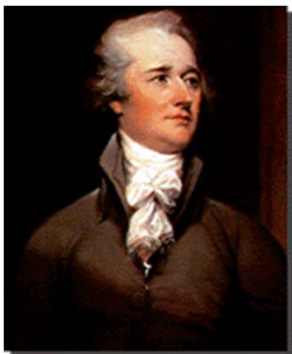
Central Bank: Timeline

- 1774** First Continental Congress
- 1775** American Revolution begins
Second Continental Congress
- 1776** Declaration of Independence
- 1781** Revolutionary War begins
- 1787** Ratification of Constitution
- 1789** George Washington elected first U.S. president
First U.S. Congress begins
- 1797** ~24 banks chartered in the U.S.

Central Bank

“As on the one hand, the necessity for borrowing in particular emergencies cannot be doubted, so on the other, it is equally evident that to be able to borrow upon good terms, it is essential that the credit of a nation should be well established.

A national debt, if not excessive, will be to us a national blessing.”



Alexander Hamilton
First Secretary of the Treasury

Central Bank

- U.S. Constitution – Article I, Section 8
 - The Congress shall have the Power to lay and collect Taxes
 - To **Pay the Debts** and provide for the common Defense and general Welfare of the United States To **borrow Money** on the credit of the United States [;]
 - To coin Money, **regulate the Value** thereof, and of foreign Coin
- U.S. Constitution – Article I, Section 9
 - No Money shall be drawn from the Treasury, but in Consequence of Appropriations **made by law** [;]...

[emphases added]

Central Bank

First U.S. Congress, at the direction of first Secretary of the Treasury Alexander Hamilton, chartered the First Bank of the United States on February 25, 1791.

- 20-year charter with \$10MM in stock
- U.S. government allowed to purchase \$2MM
- Subject to Congressional review and renewal
 - Must be private company
 - Could not buy U.S. government bonds

Central Bank

First U.S. Congress, at the direction of first Secretary of the Treasury Alexander Hamilton, chartered the **First Bank of the United States** on February 25, 1791.

- Required rotation of directors
- Could not issue notes, nor incur debts, beyond its actual capitalization
 - U.S. government could capitalize using \$2MM loaned by bank, paid back in 10 equal installments
- First Bank of the United States charter was allowed to expire in 1811



Central Bank: Timeline

- 1812** War of 1812 begins
- 1814** War of 1812 ends
- 1816** Second Bank of the United States chartered
- 1819** Legality upheld by U.S. Supreme Court
- 1832** Second Bank of the United States charter is *not* renewed
- 1836** Specie Circular demands payment in gold or silver for purchase of public lands
- 1838** U.S. Congress repeals Specie Circular

Central Bank

Second Bank of the United States

- Result of inflationary U.S. government debt and War of 1812
- Patterned after the First Bank of the United States
- Chartered for 20 years
- Legality upheld by U.S. Supreme Court in 1819
 - McCulloch v. Maryland
 - Nullified any state law contrary to federal law
- Killed in July 1832 by Andrew Jackson
 - Led to Panic of 1837

Central Bank

“It is maintained by some that the bank is a means of executing the constitutional power ‘to coin money and regulate the value thereof.’ Congress [has] established a mint to coin money and passed laws to regulate the value thereof. The money is so coined, with its value so regulated, and such foreign coins as Congress may adopt are the only currency known to the Constitution. **But if they have other power to regulate the currency, it was conferred to be exercised by themselves, and not to be transferred to a corporation.** If the bank be established for that purpose, with a charter unalterable without its consent, Congress have parted with their power for a term of years, during which the Constitution is a dead letter. It is neither necessary nor proper to transfer its legislative power to such a bank, and therefore unconstitutional.”



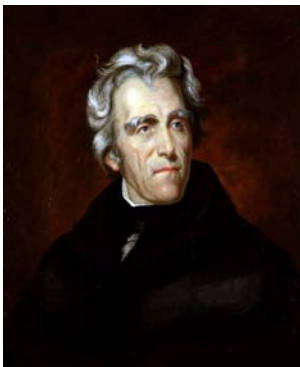
Andrew Jackson

*Veto message regarding the Second Bank of the United States
July 10, 1832*

[emphases added]

Central Bank

“Gentlemen! I too have been a close observer to the doings of the [Second] Bank of the United States. I have had men watching you for a long time, and am convinced that you have used the funds of the bank to speculate in the breadstuffs of the country. When you won, you divided the profits amongst you, and when you lost, you charged it to the bank. You tell me that if I take the deposits from the bank and annul its charter I shall ruin ten thousand families. That may be true, gentlemen, but that is your sin! Should I let you go on, you will ruin fifty thousand families, and that would be my sin! **You are a den of vipers and thieves. I have determined to rout you out, and by the Eternal,** (bringing his fist down on the table) **I will rout you out!**”



From the original minutes of the Philadelphia committee of citizens sent to meet with President Jackson

February 1834

According to Andrew Jackson and the Bank of the United States by Stan V. Henkels (1928)

[emphases added]

Free Banking Era

1837 to 1863: “Free Banking” era (no central bank)

- State-chartered banks only
- Wildcat banks – “out amongst the wildcats”
- Price of gold and silver **very** stable
- Some large local banks acted as clearinghouses
 - Performed functions of central bank
 - Accepted bank notes from other banks

Nationally Chartered Banks

1863 to 1937: Nationally chartered banks

National Bank Act 1863

- Created system of nationally chartered banks
- Established Office of Comptroller of Currency under U.S. Treasury Department
- Created uniform national currency (Lincoln's "greenbacks")

Nationally Chartered Banks

1863 to 1937: Nationally chartered banks

National Bank Act 1863

- Required banks to use U.S. Treasury securities as reserves
- Motivated banks to buy U.S. bonds – financed war
 - Taxed state-chartered banks out of existence
 - Required banks to accept deposits at **face value**

Panic of 1907

- Also known as the “Banker’s Panic”
 - ~50% fall in NYSE from previous year
 - Numerous bank runs and failures
- Lack of market liquidity and “lender of last resort”
 - J.P. Morgan led group that injected **\$8.25MM** into NY banks
 - U.S. Treasury Secretary George Cortelyou deposited **\$25MM**
 - John D. Rockefeller provided **\$10MM**
- Led to 1908 **Aldrich-Vreeland Act**
 - National Monetary Commission

Federal Reserve Act of 1913

- Created 12 Reserve Banks in specific cities with districts:
 - Atlanta, GA
 - Boston, MA
 - Chicago, IL
 - Cleveland, OH
 - Dallas, TX
 - Kansas City, MO
 - Minneapolis, MN
 - New York, NY
 - Philadelphia, PA
 - Richmond, VA
 - St. Louis, MO
 - San Francisco, CA
- Capitalized by member banks *within* districts
- Member banks control Board of Directors
- Member banks appoint chairman and president

Federal Reserve Act of 1913

- Use “elastic” currency
 - Grow or shrink depending on economic conditions
- Practice “fractional” banking
 - Maintain reserves on deposit with Federal Reserve

Federal Reserve Act of 1913

- Backed by gold on deposit at Federal Reserve
 - U.S. on “gold standard”
- U.S. Treasury secretary and comptroller of currency are *ex officio* members of the Federal Reserve Bank
- Gives Federal Reserve responsibility for setting monetary policy

Federal Reserve Act of 1913

“Those who cannot remember the past are condemned to repeat it.

Skepticism, like chastity, should not be relinquished too readily.”

George Santayana

Federal Reserve Act

Section 2a. Monetary Policy Objectives

- The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively **the goals of maximum employment, stable prices and moderate long-term interest rates.**
- [12 USC 225a. As added by act of Nov. 16, 1977 (91 Stat. 1387) and amended by acts of Oct. 27, 1978 (92 Stat. 1897); Aug. 23, 1988 (102 Stat. 1375); and Dec. 27, 2000 (114 Stat. 3028).]

[emphases added]

Federal Reserve Act

Board of Governors

- The seven members of the Board are nominated by the president and confirmed by the Senate. A full term is 14 years. One term begins every two years, on February 1 of even-numbered years. A member who serves a full term may not be reappointed; a member who completes an unexpired portion of a term may be reappointed.
- The chairman and vice chairman of the Board are named by the president from among the members and confirmed by the Senate. They serve a four-year term. A member's term on the Board is not affected by his or her status as Chairman or Vice Chairman.
- Currently:
 - Jerome "Jay" Powell, Chairman
 - Richard H. Clarida, Vice Chairman
 - Randall K. Quarles, Vice Chairman For Supervision
 - Michelle W. Bowman
 - Lael Brainard

Fed Open Market Committee (FOMC)

And What It Means to *You*

Fed Open Market Committee (FOMC)

- The Federal Reserve controls the three tools of monetary policy:
 - Reserve requirements – Board of Governors
 - Discount rate – Board of Governors
 - Open market operations – FOMC
- Using these tools, the Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks
 - Alters the **federal funds rate** – the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight

Fed Open Market Committee (FOMC)

2019 FOMC Members

- Jerome H. Powell, Board of Governors, Chairman
- John C. Williams, New York, Vice Chairman
- Michelle W. Bowman, Board of Governors
- Lael Brainard, Board of Governors
- James Bullard, St. Louis
- Richard H. Clarida, Board of Governors
- Charles L. Evans, Chicago
- Esther L. George, Kansas City
- Randal K. Quarles, Board of Governors
- Eric Rosengren, Boston

2019 Alternate Members

- Patrick Harker, Philadelphia
- Robert S. Kaplan, Dallas
- Neel Kashkari, Minneapolis
- Loretta J. Mester, Cleveland
- Michael Strine, First Vice President, New York

Structure of the FOMC

- 12 members:
 - Members of the Federal Reserve System Board of Governors (7)
 - President of the Federal Reserve Bank of New York (1)
 - The remaining 11 Reserve Bank presidents serve rotating one-year terms (4)
 - Filled from the following four groups of Banks, one Bank president from each group:
 - Boston, Philadelphia and Richmond
 - Cleveland and Chicago
 - Atlanta, St. Louis and Dallas
 - Minneapolis, Kansas City and San Francisco
 - Non-voting Reserve Bank presidents attend Committee meetings, participate in the discussions and contribute to the Committee's assessment of the economy and policy options

The FOMC holds eight regularly scheduled meetings per year. At these meetings, the committee reviews economic and financial conditions, determines the appropriate stance of monetary policy and **assesses the risks to its long-run goals of price stability and sustainable economic growth.**

Primary Government Securities Dealers

- Bank Nova Scotia, New York Agency
- BMO Capital Markets Corp.
- BNP Paribas Securities Corp.
- Barclays Capital Inc.
- Cantor Fitzgerald & Co.
- Citigroup Global Markets Inc.
- Credit Suisse AG, New York Branch
- Daiwa Capital Markets America Inc.
- Deutsche Bank Securities Inc.
- Goldman Sachs & Co. LLC
- HSBC Securities (USA) Inc.
- Jefferies LLC
- J.P. Morgan Securities LLC
- Merrill Lynch, Pierce, Fenner & Smith Incorporated
- Mizuho Securities USA LLC
- Morgan Stanley & Co. LLC
- NatWest Markets Securities Inc.
- Nomura Securities International, Inc.
- RBC Capital Markets, LLC
- Societe Generale, New York Branch
- TD Securities (USA) LLC
- UBS Securities LLC
- Wells Fargo Securities, LLC

Source: <https://www.newyorkfed.org/markets/primarydealers>



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Resources

Wall Street Journal Online U.S. Treasury Yields

http://online.wsj.com/mdc/public/page/mdc_bonds.html?refresh=on

U.S. Department of the Treasury

<http://www.treasury.gov/Pages/default.aspx>

Securities Industry & Financial Markets Association (SIFMA)

<http://www.investinginbonds.com/>

Board of Governors of the Federal Reserve System

<http://www.federalreserve.gov/>

News and Market Information

FINRA Market Data

<http://finra-markets.morningstar.com/BondCenter/Default.jsp>

Real Clear Markets (*news aggregator*)

<http://www.realclearmarkets.com/>

Business Insider (*news aggregator*)

<http://www.businessinsider.com/>

ZeroHedge (*news aggregator*)

<http://www.zerohedge.com/>

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<https://fred.stlouisfed.org/>

SIFMA Investing in Bonds Overview

<http://www.investinginbonds.com/learnmore.asp?catid=2&id=62>

2017 Florida Statutes

<http://www.leg.state.fl.us/Statutes/index.cfm?Mode=View%20Statutes&Submenu=1&Tab=statutes>

Thank You

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Questions?

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