

FEDERAL RESERVE BANK
OF NEW YORK

AUGUST 1, 1916.

TO THE CASHIER :

SIR :

The officers of several member banks have recently advised us that in order to compensate them for loss of exchange caused by the operation of the Federal Reserve Collection System, they plan to revise their methods of operation and to analyze the accounts of depositors to ascertain which, if any, are unprofitable.

They believe that analysis will reveal that losses generally arise from the following conditions :

1. Excessive rates of interest paid on deposits.
2. Active checking accounts of depositors who maintain insufficient balances.
3. Uncollected items included in interest bearing balances.

Based on this analysis, they propose to ask their depositors to place their accounts on a paying basis by either

- (a) Maintaining a compensating balance, or
- (b) Paying a regular monthly charge for the bank's service, or
- (c) Paying a definite amount for each check used.

It would seem that such a policy is both sound and desirable, and that the opening of the collection system on July 15th affords an exceptional opportunity for a revision of relations with depositors.

In this work the Federal Reserve Bank of New York desires to render whatever assistance it may to its member banks, and to this end have prepared and send herewith a method of analysis of depositors' accounts, adapted to the average bank's business, by the use of which the net profit or loss arising from each account can be determined. If desired, additional copies of the method of analysis, together with information received from various banks, describing methods by which their unprofitable accounts have been placed on a paying basis, will be furnished.

To those who make use of the analysis and desire further information or expert assistance, this bank will, upon request, endeavor to send a representative to assist temporarily. Additional copies of the pamphlet will be supplied, if desired.

These suggestions are made in the interest of member banks, and, of course, their adoption is entirely optional.

Trusting that we may be of service to you, I am,

Very truly yours,

R. H. TREMAN,
Deputy Governor.