

FEDERAL RESERVE BANK
OF NEW YORK

Collection Department

[Circular No. 673, June 1, 1925]
Superseding Circular 516

Collection of Maturing Notes, Bills and Other
Collection Items

To all Member Banks in the Second Federal Reserve District:

You will find in this circular the current rules and regulations covering the collection of maturing notes, bills, and other collection items by this bank. The provisions of this circular supersede the provisions of our Circular 516 issued January 2, 1923.

This circular, however, does not cover the collection of checks, the rules and regulations governing which are specifically set forth in our Circular No. 672, dated June 1, 1925.

This circular covers the mutual rights and duties of this bank and all banks which send maturing notes, bills, and other collection items to us for collection, and also the conditions to be observed by banks to which we send such items for collection and remittance.

1. GENERAL CONDITIONS UNDER WHICH COLLECTION ITEMS ARE ACCEPTED

Every member or nonmember clearing bank which sends maturing notes, bills or other non-cash items to the Federal Reserve Bank of New York or to another Federal Reserve Bank direct for the account of this bank by such action will be understood to have agreed (a) to all the terms and conditions of this circular, (b) to have warranted to the Federal Reserve Banks that it has authority to empower the Federal Reserve Banks to handle items in the manner herein provided, and (c) to have agreed to indemnify any Federal Reserve Bank for any loss resulting from the failure of such sending bank to have such authority.

1. Federal Reserve Banks will act only as the collecting agent of the sending bank and will be responsible only for due diligence and care in forwarding or presenting such items.
2. Federal Reserve Banks are authorized to present or forward such items, for payment in cash or bank draft direct to the bank on which they are drawn, at which they are payable, or through which they are collectible, or to present them direct to the person, firm, or corporation on which they are drawn, for payment in cash or bank check, or in their discretion forward them to another agent with the same authority that they have to present or forward them for payment.
3. Except as herein provided, the Federal Reserve Banks shall be held liable only when they have received actual payment in cash or in the proceeds of a bank draft or check.

2. ITEMS RECEIVED UNDER THIS CIRCULAR

The Federal Reserve Bank of New York will receive for collection from its member banks:

- (a) All classes of time items and sight and demand drafts, with or without securities, bills of lading, or other documents attached;
- (b) Drafts on savings banks with pass books attached;
- (c) Checks, drafts, or other cash items that have been dishonored or protested;
- (d) Maturing bonds and coupons.

The Federal Reserve Bank of New York will not receive:

Checks or bank drafts drawn on or payable by nonmember banks which cannot be collected at par.

Direct Sending to Other Federal Reserve Banks of Collection Items

Member banks may, under certain conditions, route certain collection items payable in other districts direct to other Federal Reserve Banks and branches for our account, provided permission to do so is first obtained from the Federal Reserve Bank of New York.

3. CREDIT AND HANDLING OF COLLECTION ITEMS BY FEDERAL RESERVE BANK OF NEW YORK

Credit for Collection Items Sent to Us, Other than Maturing Bonds and Coupons

Upon receipt of payment for items received by us under this circular, credit will be given in the reserve account of the member bank depositing such items, and such member bank will be advised of the credit. Items returned unpaid will be returned to the bank that deposited them for collection.

While credit will be given on items payable in other Federal Reserve districts only upon receipt by us of advice of payment from other Federal Reserve Banks, nevertheless adjustments in the reserve accounts will be made on items of \$1000 and over as of the dates payments were actually received by the other Federal Reserve Banks.

The proceeds of bankers acceptances will be available, subject to final payment, in accordance with the following schedule:

<i>Place Payable</i>	<i>Credit Available</i>
Federal Reserve or branch cities	On maturity date.
Elsewhere all districts, except as follows,	1 day after maturity.
(a) Maryland, District of Columbia and Virginia	2 days after maturity.
(b) West Virginia, North Carolina and South Carolina	3 days after maturity.

Credit for Maturing Bonds and Coupons

Credit will be given, or, if desired, a check will be issued, on due date, for coupons from United States Government bonds, notes, and certificates of indebtedness, Federal Intermediate Credit Bank obligations, and from Farm Loan bonds issued by the Federal Land Banks.

Proceeds of bonds and coupons, other than United States Government obligations, due or past due, payable in the City of New York, forwarded to us for collection only, will be credited upon receipt of payment and advice of payment will be given at that time. If, however, they are *listed to us in a coupon cash letter*, credit will be given, subject to final payment of such items, one day after receipt when received by 9 A. M. Proceeds of maturing bonds or coupons, payable outside of the City of New York, will be credited to the sending bank's reserve account upon receipt of payment and advice of payment will be given at that time.

4. FREE COLLECTION SERVICE

No service charge for collecting items received under the terms of this circular will be made by this bank. It is recognized, however, that a bank, which we may select, in presenting and remitting for maturing notes, bills and other such items, renders a service for which it may legally ask a reasonable charge, if it cares to do so. If any such charge is made it will be deducted from the face amount of the item, and credit will be given for the actual proceeds, as indicated in our advice of credit. Many of our collecting banks, however, are remitting without charge, and for the benefit of our members items will be presented whenever practicable through such banks.

Inasmuch as collection items, payable in any Federal Reserve or Federal Reserve branch city, are collected by us through the Federal Reserve Bank or branch in that city, no such collection charge, therefore, will be made in any such case.

The Federal Reserve Banks, however, will charge for the actual shipping and insurance expense incurred in forwarding securities or coupons or other non-cash items for collection by mail or express.

A service charge of 15 cents per item will be made on all non-cash collection items returned unpaid and unprotested. This charge will not apply on items that are protested.

COLLECTION OF MATURING NOTES, BILLS, AND OTHER COLLECTION ITEMS

When we are requested to do so by member banks, telegraphic advice of payment or non-payment of non-cash collection items will be obtained by us and telegraphic advice will be given. All telegraphic costs in connection with such service, as well as all telegraphic costs in connection with tracing, or in connection with special instructions, etc., will be charged to the requesting member bank.

Interpretation of Telegraphic Terms

Special attention is called to the fact that in accordance with the practice prevailing among Federal Reserve Banks, certain terms are used in requesting telegraphic advice in connection with collection items. The meaning of each of these terms as construed by the Federal Reserve Banks is stated below and member banks are requested to use them in accordance with the same understanding of their meaning. For the protection of this bank, as well as the protection of its members, the Federal Reserve Bank of New York will place the following interpretations upon these terms.

(a) "WIRE PAYMENT" when it is desired that the collecting agent furnish telegraphic advice that actual payment has been made by the drawee or payer. It will be assumed that banks requesting "WIRE PAYMENT" are interested in knowing that an item has been paid to the collecting agent and are not particularly interested in receiving proceeds immediately for reserve purposes. It will be understood that when a Federal Reserve Bank gives such advice of payment, it does not necessarily imply that actually collected funds are in the possession of the Federal Reserve Bank.

(b) "WIRE NON-PAYMENT" when a telegraphic advice of dishonor only is desired.

(c) "WIRE FATE" or "WIRE PAYMENT OR NON-PAYMENT" when a prompt advice of payment or non-payment by the drawee or payer is desired.

(d) "WIRE CREDIT" when a telegraphic advice of final or actual payment and of credit for reserve purposes is desired.

5 PRACTICE FOR SENDING BANKS

Collection Items Other than Maturing Bonds and Coupons

Member banks are requested to list collection items, other than maturing bonds or coupons, in a separate letter and to use care to distinguish such letters from cash letters (letters containing checks sent for credit in accordance with the published time schedule). Items forwarded for "collection and credit when paid" should be listed on a letter preferably different in form from that on which cash items are listed. It is desirable that collection letters include the phrase "credit only when actually paid" and also that they give a complete description of each item enclosed as follows: Member bank's collection number, name of payer, place of payment, maturity date, amount, and instructions.

If documents are attached, their character also should be noted on the collection letter.

The Federal Reserve Bank of New York will be guided entirely by the instructions contained in the member bank's collection letter. Instructions or notations on or attached to any item will not be recognized unless such special notations are also mentioned opposite the item in the collection letter.

Guarantee of all Prior Indorsements

Non-cash collection items will be received from member and nonmember clearing banks only upon the condition that all prior indorsements are guaranteed by the depositing member bank. The indorsement stamp of the member bank should, therefore, have incorporated in it the phrase "all prior indorsements guaranteed."

In order to facilitate the handling of non-cash items and to avoid the delay incident to returning any items upon which prior indorsements are not guaranteed, the act of sending non-cash collection items to this bank or to another Federal Reserve Bank or branch for our account will be deemed to constitute a guarantee of all prior indorsements, whether or not a specific guarantee is incorporated in the indorsement stamp of the depositing member bank.

Maturing Bonds and Coupons, Except Government and Farm Loan Coupons

Maturing bonds and coupons must be listed in a separate letter, and not included in a letter enclosing checks, notes, bills, or other collection items.

COLLECTION OF MATURING NOTES, BILLS, AND OTHER COLLECTION ITEMS

For their own protection and to insure safety, member banks should forward bonds, coupons or other valuable securities by registered mail insured or by express.

In forwarding coupons payable in New York City member banks are requested to distinguish between *coupon cash letters* and *coupon collection letters*. It is suggested that, if final advice of payment is desired, the letter be headed "For Collection Only."

Coupons payable outside of New York City should be listed in a separate letter.

Maturing bonds and coupons sent to us for collection should be listed separately as to each class, and only coupons of one class should be enclosed in one coupon envelope.

Coupon envelopes should show a complete description of the coupons enclosed. They should show the name of the sending bank and if possible the name of that bank's depositor.

Envelopes always should be listed separately on the sending bank's collection letter.

Envelopes enclosing coupons owned by domestic or resident corporations should bear stamp of the depositing bank, as follows: "The coupons enclosed, without ownership certificates attached, are owned by a domestic or resident corporation."

Coupons cut from tax free bonds owned by individuals must have proper ownership certificates attached.

Envelopes containing coupons cut from bonds not containing tax free covenant clause and owned by an individual should bear a stamp showing whether the owner is a citizen, alien resident or alien non-resident.

Ownership certificate forms should be obtained from the collector of internal revenue of the member bank's district. We, however, can furnish a small supply for immediate use.

Government and Farm Loan Coupons

Maturing coupons from United States Government bonds, notes, and certificates of indebtedness, Federal Intermediate Credit Bank obligations, and from Farm Loan bonds issued by Federal Land Banks, should be enclosed in envelopes according to loans and listed on a schedule provided for the purpose. Upon request, we will furnish the prescribed schedules and envelopes.

These coupons may be deposited ten days in advance of due date, for credit on the due date.

6. PRACTICE FOR COLLECTING BANKS

Each note, bill, or other item, sent by us for collection, will be accompanied by our form in current use, containing the following general instructions unless cancelled by other special instructions:

Do not remit for this collection unless it is actually paid.

Do not hold after maturity or for convenience of payer.

Deliver documents only on payment of drafts.

Unless otherwise instructed by us, protest all unpaid items over \$10.00 and return immediately with reason for non-payment.

It is desirable that payment be made by advice of credit, preferably on our form that accompanies the item, with proper notation of the payment of the item, and an authorization for the charge to the collecting bank's reserve account.

If payment is not made by advice of credit, remittance should be sent in New York exchange

Collecting banks are requested to follow carefully the instructions contained in our collection letter with regard to presentation, protest, etc.

The right is reserved to withdraw, add to, or amend at any time, or from time to time, any or all of the foregoing rules and regulations, with or without previous notice.

Very truly yours,

BENJ. STRONG,
Governor.