

EXCHANGE CHARGES

Proposal

Permit each existing insured bank with deposits not exceeding \$1,000,000 and located in a place with a population not exceeding 2500 in which there is now a nonpar bank to charge exchange in remitting for checks drawn upon itself, and grant the same privilege until 1941 to other existing banks not now on the par list. Permit all insured banks to absorb exchange charges on checks drawn upon banks that are permitted to make exchange charges.

Discussion

While one of the purposes of the Federal Reserve Act was to facilitate the collection of deposit currency at par throughout the nation, there are many small banks in certain sections of the country that still make a practice of charging exchange on their own checks as a means of supplementing earnings. At present member banks are prohibited from charging such exchange whereas nonmember banks can do so. In many communities this has created a discriminatory situation to the disadvantage of the member banks. The practice of charging is widespread in certain sections and many smaller banks following the practice would be crippled if this revenue were denied to them.

Most, if not all, of the banks which are dependent upon exchange charges have deposits of less than a million dollars and are located in towns with a population not exceeding 2500. The above proposal would permit the practice by that class of banks.