

# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9206

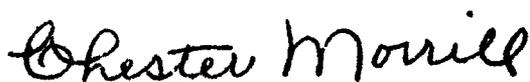
May 10, 1935.

Subject: Absorption of the Expense of the  
Special Printing of Checks as an  
Indirect Payment of Interest.

Dear Sir:

You will find inclosed a copy of a letter .  
which the Board has recently written with respect  
to the question whether the absorption by a member  
bank for favored customers of the "out-of-pocket"  
expense of the special printing of checks amounts  
to a payment of interest on a deposit payable on  
demand which is prohibited by the provisions of  
section 19 of the Federal Reserve Act.

Very truly yours,



Chester Morrill,  
Secretary.

Inclosure.

LETTER TO ALL F. R. AGENTS.

X-9206-a

May 10, 1935.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_.

Dear \_\_\_\_\_:

This refers to your telegram of \_\_\_\_\_ and your two letters of \_\_\_\_\_, which relate to the practice of banks in absorbing for favored customers "extra out-of-pocket expenses" arising from the special printing of checks. You state that it is the regular practice of banks to supply all depositors with a standard form of check without cost and that depositors are also provided without expense with sheets of check paper, either printed according to the standard form of the supplying bank or unprinted. Your letter goes on to state that there are other costs incurred for customers, such as the expense of "over-printing" the bank's standard form of check or of supplying special paper, which are absorbed by the banks for some of their customers and not for others and that it is impossible to set forth the circumstances which determine whether or not a bank will absorb such expenses for a particular depositor although it is undeniable that the value of a depositor's account or of his patronage is taken into consideration by the bank. You request a ruling of the Board as to whether a member bank may, without violating the provisions of section 19 of the Federal Reserve Act which prohibit the payment of interest on deposits payable on

demand, absorb for certain depositors and not for others the out-of-pocket expense incurred in the special printing of checks.

As you know, the Federal Reserve Board has heretofore issued certain rulings relating to the absorption of exchange and collection charges by member banks and these for convenience may be summarized as follows:

(1) The absorption of exchange or collection charges in amounts which vary with or bear a substantially direct relation to the amount of a depositor's balance amounts to an indirect payment of interest in violation of section 19 of the Federal Reserve Act, if the deposit is payable on demand.

(2) The absorption or payment of such charges in amounts which do not vary with or bear a substantially direct relation to the amount of the depositor's balance is not prohibited by law.

(3) If exchange charges and other actual out-of-pocket expenses are included in an analysis of an account which also includes a credit allowed the customer for interest or for the reasonable value of the account to the bank, interest is paid to the extent that such credit offsets out-of-pocket expenses absorbed by the bank; and any such payment with respect to a deposit payable on demand is in violation of law.

(4) If exchange charges and other out-of-pocket expenses are omitted entirely from an analysis of an account, credit for the earning value of the account to the bank may lawfully be included in such analysis, provided no payment is made to the customer with respect to such account and the analysis is used solely for the purpose of determining whether the bank itself is properly compensated for the services which it renders to the customer and/or what service charges, if any, must be assessed against the customer.

(5) The Board has also ruled that it sees no objection to the adoption of a clearing-house rule substantially in accordance with a rule which was submitted for the Board's consideration and which reads as follows: "No bank shall make a regular practice of absorbing for any customer all exchange or collection charges or other out-of-pocket

expenses incurred on behalf of such customer; but, in exceptional circumstances, when it would create friction or misunderstanding to charge a customer for isolated items of trivial amounts, the banks may absorb such individual items, including isolated exchange and collection charges and charges for telephone calls, telegrams, and similar items, provided that the banks act in good faith and do not utilize the absorption of such items as a basis for soliciting accounts or attempting to obtain an advantage over competitors."

Although the rulings summarized above relate specifically to the absorption of exchange and collection charges, the principles set forth are applicable also to the absorption of other charges and expenses such as the special printing of checks for customers and, accordingly, it is believed that the answer to your inquiry may be determined by the application of the principles which have already been enunciated by the Board to the situations in question. It is the Board's view that the expense of specially printing checks for specific customers and other similar expenses specially incurred for specific customers are to be regarded as out-of-pocket expenses within the meaning of the rulings above referred to but it is not believed that the furnishing to customers of a standard form of check which involves no special printing for specific customers is to be regarded as such an out-of-pocket expense. Each case, of course, will be governed by its own particular facts, but as a general rule and subject to the qualification set forth in the last paragraph of the above summary, the absorption by a bank of the out-of-pocket expense of printing checks in a special manner for a

specific customer will be in violation of section 19 of the Federal Reserve Act if the amount of charges so absorbed varies with or bears a substantially direct relation to the amount of the depositor's balance in an account payable on demand, or if such expense is included in an analysis of the depositor's account and is there offset by a credit allowed the customer for interest or for the reasonable value of the account to the bank.

Your letters also raise certain related questions which are not dealt with in the foregoing discussion. You indicate that if a bank furnishes a depositor with unprinted paper in order that the depositor may print his own checks, it is customary for the bank to reimburse the depositor for the amount of printing cost which would have been incurred by the bank in printing such checks in the standard form which it furnishes without charge to all of its depositors. It is assumed that the paper so furnished to the depositor is of a grade not more expensive than the paper used by the bank for its standard form of checks. You also indicate that if a depositor purchases paper and pays for his own printing of checks he is reimbursed by the bank in an amount equal to the cost to the bank of supplying the depositor with the same number of checks in the bank's standard form. The Board does not find in the provisions of section 19 of the Federal Reserve Act any objection to a bank's reimbursing a depositor to the extent indicated in either of the two instances referred to in this paragraph.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.