

STUDY OF CHECK COLLECTION SYSTEM

Report of
Joint Committee on Check Collection System

to

The American Bankers Association
Association of Reserve City Bankers
Conference of Presidents of the
Federal Reserve Banks

June 15, 1954

LETTER OF TRANSMITTAL

JOINT COMMITTEE ON CHECK COLLECTION SYSTEM,

June 15, 1954.

ADMINISTRATIVE COMMITTEE OF
THE AMERICAN BANKERS ASSOCIATION,

BOARD OF DIRECTORS OF THE
ASSOCIATION OF RESERVE CITY BANKERS,

CONFERENCE OF PRESIDENTS OF THE
FEDERAL RESERVE BANKS:

The Joint Committee appointed in 1952 to make a comprehensive study of the check collection system of the nation submits herewith its report and recommendations.

When this study was originally authorized, an estimate was made that it might be completed within six months. That schedule could not be adhered to because, as the study progressed, it became evident that its scope should be more detailed and comprehensive than originally contemplated. Nearly a year was required just to assemble and analyze the factual material on which the study is based. Although completion of the report has been delayed, the committee believes that the study should be of considerably more value than any which could have been completed within six months.

Respectfully,

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PREFACE

This report contains the findings and recommendations of the committee appointed jointly by The American Bankers Association, the Association of Reserve City Bankers and the Federal Reserve System to make a comprehensive study of the check collection system of the nation. The general objective of the study was to determine whether fundamental improvements could be made in check collection methods and practices to increase the speed and efficiency of check collections for the benefit of the banking system and the general public.

The recommendations set forth in this report are based upon: (1) findings of fact established by extensive surveys of all aspects of the check collection system; (2) suggestions made by a number of bankers and others who wrote or talked to the committee; and (3) the committee's conception of the criteria of an ideal check collection system. The recommendations are not novel; most of them have been tested in actual operation, although usually on a limited scale. Their practical merit is underlined by the earlier tests and by the findings stated in the report. With approval and effective sponsorship by representative banking groups, the changes recommended may be put into effect.

Adoption of the recommendations on a general scale will minimize handlings, expedite presentation and otherwise contribute to an improved check collection system for banks and their customers. With present volume, and a prospective continued growth trend, check handling is, and will remain, a difficult volume operation. It is imperative, therefore, to improve the efficiency of current methods.

The committee has approached the assigned problem objectively. Its recommendations are based upon consideration of whether a given change in current methods will contribute to speed and efficiency of check collections from the standpoint of the entire banking system and its depositors; they are not prompted, nor are they influenced, by the effect which they will have upon the volume of check activity at any particular bank or class of banks. An equally objective attitude on the part of bankers is essential to a proper appraisal of the recommendations.

JOINT COMMITTEE ON CHECK COLLECTION SYSTEM

CHAPTER I

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Among the many services performed by the nation's banking system, the provision of channels through which money payments flow from one point to another ranks high in importance. More than 90 per cent of the dollar amount of such payments in the United States is made by check. A check collection system that functions smoothly and efficiently is of key importance in facilitating the flow of these payments.

The volume of check payments has been growing rapidly in recent years. The number of checks drawn increased about 10 per cent per year on the average from 1939 to 1952. In the latter year, about 8 billion checks, amounting to \$2 trillion, were drawn and paid. Volume and amount were even higher in 1953, and the signs point to continued growth in the future. Should the 1939-52 trend continue, 14 billion checks would be written in 1960; and by 1970, check volume would be 22 billion. These totals may not be reached, of course, but certainly future volume may be expected to exceed present levels substantially.

The tremendous increase during recent years in the volume of check payments has given rise to increasingly difficult operating and personnel problems for banks. Today's problems, coupled with awareness of the probable continued increase in check payments, were the primary reasons for the sponsorship of this study by three representative banking groups.

The principal assignment of the Joint Committee on Check Collection System was to determine whether speed and efficiency of check collections through the banking system could be increased by fundamental changes in current methods and practices. Attention has been concentrated on four principal areas of inquiry: (1) What are the current methods and practices? (2) What problems do these methods and practices create for banks? (3) What changes in current methods and practices

would remove or alleviate those problems, and otherwise contribute to speedier and more efficient collections? (4) What would be the implications of such changes for the banking system?

The committee's findings in these areas are summarized below, under the headings A. Volume, Pattern, and Problems of Check Collection, B. Summary of Recommendations, and C. Implications for the Banking System.

A. Volume, Pattern, and Problems of Check Collection

1. Volume of Check Payments

The number of checking accounts in this country increased from 27 million to 47 million between 1939 and 1952. In the same period, the number of checks written annually grew from an estimated 3 1/2 billion to nearly 8 billion. About 7 billion of the checks written in 1952 were drawn on the more than 14,000 commercial banks throughout the country; of the balance, 450 million were checks drawn on the Treasurer of the United States, 370 million were United States postal money orders, and 2 million were checks drawn on Federal Reserve Banks.

About 6,800 of the banks on which checks were drawn were members of the Federal Reserve System, about 5,500 were par remitting nonmember banks, and about 1,800 were banks which did not remit at par for all items presented to them for payment.

On an average day in 1952, about 29 million checks were written, and approximately the same number were deposited in or cashed at banks. Of the checks deposited in or cashed at the average bank on that day, one in five was drawn on that bank and was charged to the drawer's account. The remaining four were drawn on other banks

and were collected through the check collection facilities provided by the banking system of the country.

The collection of items represented by these four checks is the principal subject with which this study is concerned. The objective is to get these checks from the first collecting bank to the drawee bank by the most expeditious and direct route available, and to obtain prompt remittance in a form readily available to the first collecting bank and its depositor.

The average check deposited in or cashed at a bank passed through $2 \frac{1}{3}$ banks in the process of collection from the drawee bank, and about $2 \frac{1}{3}$ business days elapsed between the date it was deposited or cashed and the date it was presented for payment. Checks in process of collection through the banking system on an average day in 1952 numbered about 69 million,¹ of which 29 million were presented to drawee banks for payment on that day. Of the remaining 40 million, 15 million were payable at banks in the same cities as the collecting banks, 24 million were par items payable at out-of-town banks, and 1 million were non-par items.

Forty per cent of all checks written in 1952 were drawn on 207 banks, each with \$100 million or more in deposits on June 30, 1952. Nearly two-thirds of all check collection activity was centered in these banks plus the 12 Federal Reserve Banks and their 24 branches. Thus large commercial banks and the Federal Reserve Banks served together as the major centers of the check collection system.

About two-thirds of one per cent of all items presented for payment in 1952 were returned unpaid. This amounted to about 175,000 items returned unpaid each day, or about 50 million for the year. Fifty-four per cent of the unpaid items were returned because of insufficient funds, and another 19 per cent because of missing or irregular endorsements. Sixty-four per cent of all unpaid items were in amounts

1. Because of seasonal and other factors, total daily volume during the year fluctuated between 60 and 75 million items.

less than \$50. On the basis of average 1952 experience, the estimated cost to the banking system of handling return items was between 10 and 20 million dollars a year.

2. The Patterns of Check Collections

In order to ascertain the patterns of check collections, attention was focused on three aspects of the check collection system: (a) the sources from which a bank receives checks for collection; (b) the channels through which it forwards such checks in order to collect them; and (c) the sources from which a drawee bank receives items presented to it for payment. The picture thus obtained has been given greater detail by considering each of these aspects in relation to the deposit size of banks, and in relation to banks' status for reserve purposes (Reserve City banks² and country banks).

(a) Sources of checks received for collection

The two principal sources from which a bank receives checks for collection are: (1) checks cashed at the window or received in deposits of customers, and (2) checks received from other banks for collection. In all banks of the country, 74 per cent of checks received for collection in 1952 were derived from the first source, and 26 per cent from the second. Size of bank influenced this ratio considerably. At banks with less than \$25 million in deposits, virtually no items were received from other banks, while at banks with \$100 million or more in deposits, about 40 per cent of all items collected were received from other banks. The same comparison may be made between country banks and Reserve City banks. Of all items received by Reserve City banks for collection, 40 per cent were received from other banks, whereas only 6 per cent of items received for collection by all country banks came from other banks. These figures show the extent to which Reserve City banks and larger country banks (over \$100 million in deposits) engage in check collection activities on behalf of smaller correspondent banks.

2. References in this report to "Reserve City banks" include both Reserve City banks and Central Reserve City banks.

(b) Disposition of checks received for collection

Thirty-four per cent of all checks received by banks for collection during 1952 were presented to drawee banks in the same community through local clearings. This proportion was relatively uniform at banks of all size classes, allowing for the fact that many small banks were in one-bank towns and therefore collected no items through local clearings. Reserve City banks collected 37 per cent of the checks they received through clearings, and country banks 31 per cent.

At all banks of the country in 1952, 34 per cent of checks received for collection were sent to Federal Reserve Banks, 22 per cent were sent to correspondent banks, and 5 per cent were presented by mail directly to the drawee banks. The variations in the proportion of items sent to Federal Reserve Banks or to correspondent banks by banks of different size classes or of different reserve status are significant. Banks with less than \$7.5 million in deposits sent 48 per cent of the checks they received for collection to correspondent banks, and only 17 per cent to Federal Reserve Banks. As the deposit size of banks increased the percentage of items sent to correspondent banks became progressively smaller, until in the largest banks (with deposits exceeding \$500 million), only 5 per cent of checks received for collection were sent to correspondent banks, while 41 per cent went to Reserve Banks. Reserve City banks of all sizes tended to make extensive use of Federal Reserve check collection facilities, but country banks depended more upon the facilities provided by correspondent banks. For example, Reserve City banks sent 42 per cent of all items they received for collection to Federal Reserve Banks, and only 8 per cent to correspondent banks; in contrast, the corresponding percentages for country banks were 23 per cent and 41 per cent, respectively.

3. Except where the context is clearly to the contrary, references in this report to "Federal Reserve Banks" include Federal Reserve Banks and branches; and references to "Federal Reserve cities" include cities in which either a Federal Reserve Bank or branch is located.

Both Reserve City banks and the larger country banks used direct mail presentation to collect checks from drawee banks. On the average, 8 per cent of the items received by Reserve City banks and 2 per cent of the items received by country banks were collected this way. About half the items mailed directly were drawn on nonpar banks.

(c) Sources of checks presented to drawee banks for payment

The final form of the pattern appears when consideration is given to the sources from which a drawee bank receives items presented to it for payment. At all banks of the country in 1952, 42 per cent of checks paid were received through local clearings, 24 per cent were received from Federal Reserve Banks, 11 per cent were received direct from other banks, and the rest were checks cashed at the window or received in deposits of customers.

The percentage of items received through clearings varied with the size of bank, running from 22 per cent for banks with less than \$7.5 million in deposits up to 68 per cent for the largest banks. These figures were influenced, at the lower end of the scale, by the absence of local clearings in one-bank towns, and at the opposite end by the fact that many items presented to a drawee bank through the clearings in a large city were presented by other commercial banks or a Federal Reserve Bank in the city that had received them from out-of-town banks for collection.

The percentage of checks presented to drawee banks through the mail by Federal Reserve Banks varied with the location of the banks. Reserve City banks got relatively few items by mail from Federal Reserve Banks. (Most were located in Federal Reserve cities, and items drawn on them were presented by the Federal Reserve Bank through the clearings.) But the largest country banks got 35 per cent and the smallest over 39 per cent of all items presented through the mail to them from Federal Reserve Banks.

Items presented to drawee banks by mail direct by other commercial banks were generally a larger percentage of all items presented in the case of smaller banks. At

banks with deposits of less than \$25 million, about 13 per cent of the items presented for payment were received through the mail from other banks. These items included both direct presentations to nonpar drawee banks, and presentations to par remitting drawee banks by certain correspondent banks.

(d) Extent of use of Federal Reserve facilities

In 1952, only about 3,300 of the nation's 14,000 commercial banks made any direct use of Federal Reserve check collection facilities. About 7,000 nonmember banks were not eligible to send checks directly to Federal Reserve Banks. About 6,800 member banks and 250 nonmember clearing banks did have direct access to Federal Reserve facilities, but of these only about 1,700 made full use, and 1,600 partial use of them.

Use of Federal Reserve facilities varied significantly according to size of bank. Less than 2,000 of nearly 12,000 small banks sent items directly to Federal Reserve Banks, whereas 550 of the 718 banks with \$25 million or more in deposits made direct use of the facilities.

Federal Reserve Banks, which handled about three-quarters of all par transit items, regularly sent cash letters to virtually every par remitting bank in the country.

(e) Items drawn on nearby banks

In 1952, 31 per cent of all out-of-town items received by country banks for collection were drawn on banks within 25 miles of the first collecting bank, and 16 per cent more were drawn on banks between 25 and 50 miles distant. Country banks generally collect items drawn on banks in nearby towns the same way they collect other out-of-town items -- they send them to a correspondent bank or Federal Reserve Bank, often at a considerable distance away. This practice almost always involves more handling of the items, more time spent in transit, and more delay in presentation and payment than would be involved in collecting the items directly from the drawee banks.

(f) Nonpar items

Nonpar items were only 1.5 per cent of the total number of items handled for collection in 1952. (There were about 1,800 nonpar banks in the country, but they held only about 1 per cent of all commercial bank deposits.)

About half of the nonpar items received for collection were sent by mail directly to the drawee banks; the remaining nonpar items were collected through correspondent banks. Smaller banks collected nonpar items for the most part through correspondent banks, while larger banks collected them to a greater extent by direct mail presentations to the drawee banks.

(g) Summary of the pattern of check collections

The general pattern of check collections disclosed by the data summarized above is as follows:

(i) Checks cashed at or deposited in banks, drawn on other banks in the same town, are usually presented and paid locally.

(ii) Methods of collecting items drawn on out-of-town banks vary according to the size and location of the first collecting bank, and also according to whether or not it is a member of the Federal Reserve System.

(iii) All nonmember banks and many smaller member banks tend to send all or most of the out-of-town items they get to correspondent banks (most of which are member banks). However, some smaller member banks send items drawn on or payable through the Federal Reserve Banks, and items drawn on commercial banks in Federal Reserve cities, directly to the Reserve Banks. Relatively few smaller member banks send all par items directly to the Federal Reserve Banks.

(iv) Larger member banks (particularly Reserve City banks)

acquire items for collection not only from their customers, but also (because of the check routing patterns described in the preceding paragraph) from smaller banks with which they maintain correspondent relationships. Items thus received that are drawn on other banks in the same city are collected through local clearing houses or other arrangements. Out-of-town items may be collected by sending them (by mail) directly to the various drawee banks, especially if the drawee banks are nonpar banks. But the larger member banks collect by far the greater proportion of their out-of-town items (including the items received from other banks) through Federal Reserve Banks.

(v) Federal Reserve Banks receive some items drawn on or payable through them directly from smaller country member banks. But they receive more from larger member banks, and principally from the Reserve City banks. These items, of course, include many received by the larger banks from smaller country banks, both member and nonmember.

(vi) Federal Reserve Banks receive directly from country member banks a considerable volume of items drawn on other banks in the same cities as the Federal Reserve Banks.

(vii) Items received for collection by Federal Reserve Banks, and drawn on banks in Federal Reserve cities, are collected by the Federal Reserve through the local clearing house or arrangement. These items amount to a substantial part of the total of all items presented to drawee banks in Federal Reserve cities.

(viii) Federal Reserve Banks receive some par items drawn on out-of-town banks directly from country member banks. But they get more such items from larger

member banks (principally Reserve City banks). As in (v), above, these items include many received by the larger banks from smaller country banks, member and nonmember.

(ix) By far the greatest number of items presented by mail to drawee banks outside Federal Reserve Bank cities is presented by Reserve Banks.

3. Problems Arising from Check Collection Patterns

The check collection problems of the banking system arise primarily out of the volume of checks that are written. This volume complicates collection operations and delays presentation of items. Yet there seems to be no feasible way to bring about any substantial reduction in the number of checks written; in fact, the trend of volume appears to be in the other direction.

This does not mean, however, that there is no possibility of reducing the volume of check collection operations in the banking system. The average check issued in 1952 passed through 2 1/3 banks in the process of collection. In effect, therefore, the volume with which the banking system was concerned from the standpoint of its check collection operations consisted not of 8 billion pieces of paper but of nearly 19 billion. If check collection patterns had been modified so that the average check written in 1952 had passed through only 2 banks, the total number of individual bank handlings would have been reduced to 16 billion without any reduction in the number of checks written and collected. The result would have been a reduction of nearly 15 per cent in the check collection work load of the banking system.

Accordingly, the committee undertaking this study focused its attention on the question: What modifications of existing check collection patterns can be made that will provide for presentation of checks to drawee banks by the most direct and expeditious routes available, and that will eliminate unnecessary han-

dlings? The recommendations summarized in the following section give the committee's answer. They are based on the underlying premise that by expediting presentation of checks, and eliminating unnecessary handling, the banking system can not only reduce operating expenses without any reduction in the number of check payments, but it and its depositors can also gain from faster payments and earlier availability of funds.

The study also covered several problem areas in check collection operations not directly associated with volume. Recommendations for changes in these areas are also summarized in the following section.

B. Summary of Recommendations

Following is a summary of the committee's recommendations for changes in current methods of check collection.⁴ In general, the recommendations are designed to bring current check collection methods into closer accord with the following criteria of an ideal check collection system:

1. Presentation to drawee by most expeditious and direct route available.
2. Minimum number of handlings.
3. Prompt remittance of proceeds in form readily available to first collecting bank and its depositor.
4. Prompt notification and prompt return to first collecting bank in the event of nonpayment.

The recommendations are summarized under five main headings: Checks payable at par in the same Federal Reserve District; checks payable at par in other Federal Reserve Districts; nonpar checks; items (other than nonpar checks) which Federal

4. The principles by which the committee was guided in formulating the recommendations, the situations to which they relate, and the facts justifying them are stated at length in Chapters IV and V. The parenthetical notes following each caption in this summary refer to the pages in those chapters where the basis for the recommendations is given.

Reserve Banks will not handle as cash items; and return items, check standards, and endorsements.

1. Checks payable at par in the same Federal Reserve District

a. Checks drawn on banks in the same town as the first collecting bank (pp. 74-77)

(i) Where there is a formal check clearing organization, such checks should be exchanged through the clearing organization, and net balances resulting from the exchanges should be settled on the day of the exchanges by entries on the books of a correspondent bank or of a Federal Reserve Bank.

(ii) Where there is no formal check clearing organization, informal arrangements should be made for the reciprocal exchange of such checks among all banks in the community, and settlement of the exchanges should be made on the same day by entries on the books of a correspondent bank or of a Federal Reserve Bank.

(iii) In either case, the time for exchanges of checks should be set at such an hour as to permit checks received in morning mails to be included in the exchanges.

b. Checks drawn on nearby out-of-town banks (pp. 77-79)

(i) Where volume warrants, such checks should be presented to the drawees through a central clearing arrangement serving all banks in the area, with settlements being made on the books of a correspondent bank or on the books of the Federal Reserve Bank.

(ii) Where volume warrants but a central clearing arrangement is not feasible, such checks should be presented directly by mail to the respective drawees, with settlement through a correspondent bank or the Federal Reserve Bank.

c. Checks drawn on banks in Federal Reserve cities, when the first collecting bank is not in a Federal Reserve city (pp. 79-80)

(i) Checks drawn on commercial banks in a Federal Reserve city should be sent directly to correspondent banks in that city.

(ii) Items payable at the Federal Reserve Bank (including Government checks and postal money orders) should be sent by member banks directly to the Federal Reserve Bank, and arrangements should be available for crediting the proceeds of such items to a correspondent member bank if the sending bank and the correspondent member bank so desire.

(iii) The Federal Reserve System should consider modification of its current policy, so that, upon the joint request of a member and a nonmember bank, the nonmember bank may send items payable at a Federal Reserve Bank (including Government checks and postal money orders) direct to the Federal Reserve Bank, for credit to the member bank's account. This would eliminate the need for the member bank to handle these items.

d. All other checks drawn on banks in the same Federal Reserve district (pp. 80-82)

(i) Where volume warrants and where appropriate arrangements exist or can be made, such checks should be sent directly to the drawee banks, for credit of the sending bank or for remittance to a correspondent bank or Federal Reserve Bank for account of the sending bank.

(ii) When not handled as suggested above, such items received by member banks of the Federal Reserve System should be sent directly to the Federal Reserve Bank, and arrangements should be available for crediting

the proceeds to a correspondent member bank, if the sending bank and the correspondent member bank so desire.

(iii) The Federal Reserve System should consider modification of its current policy, so that, upon the joint request of a nonmember bank and a member bank, the nonmember bank may send direct to the Federal Reserve Bank for account of the member bank items which the member bank otherwise would receive from the nonmember bank and collect through the Federal Reserve Bank. This would eliminate the need for the member bank to handle these items.

2. Checks payable at par in other Federal Reserve Districts (pp. 82-84)

(i) Where volume warrants and where appropriate arrangements exist or can be made, such checks should be sent directly to the drawee banks, for credit of the sending bank or for remittance to a correspondent bank or Federal Reserve Bank for account of the sending bank.

(ii) When not handled as suggested above, such items should be collected to the greatest extent practicable through the Federal Reserve System's procedures for direct sendings and consolidated air shipments of inter-district items.

(iii) Where volume warrants, Federal Reserve Banks should send such items directly to drawee banks located in adjacent areas of adjoining districts.

(iv) For expediting presentation of items drawn on banks in important financial centers where there is no Federal Reserve Bank or branch, and where volume and other circumstances warrant, the Federal Reserve System should consider providing facilities for consolidated direct air shipments to

such centers, permitting presentation to the drawees without the items having to pass through the Federal Reserve Bank of the district in which they are payable.

3. Nonpar checks (pp. 84-92)

(i) Although the weight of informed banking opinion favors universal par remittance for cash items as a desirable improvement in the check collection system, the committee offers no specific recommendation, in the light of controlling circumstances, as to how that result may be achieved promptly.

(ii) The committee recommends that rules regarding the absorption of exchange charges by collecting banks be uniform as between member banks of the Federal Reserve System and insured nonmember banks. All insured banks, member and nonmember, should be prohibited from absorbing exchange charges, except where absorption is merely incidental and not related to the solicitation of deposit balances.

(iii) The committee recommends the simplification of record keeping requirements imposed on member banks of the Federal Reserve System in connection with the disposition of exchange charges.

4. Items (other than nonpar items) which Federal Reserve Banks will not handle as cash items (pp. 92-95)

(i) Except where differences are required by local laws, there should be uniform definitive rules among the Federal Reserve Banks regarding the items which they will, or will not, handle as cash items. The Federal Reserve Banks should try to frame these rules so as to permit the handling as cash items of as many categories of instruments as practicable.

(ii) The Federal Reserve Banks should handle as cash items instruments "payable at" any bank located outside Arkansas, Georgia, Idaho, Minnesota, Illinois, Kansas, Nebraska and North Dakota. In those States, the respective State Associations should explore the possibility of having the legislatures adopt Section 87 of the Uniform Negotiable Instruments Law, and should urge banks at which items of this nature purport to be payable to arrange with their depositors for the issuance of conventional bank checks instead of items "payable at" such banks.

(iii) Banks having customers upon whom drafts "payable through" such banks are drawn in substantial numbers should arrange with such customers wherever possible for the use of conventional bank checks instead of such drafts.

(iv) In areas where the handling of State and municipal warrants as cash items is not currently possible, steps should be taken by the State Associations to make such items eligible for handling in that manner. Where existing State law permits disbursements by political bodies to be made by bank check as well as by warrant, the use of checks wherever possible should be encouraged. Where existing State law requires such disbursements to be made by warrants or other instruments which the depository banks of such political bodies are not authorized by law to pay upon presentation, appropriate legislation permitting all such instruments to be drawn on banks and payable upon presentation should be sought.

5. Return items, check standards, and endorsements (pp. 96-99)

a. Return items

(i) The number of items returned unpaid would be reduced if banks would -

refuse to retain accounts of depositors who persist in drawing checks that are not good;

exercise greater care to ascertain that items deposited are properly endorsed; and

employ all reasonable means to "cure" technical defects in items presented, so that they may be paid rather than arbitrarily returned.

(ii) General adoption of a procedure for returning unpaid items directly to the first endorsing bank would expedite and simplify such returns.

b. Standardization of check sizes and design, as recommended by the Bank Management Commission of The American Bankers Association and others, is highly desirable. Banks should undertake more aggressively to carry out the recommended program and to obtain compliance by their depositors.

c. In the interests of legibility, bank endorsements should be reduced in size and simplified in content, and steps should be taken to avoid as much as possible the superimposition of mechanical endorsements.

C. Implications for the Banking System

Adoption and implementation of the foregoing recommendations will simplify and expedite the collection of checks, and will result in economies for the banking system as a whole. The recommendations will not, in the committee's opinion, cause any fundamental changes in correspondent bank relations, increase materially the work load of country banks, or alter substantially the present distribution of work between correspondent banks and Federal Reserve Banks.

The changes recommended may give rise to questions, however, regarding some current practices, attitudes and policies of

correspondent banks, country banks, and Federal Reserve Banks. The principal implications of the recommendations for each of the components of the banking system, which have received detailed consideration in the course of the study, are summarized below.

1. Relationships and Balances of Correspondent Banks

Adoption of the changes recommended will not decrease total collected balances at correspondent banks; on the contrary, such balances may increase. There may possibly be some changes at individual banks, but the impact and extent of any such changes cannot be estimated with any precision at this time. Since one effect of the recommendations will be to increase the speed of check collections and provide earlier presentation and payment, some of the "float" now reflected in book balances of correspondent banks (i.e., amounts credited to correspondent accounts for items received for collection that have not yet been actually collected) should be eliminated.

The conclusion that total collected balances at correspondent banks will not be reduced as the result of the recommended changes rests upon the following considerations:

a. A survey was made by the Federal Reserve Banks in 1949 to determine whether country member banks which collected all checks through Reserve Bank offices tended to show smaller balances due from banks (i.e., smaller balances with correspondent banks) than country member banks which made little or no direct use of Federal Reserve collection facilities. The general indication was that the full use or non-use of Federal Reserve collection facilities appeared to make no substantial difference in the amount of balances carried with correspondent banks. Banks with \$10 million or less in deposits that sent all items direct to the Federal Reserve tended to show somewhat smaller balances due from banks than banks of that size that collected all or

most of their items through correspondents. But banks holding \$25 million or more in deposits that sent all items to the Federal Reserve carried larger balances with correspondent banks than those that did not send items to the Federal Reserve.

The significant conclusion which may be drawn from the 1949 survey is that if all country member banks were to send all items directly to the Federal Reserve Banks, and concurrently were to adjust their average balances with correspondent banks to the level of the average for banks theretofore making full use of Federal Reserve facilities, the total decline in balances held by correspondent banks for account of country member banks throughout the country might be \$250 or \$300 million, or about 5 per cent of total balances. The recommendations offered in this report, however, would not have that effect. With country banks sending items drawn on commercial banks in Federal Reserve cities to correspondent banks in those cities, and sending other intradistrict items directly to Federal Reserve Banks (with the option of having the proceeds credited to their accounts with correspondent banks), any change in correspondent bank balances should be upward rather than downward.

b. Federal Reserve Banks can neither lend nor invest reserve balances of member banks, and they have nothing to gain from the maintenance by member banks of reserve balances in amounts exceeding the reserves required by law. Accordingly, Federal Reserve Banks will not solicit member banks to carry excess reserves at the expense of correspondent bank balances.⁵

5. It has been observed, in this connection, that a member bank will find it advantageous to carry funds in excess of the legal reserve requirement with a correspondent bank, rather than in its reserve account at the Federal Reserve Bank. The

c. Balances with correspondent banks constitute part of the liquidity reserves of the depositing bank. Except to increase the amount of its vault cash, the only reason for a bank to reduce its total deposits with correspondent banks would be to increase loans or investments. Any decision by a bank to reduce liquidity and to increase loans or investments by using correspondent balances would be a matter of management policy, and not the result of a change in check routing patterns.⁶

Thus there will be no decrease in total collected balances with correspondent banks, and there should be no adverse change in basic correspondent relationships. Although the recommendations contemplate certain changes in check routing patterns, correspondent banks will continue to occupy the same important position in the check collection mechanism. Not only will they continue to handle items for account of other banks, but they will be in a position to receive for the account of country member banks the proceeds of checks sent by such banks directly to Federal Reserve offices.

2. Work Load of Country Banks

The recommended check routing pattern will require additional sorting on the part of some country banks. Since the recommendations will result in earlier presentation and payment, the additional sorting will contribute to a better banking system and will result in improved service to depositors without imposing an undue burden on the banks.

It appears that the maximum effect of the recommended changes in check routing

reason is that balances due from correspondent banks which are subject to immediate withdrawal may be deducted by a member bank from gross demand deposits in determining its required reserves, whereas balances due from the Federal Reserve Bank (including balances in excess of required reserves) may not be deducted for that purpose. See Regulation D of the Board of Governors of the Federal Reserve System, Section 2(b).

6. It is possible that a given correspondent bank might lose balances as the result of a change in check routing. But if such balances exist in connection with uneconomic collection procedures, they do not rest upon a very firm foundation. In general, a satisfactory and continuing correspondent relationship must result in profit to both sides.

patterns on the work load of country banks would be the addition of two (or in a regional clearing arrangement, three) more sorts of par transit items than are now being made at banks which do a minimum amount of sorting.⁷ Many country banks are already making several sorts, and those handling any substantial volume of checks for collection tend to use mechanical equipment for sorting. Country bankers who met with the committee in each Federal Reserve district did not regard the recommendations as onerous from the standpoint of country bank operations.

3. Practices and Policies of Federal Reserve Banks

Part of the committee's assignment specified that its study "should include a careful review of all current (Federal Reserve) System policies affecting check collections, but no such policy should necessarily limit either the scope of the study or the recommendations of the committee". The committee made such a review as part of the study, and there is one major respect in which its recommendations may conflict with established System policy.

The policy of the Federal Reserve System has been that Federal Reserve Banks would accept checks for collection only for account of member banks and nonmember clearing banks. Apparently, the reasons why Federal Reserve Banks generally have not been willing to receive checks directly from nonmember banks for collection have been (1) the feeling that such a step would throw open to nonmember banks one of the principal services of the Federal Reserve System without requiring them to assume the normal obligations of membership, and (2) a reluctance to take a step which might be regarded with disfavor by country member banks or might be construed by city member banks as an infringement upon their correspondent relationships with nonmember banks. Federal Reserve Banks, of course, present

7. Depending on volume, a further breakdown might be required currently in the case of par transit items sent to some Federal Reserve offices. These requirements stem from operating rules of the Federal Reserve Bank and not from recommendations in this report. Such requirements are not regarded as static; improved operating conditions under changed collection patterns may lead to some modifications.

checks to virtually every bank in the country, member and nonmember, for payment.

The committee's findings are (1) that all Government checks, postal money orders and checks drawn on a Federal Reserve Bank which are received by correspondent member banks from nonmember banks, are deposited by the correspondent member banks with the Federal Reserve Banks, and (2) that most par transit items received by correspondent member banks from nonmember banks are deposited by the correspondent member banks with the Federal Reserve Banks for collection. Recognizing the opportunity in these circumstances to minimize the number of check handlings by the banking system, and to expedite presentation and payment of the items involved, the committee has recommended, in effect, that a Federal Reserve Bank, upon the joint request of a nonmember bank and a member bank, should receive such items directly from the nonmember bank for account of the member bank.⁸

The arguments favoring a change in the current policy of the Federal Reserve System are clear. From a practical standpoint, the items which it is recommended that Federal Reserve Banks receive directly from nonmember banks would ultimately be handled by the Reserve Banks in any event. With no increase in the work load of the Reserve Banks, it is possible to save unnecessary handlings of the items by member banks and to expedite their presentation and payment. The effect of the recommendation would not be to extend to nonmember banks Federal Reserve services not currently available to them, since the items in question are now being collected through the Federal Reserve System. There need be no real fear of an infringement upon correspondent relationships of member banks, inasmuch as the consent of the member banks

8. These recommendations involve the question of the legal authority of a Federal Reserve Bank to receive items directly from a nonmember bank, which would have to be resolved by counsel for the Federal Reserve System. There appears to be a basis, however, for concluding that a Federal Reserve Bank would have authority to receive items from a nonmember bank as recommended (see 1920 Federal Reserve Bulletin 948). Although the question of authority would be resolved if each nonmember bank were to open a nonmember clearing account, the committee does not recommend that action, since it recognizes that it would not be acceptable to the Federal Reserve System or to its member banks.

would be involved and they would continue to receive as correspondent balances the proceeds of collections for nonmember banks.

From the standpoint of general policy, the public obligations of the Federal Reserve System should not be overlooked. The statutory duty of each Federal Reserve Bank to exercise the functions of a clearing house is intended to afford both to the general public and to the country's banking institutions a direct, expeditious and economical system of collecting checks and settling balances. In a narrow sense, the advantages of the System may be viewed perhaps as limited to those institutions which are willing to assume the obligations inherent in membership. More realistically, however, the duty of each Federal Reserve Bank to facilitate and improve the payment mechanism of the economy by providing economical and expeditious check collections does not run to member banks, as opposed to nonmember banks, but to the general public. The recommendations regarding the receipt of certain items directly from nonmember banks will benefit member banks directly and will contribute to the speed and efficiency of the check collection system; they should not, therefore, be considered inconsistent with Federal Reserve System policy.

4. Benefits if Recommendations are Adopted

Following is a summary of some of the benefits which the banking system would

derive from adoption of the recommendations:

- a. Earlier presentation of items.
- b. Faster collection of proceeds.
- c. Quicker availability of proceeds.
- d. Earlier notification and earlier return of items to first collecting banks in the event of nonpayment.
- e. Improved customer relations.
- f. Additional collection facilities (e.g., regional clearings and direct sendings).
- g. Elimination of unnecessary handling and circuitous routing.
- h. Improved efficiency and accuracy of operations, with reduced chances of errors or loss of items.
- i. Lower operating costs.
- j. Improvements in operations and better distribution of work loads at Federal Reserve Banks which may permit (i) later closing hours for receipt of certain classes of items, and (ii) modification of sorting requirements.

CHAPTER II
BACKGROUND

A. Origin of Proposal for Study
of Check Collection System

In April 1952, the Federal Reserve System proposed to The American Bankers Association and the Association of Reserve City Bankers that they join with it in a comprehensive study of the check collection system of the nation. It was proposed that the general objective of the study be to determine whether fundamental improvements could be made in current check collection methods and practices, with a view to increasing the speed and efficiency of check collections in the interests of the banking system and the general public.

B. Appointment of Joint Committee

The proposal was accepted by the two bankers' associations, and a joint committee was appointed to conduct the study. The American Bankers Association designated as its representatives Orval U. Habberstad, President of The Union National Bank of Rochester, Minnesota, and James H. Kennedy, Vice President and Cashier of The Philadelphia National Bank. The Association of Reserve City Bankers appointed C. Edgar Johnson, Vice President of The First National Bank of Chicago. The Federal Reserve named Frederick L. Deming, Vice President of the Federal Reserve Bank of St. Louis,¹ and John H. Wurts, Vice President of the Federal Reserve Bank of New York, the latter being designated as chairman of the committee.

C. Approved Scope of Study

At the direction of the constituent groups sponsoring the project, the committee formulated a statement of the proposed scope of its study based on the general objectives indicated in the

1. Since January 1, 1953, Mr. Deming has been First Vice President of the Federal Reserve Bank of St. Louis.

original proposal of the Federal Reserve System. A summary of the statement follows:

1. Study of recent trends in the volume of check payments and prospects for increases in such volume in the near term future.
2. Factual survey to determine the present methods of collecting various classes of checks throughout the country.
3. Formulation of a working set of principles of efficient check collection methods (e.g., minimum collection time, handling by minimum number of banks, and handling by banks best able by location, etc. to handle particular classes of items).
4. In the light of the facts developed in the survey, and applying the principles formulated, determination of appropriate changes to improve the check collection system.
5. Study of a number of related items, such as possible improvements in equipment for sorting, endorsing and listing checks; simplification and expedition of handling return items; possible expansion of city and county clearing arrangements; improved facilities and schedules for transportation of checks; and the like.

The committee's statement indicated that approach to the factual study would be objective, and that recommendations would be directed to improvements in the speed and

efficiency of check collections for the benefit of the entire banking system and its depositors. Recognizing that any changes recommended would have to be made in relation to the check collection system as a going institution, the committee proposed to approach the study without any preconceived desire to obtain either more or less check activity for commercial banks or Federal Reserve Banks, or to interfere with established correspondent bank relationships. On the other hand, any commitment to maintain present check collection patterns without change was implicitly denied, since improvements would necessarily involve some changes.

This statement of the proposed scope of the study was approved by each of the constituent groups.

D. Work of the Committee

The committee held numerous meetings. It conferred with many bankers, businessmen, equipment manufacturers, government officials, and others. It conducted a nationwide survey of check collection methods and volume of operations, and analyzed the results.

E. Bank Collection Operations and Equipment

As an early phase of the study, consideration was devoted to the extent to which bank operations and equipment had adjusted to the substantial increase in the volume of check collections that had occurred.

The check handling operation in a bank involves listing, adding, endorsing and sorting; in addition checks drawn on the bank must be posted. Forty years ago, listing and adding were done on an adding machine, endorsing was done by hand stamp, and sorting was done by hand into compartments of a sorting rack. Later a mechanical endorsing machine was introduced. A more recent development has been the proof machine, which lists and adds incoming work, endorses, sorts to a limited number of compartments or "pockets", and lists and adds the checks sorted into each pocket. This machine, which is the only real advance in the equipment field, still

requires manual operation, and still involves the risk of the "human element" in so far as accuracy of listing and sorting is concerned. In addition, the machine may create errors even when operator performance is perfect. The proof machine has been a great help in handling check operations in large volume, but by no means can it be said to be the answer to all the problems arising from those operations.²

Except for local items, the collection of checks is closely related to and dependent upon transportation facilities. The most significant development in that area over the last forty years has been the use of air transportation in the collection of checks on distant points. Items drawn on banks in distant Federal Reserve Bank cities, which required three or four days to collect when ground transportation was used, are now collectible overnight in many instances; the return of unpaid items is similarly expedited. In the same manner, the collection of "country" items in distant areas requires three or four days less than before. On the other hand, the collection of items within a radius of 150 or 200 miles has not improved in

2. The committee is not unmindful of the development of checks in punch card form and of the equipment designed to sort, list and add such checks, but it regards the development in its present state as significant primarily in relation to the issuance and payment of checks, rather than in relation to the collection of checks. In theory, if all checks were issued as punch cards of uniform size and type, if at the time of issuance the amounts of the checks and the fractional routing symbols of the drawee banks were punched in standardized fields, and if all banks handling any considerable volume of checks for collection were furnished with appropriate sorting and listing equipment, the punch card check would be a development of outstanding significance in the check collection operation. In actual practice, however, only a small percentage of checks are in punch card form; they are of several different sizes and of at least two incompatible types; neither the amounts nor the routing symbols of the drawee banks are customarily punched at the time of issuance, and there is little standardization of punching fields. The result is that use of the card check may represent an advantage to the issuer or to the drawee bank, but even a collecting bank having appropriate equipment available is unable to take advantage of the punch card form and must handle such checks manually in the same manner as paper checks. For this reason, the punch card check is not to be regarded as a development of significance to the check collection operations of banks at the present time.

40 years; instead, in some instances, collection has deteriorated because of curtailed train and mail services. A recent trend toward utilizing services of contract motor carriers for the collection of such items in some areas may be the beginning of a new development.

It appears, therefore, that except for the development of the proof machine and the use of air transportation for the collection of items on distant points, the check collection mechanism of the country is about where it was 40 years ago. The existence of this situation, when the volume of check payments has increased so significantly, and when business and industry in this country have made unprecedented technological advances particularly in the fields of automation and mass production, seems to lead inevitably to the conclusion that bank operations have not kept pace with the times. This observation is not restricted to banking; modernization and mechanization of office procedures in general have lagged far behind comparable developments in the production field.

Before embarking on an extensive survey of present collection methods in the light of currently available equipment, it seemed advisable to ascertain with some degree of assurance that no completely revolutionary

development in check handling equipment, that would render present methods obsolete, was impending. The committee therefore consulted with research and development executives of the principal manufacturers of business machines and similar equipment, to review in confidence each company's plans for improvements in equipment adapted to handling checks. The information thus obtained indicated that while improvements and refinements in existing types of equipment were being perfected, there was no fundamental innovation of major significance sufficiently close to realization to justify making this study and its recommendations for improvements in check collection methods in any terms other than those of the equipment and methods currently available.

Information furnished in confidence by manufacturers in the fall of 1952 indicated, however, that from the longer range point of view, techniques then in the process of experimentation and development offered interesting possibilities of mechanizing substantial segments of check collection operations. Although the perfection of such techniques seemed rather remote at that time, later developments appear to give some reason for anticipating earlier realization of substantial mechanization of the operations at the largest banks.

CHAPTER III

VOLUME OF CHECKS AND THEIR FLOW THROUGH THE COLLECTION SYSTEM

An old adage says that money makes the world go 'round. Whether or not that statement is correct, there is no doubt about what makes money go 'round in the United States, and that is the check collection system. More than 90 per cent of the dollar amount of all of our money transactions is said to be accomplished by check payments. Checkbook money, the demand deposits in the nation's banks, is by far the most important part of our money supply.

A. Growth in Check Use

There are approximately 47 million checking accounts in banks in this country, about the same number as there are families. Most businesses have checking accounts, many of them have a number, and individuals or families often have more than one account. Although many individuals, as well as some small businesses, still do not have checking accounts, the number of people using checks is increasing steadily; there are now about 20 million more checking accounts than there were 12 years ago. The number of checks written appears to have increased even more rapidly than the number of checking accounts.

Reasonably accurate figures have been available for some time on the dollar amount of checks paid annually, but until recently, estimates of the number of checks paid have been little better than informed guesses. Now a fairly reliable benchmark is available, as the result of a series of surveys made as part of this study. The surveys indicate that the number of checks paid during the calendar year 1952 was in the neighborhood of 8 billion.

The lack of reliable earlier data makes it difficult to be precise concerning the trend in check use. Some approximation of trend may be obtained, however, by using data on the number of checks handled by Federal Reserve Banks. Volume flowing through these offices in 1952 amounted to 2 1/3 times the volume handled by them in 1939. On this basis, the total number of checks paid in 1939 was about 3.4 billion, compared with

the 8 billion checks paid in 1952. The value of checks paid in 1952 amounted to something like 2 trillion dollars.

Increased population and a rising level of economic activity, both of which are associated with larger numbers of payments, account for much of the gain in volume. Of even more influence, perhaps, are factors not directly related to economic and population trends: banking efforts to popularize check use (pay-as-you-go accounts, for example), growth in Treasury payments and receipts, changes in payroll practices of employers,¹ the increase in installment purchases, and the like.

No attempt was made in this study to predict the future volume of check activity. It may be noted, however, that should the trend of the past thirteen years continue, the number of checks written in 1960 would approximate 14 billion, and in 1970 would be about 22 billion. Although these levels may not be reached, an upward trend in volume is expected to continue. A severe depression might curtail the number of check payments, or at least moderate the growth trend, although the recent record indicates that short-lived downward economic adjustments have no appreciable effect on check volume. As previously indicated, moreover, factors not directly related to economic and population levels may be expected to have a substantial influence.

B. The Check Collection Network

When the owner of a demand deposit in a bank draws a check against the deposit and delivers it to the payee, the payee either

1. According to the National Industrial Conference Board, the number of employers paying wages by check, rather than in cash, increased from 70 per cent in 1937 to 77 per cent in 1948; the number paying wages weekly, rather than at less frequent intervals, increased during the same period from 73 per cent to 81 per cent. These changes add substantially to check volume; for example, an employer changing from biweekly to weekly wage payments doubles the number of payroll checks issued without any change in the number of persons employed.

cashes it or deposits it for collection. In either case, except when the check is cashed or deposited at the same bank on which it is drawn, it comes into the hands of a bank which must collect it from the drawee bank. The drawee bank may be in the same town as the collecting bank, or it may be in a nearby community, or it may be across the continent. The essence of the check collection problem is to get the check from the first collecting bank to the drawee bank by the most expeditious and direct route available, and to obtain prompt remittance in a form readily available to the collecting bank and its depositor.

Most checks deposited in or cashed at a bank must be sent to another bank for payment. On an average day in July, 1952, about 28 million checks were deposited in or cashed at banks in the United States. Only one out of every five of these checks was deposited in or cashed at the bank on which it was drawn. The other four had to be sent elsewhere for payment.

Eighty per cent of the checks written, therefore, are processed through the check collection system in order that they may be presented to the drawee banks for payment. In this process, checks pass through big and little commercial banks, through clearing houses, and through Federal Reserve Banks and branches. They are carried by messenger, by car and truck, by railroad, bus, airplane, and boat. They go by mail, by express, and by hand, and notices concerning them are sent by the same means, as well as by telegraph and telephone.

The check collection system of the United States consists of a network of processing points tied together by transportation and communication systems. The processing points are the nation's 14,000 commercial banks and their 5,500 branches, about 300 city clearing houses, and the 12 Federal Reserve Banks and their 24 branches. The Reserve Banks and about 200 large commercial banks are the major switching centers of the check collection network; through them flow more than half of the checks written.

In the process of collection, some checks make only short trips in brief periods of time, others cross the continent (some going abroad), and some follow very roundabout routes, stopping at as many as

ten or twelve processing points. Remittances for items processed through the network flow in the opposite direction.

Most of the checks moved with reasonable facility and speed through the collection network in 1952, although many were handled at more banks and traveled far more miles in the process than an objective observer would have considered necessary. Relatively few, however, were sent over very circuitous routes with many stopovers; most of these were nonpar items, which numbered about 180 million, or less than 2 per cent of the total. Still fewer, about 50 million items, or two-thirds of one per cent of the total, were returned unpaid through the network for one reason or another. A little more than 50,000 items -- about one-thousandth of one per cent of total collections -- were lost in the network during the year.

C. Committee Surveys

This general picture of the check collection system can now be brought into sharper focus as a result of a series of surveys initiated by the Joint Committee on Check Collection System. In the summer of 1952, The American Bankers Association, the Association of Reserve City Bankers, and the Federal Reserve System distributed to their constituents questionnaires prepared by the committee to elicit factual data on check volume, its sources and disposition, operating procedures and problems, and to obtain specific suggestions for improvement in the present check collection system.

The returns from the surveys were most gratifying. Almost 600 ABA member banks out of 1,100 solicited returned usable completed questionnaires. All banks from which the membership of the Association of Reserve City Bankers is drawn were sent forms and 172 usable returns came in. All Federal Reserve Banks and branches returned completed questionnaires. The usable returns covered check activity at commercial banks of the country holding more than half of all deposits; coverage was adequate at all size classes of banks, and almost complete at very large banks; and coverage was fairly uniform among the twelve Federal Reserve districts.² The samples obtained in the

2. Appendix A contains a detailed discussion of the sampling process, coverage of the surveys, and the questions asked.

surveys, therefore, were broad enough and deep enough to produce a very reliable picture of the check collection system. This is the first time that such a sharply focused picture has been possible.

The surveys actually provide several sets of three dimensional views of the check collection system. One set covers the volume of check activity in all of the commercial banks of the country on an average day in July, 1952. The first dimension shows the kinds of checks handled -- checks drawn on the reporting bank and presented to it for payment; checks deposited with it for collection from other banks in the same city, from other banks in the same Federal Reserve district, from other banks in other Reserve districts, and from nonpar banks; and checks which the Reserve Banks do not handle as cash items. To add a second dimension, this volume of handlings is classified by sources of receipt -- checks received through the clearing house, in cash letters from Federal Reserve Banks, in cash letters from commercial banks, or in other deposits, and checks cashed. The classification by disposition supplies the third dimension -- checks debited to deposit accounts, local items presented through the clearing house or by messenger, checks cleared through special arrangements, checks

sent to the Federal Reserve Bank of the district, to other Federal Reserve Banks, and to correspondent banks.

Other sets of three dimensional views are obtained by classifying the banks according to several bank size groups, or by Reserve City or country bank status. Still other views are obtained by classifying according to Federal Reserve districts. All views can be given still more color and depth by blending in supplementary information supplied by the responding banks and complementary data obtained through the Federal Reserve surveys. Practically all of the data in the following parts of this section come from the surveys, and the analysis and interpretation are based on the survey results.

1. Check Volume

Table I shows the pattern of check volume in all of the commercial banks of the country on an average day in July, 1952. Tables I-A and I-B show percentage distributions of the figures presented in Table I.

The figures shown in Table I relate to an average day in July, 1952. Check volume in July is about 4 per cent smaller than average monthly volume for the year. Conse-

Table I

Check Volume on an Average Day in July 1952
By Size Class of Commercial Bank
(Items in thousands, deposits in millions)

Commercial Banks with Deposits of*-	Number of Banks	Total Deposits	Total Check Volume	Items Paid	Items Received for Collection		
					On Local Banks	Far Transit Items	Nonpar and Restricted Items
1. Less than \$7.5 million	11,486	\$ 27,706.0	11,255	6,657	1,377	2,990	231
2. \$7.5 million-\$24.9 million	1,802	22,957.8	9,137	4,616	1,526	2,874	120
3. \$25 million-\$99.9 million	511	23,310.7	9,305	3,995	1,923	3,089	298
4. \$100 million-\$499.9 million	170	34,512.3	11,831	4,502	3,164	3,849	317
5. \$500 million and over	37	53,861.0	13,277	5,211	3,970	4,042	54
Subtotal	14,006	\$162,347.8	54,805	24,981	11,960	16,844	1,020
6. Federal Reserve Banks			11,552	2,849**	2,702	6,001	-
Total			66,357	27,830	14,662	22,845	1,020

* As of June 30, 1952.

** Items paid by Federal Reserve Banks include U. S. Treasury checks and postal money orders, as well as checks drawn on the Federal Reserve Banks.

Table I-A

Check Volume on an Average Day in July 1952
Per Cent Distribution by Size Class of Commercial Bank

Commercial Banks with Deposits of*-	Total Deposits	Excluding Federal Reserve Banks					Including Federal Reserve Banks				
		Total Check Volume	Items Paid	Items Received for Collection			Total Check Volume	Items Paid	Items Received for Collection		
				Local Banks	Par Transit Items	Nonpar and Restricted Items			Local Banks	Par Transit Items	
1. Less than \$7.5 million	17.1%	20.5%	26.6%	11.5%	17.7%	22.6%	17.0%	23.9%	9.4%	13.1%	
2. \$7.5-\$24.9 million	14.1	16.7	18.5	12.8	17.1	11.8	13.8	16.6	10.4	12.6	
3. \$25-\$99.9 million	14.3	17.0	16.0	16.1	18.3	29.2	14.0	14.4	13.1	13.5	
4. \$100-\$499.9 million	21.3	21.6	18.0	26.4	22.9	31.1	17.8	16.2	21.6	16.8	
5. \$500 million and over	<u>33.2</u>	<u>24.2</u>	<u>20.9</u>	<u>33.2</u>	<u>24.0</u>	<u>5.3</u>	<u>20.0</u>	<u>18.7</u>	<u>27.1</u>	<u>17.7</u>	
Subtotal	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	82.6%	89.8%	81.6%	73.7%	
6. Federal Reserve Banks							17.4	10.2**	18.4	26.3	
Total							<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	

* As of June 30, 1952.

** Items paid by Federal Reserve Banks include U. S. Treasury checks and postal money orders, as well as checks drawn on the Federal Reserve Banks.

Table I-B

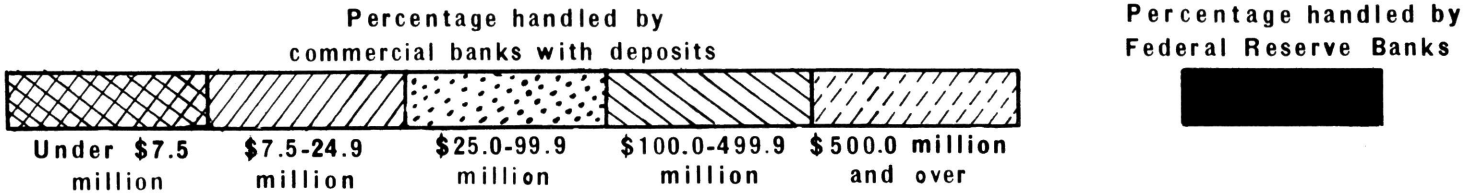
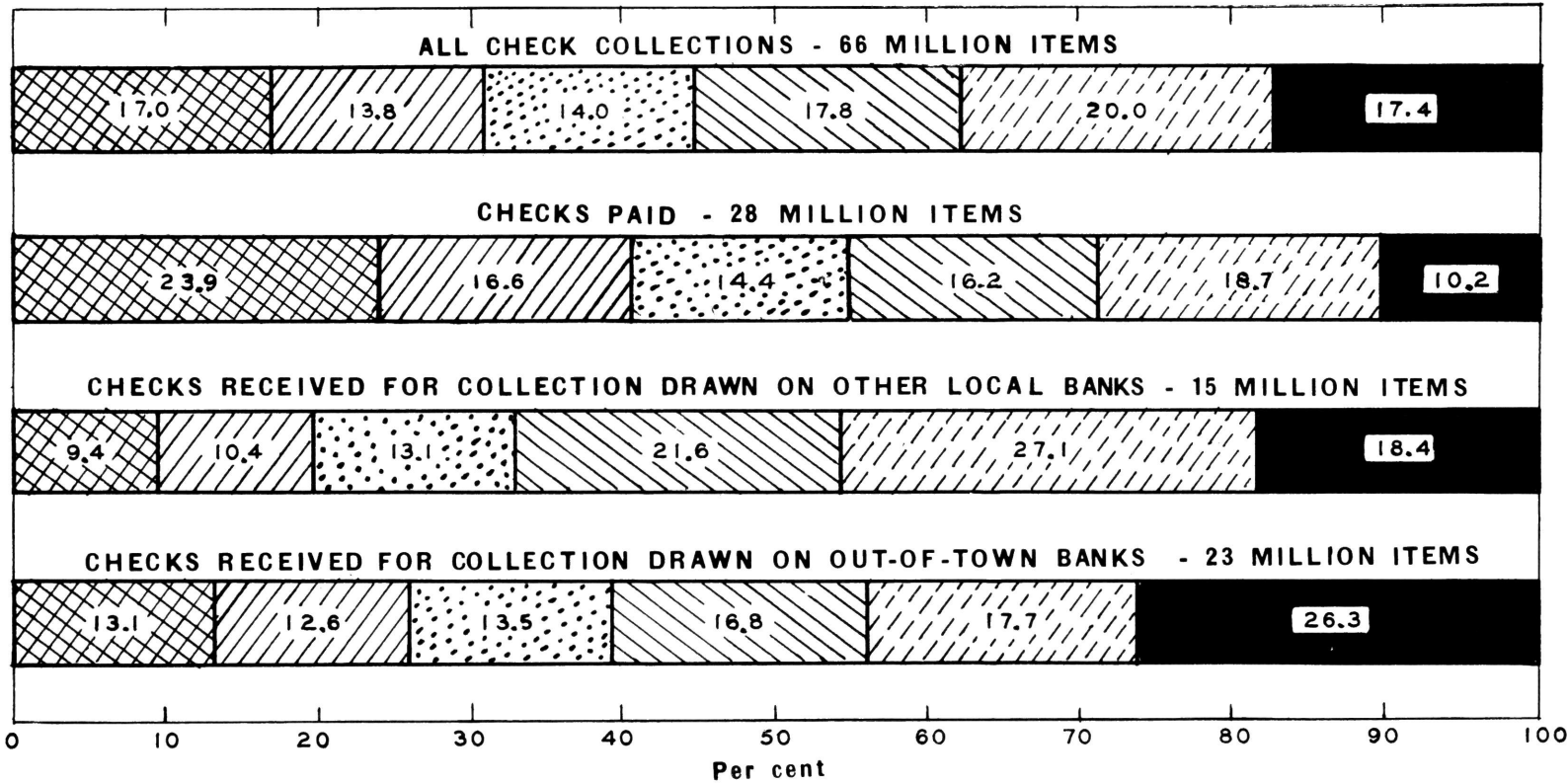
Check Volume on an Average Day in July 1952
Per Cent Distribution by Class of Check

Commercial Banks with Deposits of*-	Total Check Volume	Items Paid	Items Received for Collection		
			Local Banks	Par Transit Items	Nonpar and Restricted Items
1. Less than \$7.5 million	100.0%	59.1%	12.2%	26.6%	2.1%
2. \$7.5 million-\$24.9 million	100.0	50.5	16.7	31.5	1.3
3. \$25 million-\$99.9 million	100.0	42.9	20.7	33.2	3.2
4. \$100 million-\$499.9 million	100.0	38.1	26.7	32.5	2.7
5. \$500 million and over	<u>100.0</u>	<u>39.3</u>	<u>29.9</u>	<u>30.4</u>	<u>0.4</u>
Average	100.0%	45.6%	21.8%	30.7%	1.9%
6. Federal Reserve Banks	<u>100.0</u>	<u>24.6**</u>	<u>23.4</u>	<u>52.0</u>	-
Average	100.0%	42.0%	22.1%	34.4%	1.5%

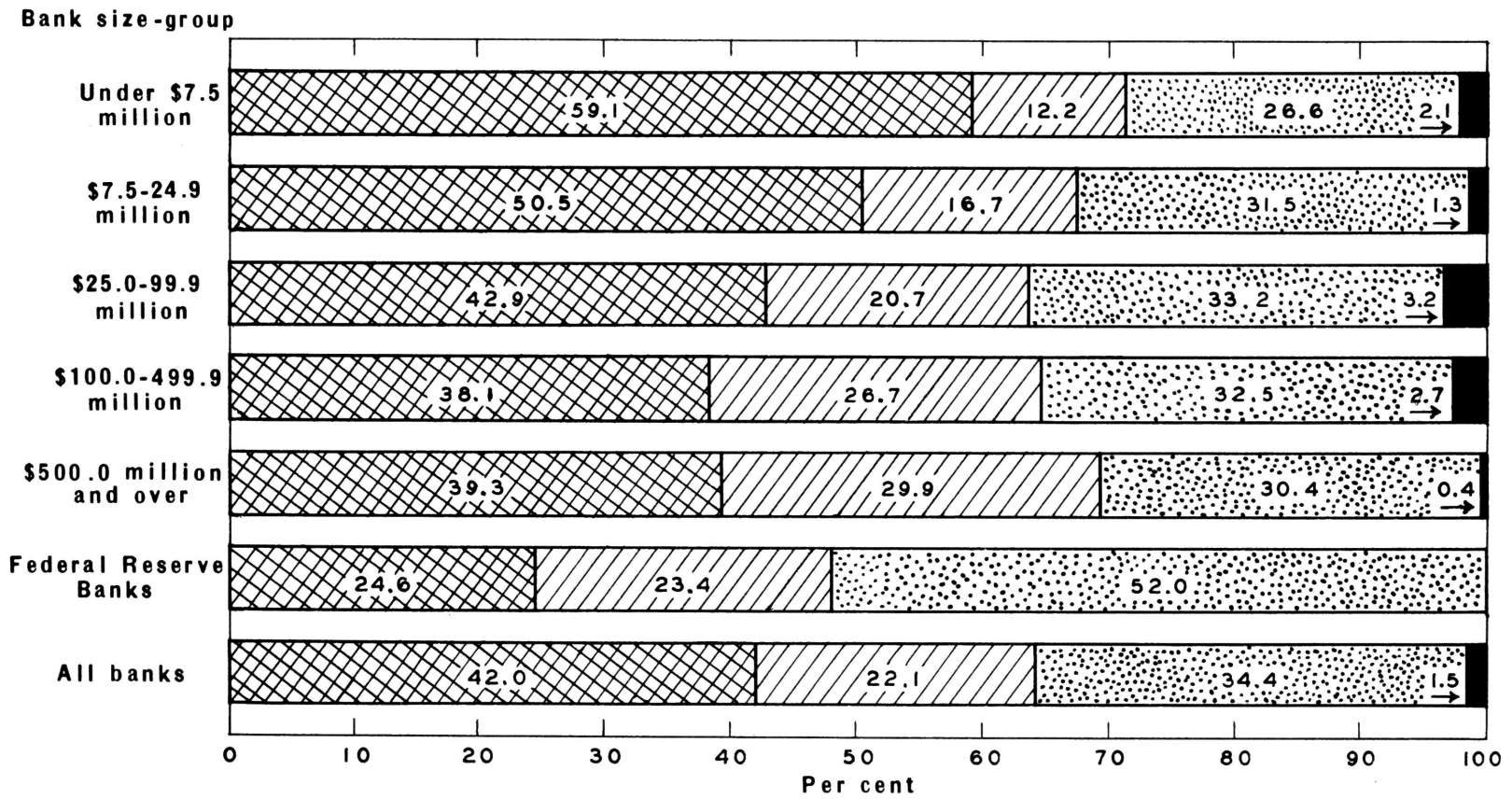
* As of June 30, 1952.

** Items paid by Federal Reserve Banks include U. S. Treasury checks and postal money orders, as well as checks drawn on the Federal Reserve Banks.

PROPORTION OF PAR CHECKS HANDLED BY THE COMPONENT PARTS OF THE CHECK COLLECTION SYSTEM ON AN AVERAGE DAY IN JULY 1952



DISTRIBUTION BY CLASS OF CHECK AND BY SIZE OF BANK OF CHECKS RECEIVED BY BANKS ON AN AVERAGE DAY IN JULY 1952



Checks drawn on



quently, the figures in the table understate average daily volume for the year as a whole.³ Seasonally adjusted figures would show about 29 million checks presented to drawee banks and paid, and about 40 million checks handled for collection each day. The variation in the total number of checks handled in a day (items paid and items received for collection), as the result of seasonal influences and various other factors, ran from a low of perhaps 60 million items to a high of perhaps 75 million items. For the year as a whole, the number of checks paid (and thus presumably the number written) was about 7.8 billion.⁴

About two-fifths of all items handled in the network on an average day in July, 1952, were paid on that day. Presumably about the same ratio applied on other days. Thus the pattern implied is a flow of new checks into the network each day as they are cashed or deposited at banks, matched by an outflow of items as they are paid. The items in process of collection constitute the stock in the network. That stock, of course, constantly changes in terms of the individual items composing it, but on balance it remains about the same relative size. As total volume goes up or down because of cyclical, seasonal, irregular or trend factors, both the amounts of the inflow and outflow of items and the amount of the inventory in the network will vary, but, with present routing patterns, the general relationship between inflow, outflow, and stock should tend to hold.

The ratio of the number of items paid to the number of items in process of collec-

3. There may be some duplication as between checks included in the caption "Items Paid" and those listed under "Items Received for Collection - On Local Banks". In some city clearings both the presenting bank and the receiving bank may have counted the same item on the same day. Such overstatement as would result, however, would not be in "Items Paid" but in "Items Received for Collection - On Local Banks" and would have the effects of (1) slightly overstating, by the amount of the duplication, the total of items received for collection, and (2) slightly overemphasizing local items as a per cent of total items received for collection. It would not distort the patterns of sources and disposition of the various types of items received for collection. The committee does not regard the possible overstatement as important enough to warrant an arbitrary adjustment.

4. Some checks written at the close of the year were not paid until early 1953; in offset, some written at the close of 1951 were paid in early 1952.

tion on an average day in July, 1952, indicates that the average item remained in the network for about 2 1/3 business days, and was handled at about 2 1/3 different banks.⁵ Therefore, the 7.8 billion checks written and paid in 1952 evidently required about 19 billion individual bank handlings.⁶ In other words, from the viewpoint of operations, the banking system was concerned with 19 billion pieces of paper rather than 7.8 billion.

One interesting fact is the relatively small influence which payments by the Federal Government have upon the volume of operations in bank collection activities. (Volume of operations is not affected much by dollar amount of payments.) The total number of U. S. Treasury checks handled by banks in 1952 was less than 450 million -- not quite 6 per cent of total check volume. Accordingly, even a substantial change in the number of Government payments, either upward or downward, would not have a significant effect upon the total volume of collection operations. The number of postal money orders issued in a year approximates the number of Treasury checks, but money orders represent payments of private individuals. (About 10 per cent of postal money orders issued do not enter the check collection network, being handled within the Postal System.)

The tables also illustrate differences in the proportionate volume of check activity at larger banks as compared with smaller banks. In relation to shares of total bank

5. This figure is supported generally by results from two theoretical patterns worked out by the committee. One pattern took the items in process of collection on the average day in July, 1952 and carried them back through the collection chain to the original banks of deposit and forward through the chain to drawee banks, thereby getting total handlings by banks; the other took the new entrants into the network and carried them through to final payment. The first pattern worked out to 2.6 days and handlings; the second to 2.2. The average of the two patterns is 2.4. In none of these ratios was any allowance made for time held or number of handlings by holders other than banks.

6. These figures relate to the number of banks at which items are handled in the course of collection, not to the number of "handlings" in the sense of the number of times the items are picked up and put down. Some students of bank operations have estimated that on the average there are three handlings at each bank through which a check passes in the process of collection; on the basis of this estimate, the number of check "handlings" in banks would have approached 60 billion in 1952.

deposits, proportionately greater numbers of checks were drawn on smaller banks than on larger banks. The relationship between deposit size and the dollar amount of checks drawn was probably appreciably closer.

The proportions of total deposits held and of numbers of items received for collection were more nearly alike in the different size classes, with the smaller banks tending to receive a smaller number of checks for collection than their share of total deposits would indicate and the larger banks (except for the very big ones) tending to get relatively more. Looking at the types of items received for collection, the volume, both of items on other local banks and of transit items, relative to total check volume was larger at the big banks than at the smaller ones. This reflects the check collection activities of the correspondent banks, and the fact that because a number of small banks are located in one-bank towns they handle no items on other local banks. In the case of nonpar items, the largest banks handled the smallest volume; activity in collecting nonpar items was concentrated in banks with deposits between \$25 and \$500 million. In part, this reflects location -- within the four principal nonpar areas, there was at the time of the survey only one bank with more than \$500 million in deposits -- and in part it represents the business habits of the very big banks.

The 207 commercial banks with deposits of \$100 million or more and the 36 Federal Reserve offices are the major components of the check collection network.⁷ Nearly half of all checks presented for payment on the average day were drawn on or payable through them, and they handled on that day almost two-thirds of all checks in process of collection.

7. Following is a breakdown of commercial banks in the different size classes according to their status as "Reserve City" or "country" banks (deposits in billions):

Size Class	Reserve City Banks		Country Banks	
	Number	Deposits	Number	Deposits
Under \$7.5 million	-	-	11,486	\$27.7
\$7.5 - \$24.9 million	72	\$ 1.2	1,730	21.8
\$25 - \$99.9 million	130	6.9	381	16.4
\$100 - \$499.9 million	116	25.6	54	8.9
Over \$500 million	37	53.9	-	-
Totals	355	\$87.6	13,651	\$74.8

One point, developed in greater detail later, should be noted here. This one dimensional view of total check volume on an average day in July may give a distorted impression of the place of Federal Reserve Banks in the collection system. Total volume figures show that Federal Reserve Banks handled on the average day one-fourth of all items in process of collection. The facts are accurate, but should be viewed in the light of the following additional facts. A certain portion of the total number of checks deposited in or cashed at the nation's banks on a given day would not pass through a Federal Reserve Bank in any event; these include (1) one-fifth of the total consisting of items drawn on the banks in which they are deposited or at which they are cashed, and (2) one-third of the total consisting of items drawn on commercial banks in the same community as the collecting bank and presented locally, or drawn on nonpar banks. The balance, about one-half of the checks deposited in or cashed at commercial banks daily, and consisting primarily of out-of-town par items, is eligible for collection through Federal Reserve Banks; about 75 per cent of these items pass through Federal Reserve Banks in process of collection.

2. Sources and Disposition of Checks

Data on sources and disposition of checks add the other dimensions to this picture.⁸

The checks in the hands of a commercial bank at any given time may be divided into two principal categories: (1) checks drawn on the bank -- so called "on us" items -- which have been cashed at the window, received in deposits, or presented by collecting banks for payment either through the

8. Information on sources of checks received at commercial banks was obtained on a broad scale only from ABA banks, and the data related to total handlings rather than to specific types of checks. A subsequent spot survey of some 200 banks in five Reserve districts provided information for estimating sources of checks for each type of check (checks paid, other local, transit, etc.) for each of the four size classes of ABA banks. Other information of more limited character provided the basis for estimating sources of checks handled by Reserve City banks. Distribution of checks, by type of check, was reported specifically by the Reserve City banks, and ABA banks reported distribution of total handlings by such detailed classifications that estimates by type of check were readily obtained.

JOINT STUDY OF CHECK COLLECTION

clearings, by messenger or by mail; and (2) checks drawn on other banks, which have been cashed at the window or received for collection for account of a depositor (including a commercial bank depositor where a correspondent relationship exists). The surveys provided information regarding the sources of receipt and disposition of items in the bank collection network, which sheds considerable light on established check collection patterns. The information is best understood, however, if the two principal categories mentioned are considered separately. For the purposes of this presentation, checks in the hands of Federal Reserve Banks will be disregarded temporarily.

Checks presented to a drawee bank for payment may come from several sources; obviously there is only one disposition: they are charged to the drawers' accounts (disregarding for this purpose the small number returned unpaid). Tables II and II-A illustrate the sources of checks presented to drawee banks for payment on one day.

(a) Sources of Items Presented to Drawee Banks for Payment

Tables II and II-A indicate that about two-thirds of the items presented to the commercial banks of the country for payment were received either through local clearings

Table II

Sources of Items Presented to Commercial Banks for Payment on an Average Day in July 1952
By Size Class of Commercial Bank
(Thousands of items)

Commercial Banks with Deposits of*-	Total Items Received	From Clearings**	From Federal Reserve	From Other Banks	From Other Deposits	Cashed Checks
1. Less than \$7.5 million	6,657	1,438	2,584	803	1,103	729
2. \$7.5 million-\$24.9 million	4,617	1,576	1,586	700	303	452
3. \$25 million-\$99.9 million	3,995	1,526	1,149	307	622	391
4. \$100 million-\$499.9 million	4,501	2,401	624	356	504	616
5. \$500 million and over	<u>5,211</u>	<u>3,555</u>	<u>***</u>	<u>541</u>	<u>518</u>	<u>597</u>
Total	24,981	10,496	5,943	2,707	3,050	2,785

* As of June 30, 1952.

** Clearing House, local messenger presentations, special clearing arrangements.

*** Nominal; only one bank in this size class is located outside a Federal Reserve City.

Table II-A

Sources of Items Presented to Commercial Banks for Payment on an Average Day in July 1952
By Size Class of Commercial Bank
Per Cent Distribution by Source

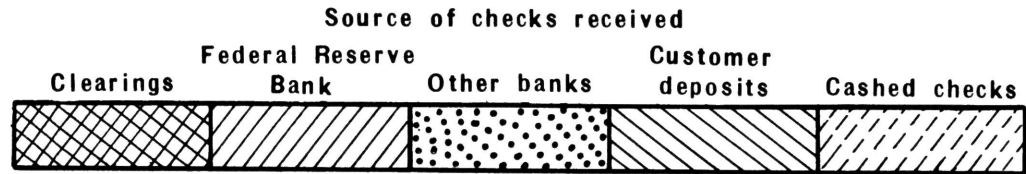
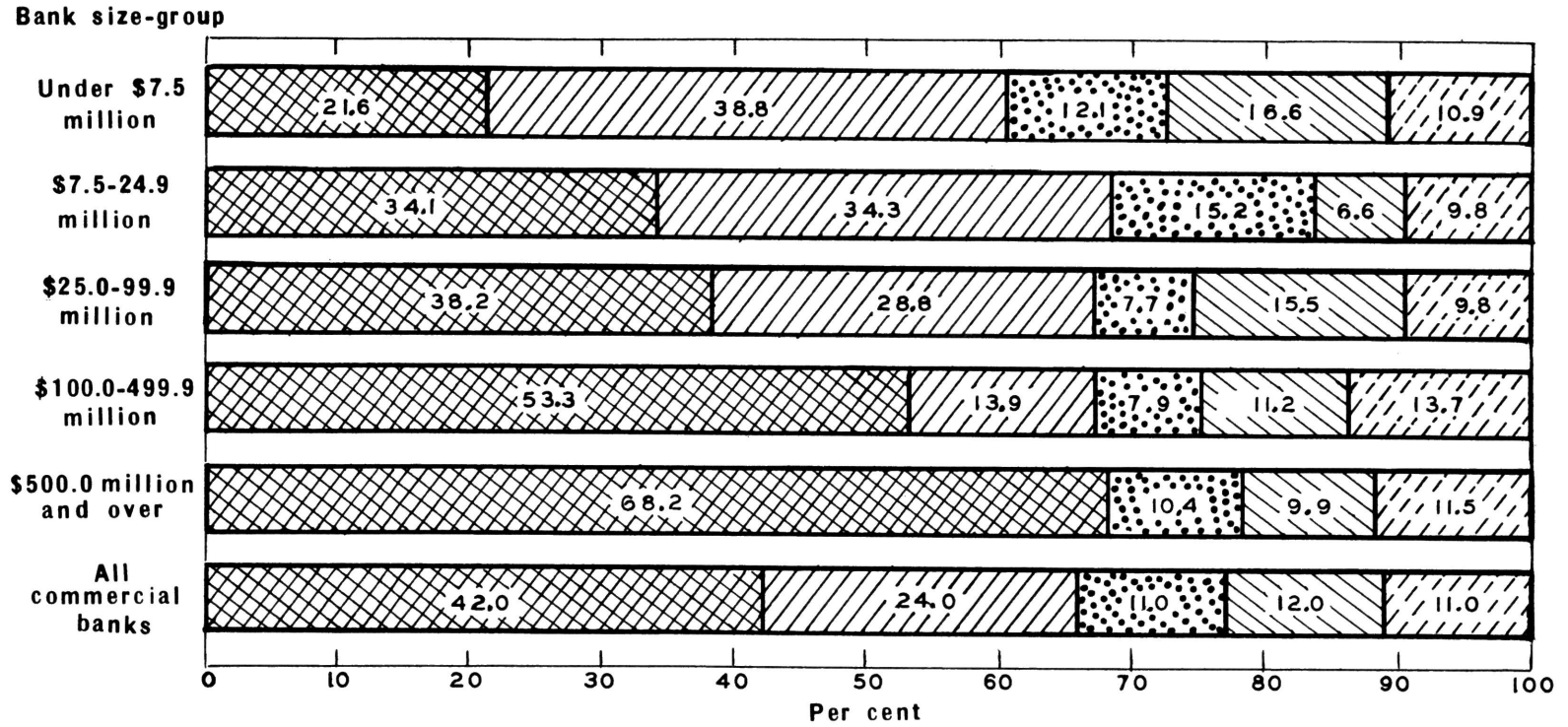
Commercial Banks with Deposits of*-	Total Items Received	From Clearings**	From Federal Reserve	From Other Banks	From Other Deposits	Cashed Checks
1. Less than \$7.5 million	100.0%	21.6%	38.8%	12.1%	16.6%	10.9%
2. \$7.5 million-\$24.9 million	100.0	34.1	34.3	15.2	6.6	9.8
3. \$25 million-\$99.9 million	100.0	38.2	28.8	7.7	15.5	9.8
4. \$100 million-\$499.9 million	100.0	53.3	13.9	7.9	11.2	13.7
5. \$500 million and over	<u>100.0</u>	<u>68.2</u>	<u>***</u>	<u>10.4</u>	<u>9.9</u>	<u>11.5</u>
Average	100.0%	42.0%	23.8%	10.8%	12.2%	11.2%

* As of June 30, 1952.

** Clearing House, local messenger presentations, special clearing arrangements.

*** Nominal; only one bank of this size is located outside a Federal Reserve City.

**DISTRIBUTION BY SOURCE OF CHECKS AND BY SIZE OF BANK OF CHECKS PRESENTED FOR PAYMENT
ON AN AVERAGE DAY IN JULY 1952**



or in cash letters from Federal Reserve Banks. The remaining third of the items presented were received in relatively equal proportions in cash letters of other banks, in deposits of customers, and over the counter for cash.

The relative proportion of items received through the clearings and received in Reserve Bank cash letters varied according to the size of the drawee bank. In smaller banks the proportion of items received through the clearings tended to be smaller and the proportion received in Reserve Bank cash letters tended to be larger; in larger banks, this relationship was reversed. One reason for this variation is that in the case of many smaller banks clearing arrangements were either nonexistent (because there was no other bank in town) or limited in effect (because the number of other local banks was small). Another reason is that banks in Federal Reserve Bank cities counted as items received through the clearings items which were so presented by the local Reserve Bank; the surveys indicate that if these items had been classified as received from the Reserve Bank, the total proportion of items received through the clearings and from the Reserve Banks would have been about equal -- about one-third of all items presented coming from each source.

A further point to be emphasized in assessing the figures contained in Tables II and II-A is that many items presented to drawee banks -- particularly the larger banks -- through the clearings originated with out-of-town banks, which sent them to city correspondents or to Reserve Banks for collection.

(b) Sources of Items
Received for Collection

It has been observed previously that items of the first category considered -- i.e., those presented to drawee banks for payment -- were retired from the collection system by being charged to the accounts of the drawers, and therefore this study is not concerned further with their disposition. On the other hand, in the case of checks in the second category mentioned -- i.e., those received by one bank for collection from another bank -- we are interested not only in the sources from which the collecting banks

received the items, but also in the manner in which the collecting banks disposed of them in order to effect collection. Tables III and III-A illustrate the sources of receipt of such items and the disposition which was made of them.

In all of the commercial banks of the country, 74 out of every 100 items received for collection were either cashed at the window or included in deposits of customers; the remaining 26 items were deposited by other banks. The relationship between the proportionate amounts deposited by customers and by other banks varied according to the size of the bank receiving the deposits. Banks in the two smallest size groups received virtually no items deposited by other banks,⁹ whereas banks in the larger size groups received a considerable portion of their collection volume -- two-fifths in the case of the large banks -- in deposits of other banks. These figures begin to show the place in the collection pattern occupied by correspondent banks; the pattern becomes clearer when attention is directed to the disposition of checks received for collection.

(c) Disposition of Items
Received for Collection

In the disposition of items received for collection, all banks combined presented about one-third through local clearings, sent about one-third to Federal Reserve Banks, one-fifth to correspondent banks, and disposed of the balance about equally between direct sendings to drawee banks and collections through miscellaneous channels. Of the items presented through clearings, the only substantial deviation among the several size groups was the naturally lower percentage in the smallest size group, reflecting the absence of clearings in one-bank towns. Except for banks in the two smallest size groups, which seldom engage in the practice, there was little variation among the size groups in the percentage of items sent direct to drawee banks. The significant variations among the several size groups occurred

9. The small number of items shown consisted principally of (1) items on nonpar banks in the same town to be presented over-the-counter for payment at par, (2) items on other local banks received from certain large direct sending banks (mostly the central midwest) which often send items on all banks in a town to the principal correspondent in that town, and (3) items sent to some small Reserve City banks.

Table III

Sources and Disposition of Items Received for Collection
By Commercial Banks on an Average Day in July 1952
By Size Class of Commercial Bank
(Thousands of items)

Commercial Banks with Deposits of*-	Total Items Received	Sources			Disposition				
		Nonbank Deposits	Deposits of Banks	Cashed Checks	Clearings**	Sent Direct to Drawee#	To Corre- spondents	To Federal Reserve##	Miscella- neous***
1. Less than \$7.5 million	4,598	3,827	42	729	1,188	37	2,216	800	357
2. \$7.5 million- \$24.9 million	4,520	3,817	151	552	1,371	91	1,959	953	146
3. \$25 million- \$99.9 million	5,310	3,683	1,306	321	1,782	329	1,185	1,913	101
4. \$100 million- \$499.9 million	7,330	4,226	2,839	265	2,646	602	812	3,043	227
5. \$500 million and over	<u>8,066</u>	<u>4,375</u>	<u>3,491</u>	<u>200</u>	<u>3,231</u>	<u>533</u>	<u>374</u>	<u>3,297</u>	<u>631</u>
Total	29,824	19,928	7,829	2,067	10,218	1,592	6,546	10,006	1,462

* As of June 30, 1952.

** Includes local messenger presentations and some special clearing arrangements.

*** County and country clearing houses, as well as various special arrangements. Includes some items payable at Federal Reserve Banks.

Transit items only, including nonpar items. (See footnote 10, page 29)

Includes some but not all items payable at Reserve Banks.

Table III-A

Sources and Disposition of Items Received for Collection
By Commercial Banks on an Average Day in July 1952
By Size Class of Commercial Bank
Per Cent Distribution by Source and Disposition

Commercial Banks with Deposits of*-	Total Items Received	Sources			Disposition				
		Nonbank Deposits	Deposits of Banks	Cashed Checks	Clearings**	Sent Direct to Drawee#	To Corre- spondents	To Federal Reserve##	Miscella- neous***
1. Less than \$7.5 million	100.0%	83.2%	0.9%	15.9%	25.8%	0.8%	48.2%	17.4%	7.8%
2. \$7.5 million- \$24.9 million	100.0	84.5	3.3	12.2	30.3	2.0	43.4	21.1	3.2
3. \$25 million- \$99.9 million	100.0	69.4	24.6	6.0	33.6	6.2	22.3	36.0	1.9
4. \$100 million- \$499.9 million	100.0	57.7	38.7	3.6	36.1	8.2	11.1	41.5	3.1
5. \$500 million and over	<u>100.0</u>	<u>54.2</u>	<u>43.3</u>	<u>2.5</u>	<u>40.1</u>	<u>6.6</u>	<u>4.6</u>	<u>40.9</u>	<u>7.8</u>
Average	100.0%	66.8%	26.3%	6.9%	34.3%	5.3%	21.9%	33.6%	4.9%

* As of June 30, 1952.

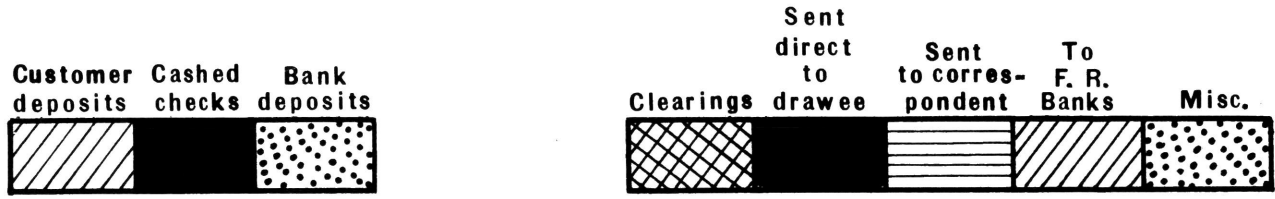
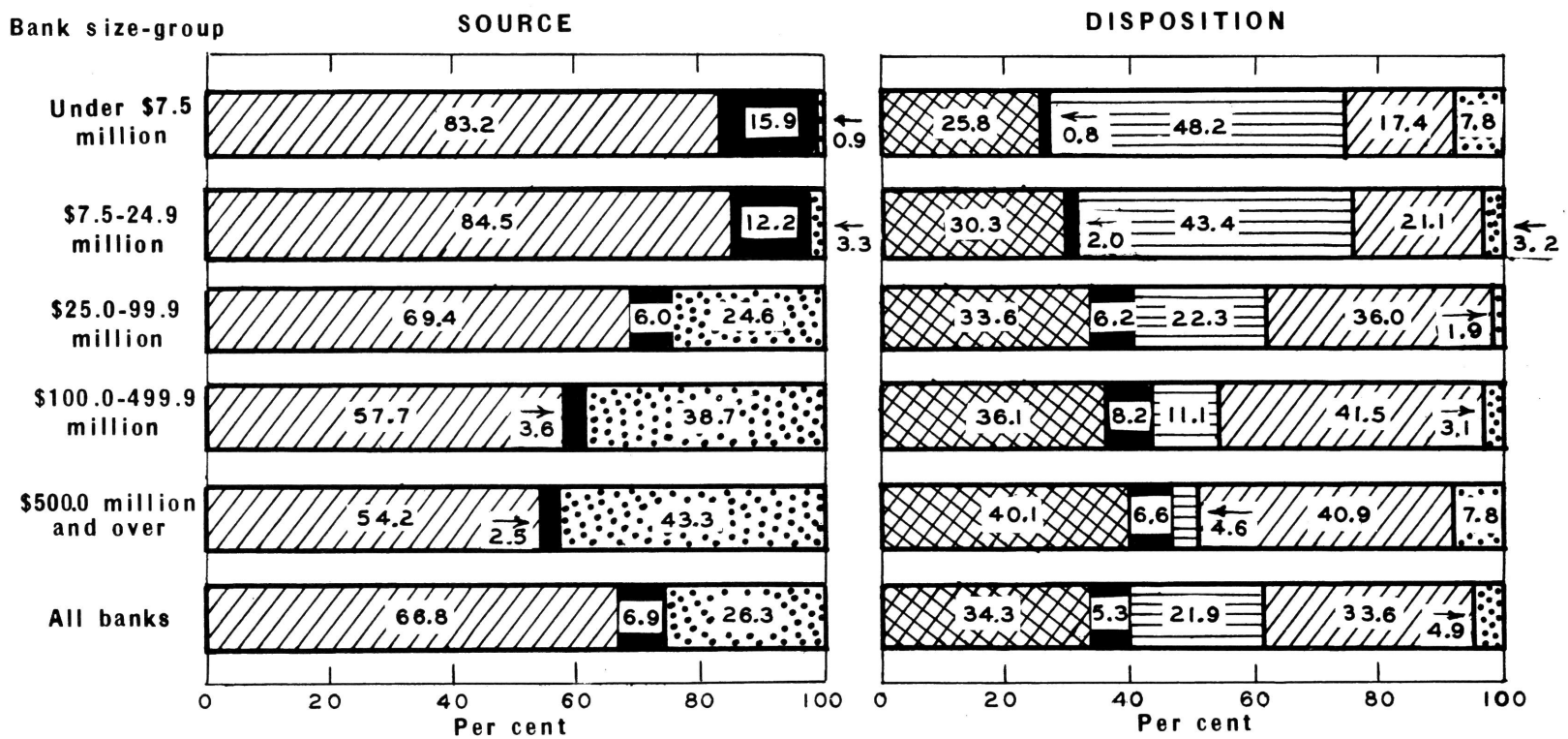
** Includes local messenger presentations and some special clearing arrangements.

*** County and country clearing houses, as well as various special arrangements. Includes some items payable at Reserve Banks.

Transit items only, including nonpar items. (See footnote 10, page 29)

Includes some but not all items payable at Reserve Banks.

SOURCE AND DISPOSITION OF CHECKS RECEIVED FOR COLLECTION BY COMMERCIAL BANKS ON AN AVERAGE DAY IN JULY 1952



in the percentage of items sent to correspondent banks or to Reserve Banks for collection. The smallest banks sent a large percentage of out-of-town items to correspondent banks and a comparatively small percentage of such items to the Reserve Banks; these figures change progressively through the size groups, until among the largest banks the relationship is reversed, with a very small percentage of out-of-town items being sent to correspondents and the major portion being collected through the Reserve Banks. These relationships are the complements of those noted in the previous paragraph, insofar as the pattern of correspondent bank check collection activity is concerned.

3. Source and Disposition Patterns of Various Types of Items Received for Collection

Another view of sources and disposition of items received for collection by commercial banks is given in Tables III-B and III-C. Here the items are classified by type: those drawn on other local banks, on other par banks in the same Reserve district (intradistrict par items), on other par banks in other Reserve districts (interdistrict par items), and nonpar and restricted items.

For all commercial banks combined there was relatively little difference in the proportions of the different classes of items received from the various sources. Roughly two-thirds of each class was received in deposits of customers, between a quarter and a third came in cash letters from other banks, and the balance represented checks cashed at the window. The source patterns varied by size of bank, as noted earlier, but within each size class they were quite similar for all types of items.

The disposition patterns varied both with type of item and with size of bank. Most items on other local banks were presented through clearing arrangements, either formal clearing houses or informal clearings (including some messenger presentation). The local items shown as going to the Federal Reserve represented mainly items drawn on or payable through the Federal Reserve Banks; some items included in the miscellaneous disposition category also were items payable at the Reserve Banks. Variations between banks of different size classes with respect to

disposition of local items reflected principally points noted earlier: more formal clearing arrangements in large cities, less formal arrangements in smaller towns (and consequently more frequent presentation by messenger and through miscellaneous channels).

The disposition of nonpar and restricted items by all banks as a group shows that a little more than half were sent directly to drawee banks and a little less than half were sent to correspondent banks for collection. Banks in the smaller size classes tended to collect such items for the most part through correspondents, whereas larger banks engaged extensively in direct sendings to the drawee banks. As noted earlier, banks with deposits exceeding \$500 million received relatively few nonpar items for collection. In contrast to other correspondent banks, the very large banks sent very few nonpar items directly to drawee banks, but sent most of the items to other correspondent banks for collection.

The patterns of distribution of interdistrict and intradistrict par items by all banks show that about the same proportion of each class of item was sent to Federal Reserve Banks. Proportionately more interdistrict items than intradistrict items were collected through correspondent banks. Collections by direct sendings to drawee banks were more prevalent in the case of items drawn on banks located within the district than in the case of items drawn on banks in other districts. There were some variations in this pattern of distribution among the different size classes of banks. As in the case of checks generally, the proportion of both interdistrict and intradistrict par items sent to Federal Reserve Banks in relation to those sent to correspondent banks increased as size of bank increased; and direct sendings to drawee banks were heavier among larger banks.¹⁰

10. It should be noted that banks generally tend to count as direct sendings to drawee banks only items sent out in letters going specially to drawee banks; such letters seldom contain any items other than those on the drawee banks. Actually, a number of items substantially larger than indicated by the tables goes directly to drawee banks. The small banks particularly send items of all types to correspondent banks and included in such letters are a number of items drawn on the correspondent. The small banks generally do not count such sendings as direct, and in this report the disposition category "direct to drawee bank" covers mainly the direct letters containing only items drawn on the banks to which such letters are sent.

Table III-B

Sources and Disposition of Items Received for Collection
by Commercial Banks on an Average Day in July 1952
By Type of Item
(Thousands of items)

Items Received for Collection-	Total	Sources			Disposition				
		Nonbank Deposits	Cashed Checks	Deposits of Banks	Clearings**	Sent Direct to Drawee#	To Corre- spondents	To Federal Reserve##	Miscella- neous***
On Local Banks	11,960	7,797	658	3,505	10,218	-	*	1,011	731
On Other Par Banks in Same F. R. District	11,732	8,044	1,019	2,669	-	888	3,789	6,344	711
On Other Par Banks in Other F. R. Districts	5,112	3,398	390	1,324	-	147	2,294	2,651	20
Nonpar and Restricted Items	<u>1,020</u>	<u>689</u>	<u>-</u>	<u>331</u>	<u>-</u>	<u>557</u>	<u>463</u>	<u>-</u>	<u>-</u>
Total	29,824	19,928	2,067	7,829	10,218	1,592	6,546	10,006	1,462

* Some local items go to correspondents; these are included in miscellaneous.

** Includes local messenger presentations and some special clearing arrangements.

*** Includes county and country clearing houses, as well as various special arrangements. Includes some items payable at Reserve Banks.

Transit items only, including nonpar items (See footnote 10, page 29)

Includes some, but not all, items payable at Reserve Banks.

Table III-C

Sources and Disposition of Items Received for Collection
By Commercial Banks on an Average Day in July 1952
By Type of Item
Per Cent Distribution by Source and Disposition

Items Received for Collection -	Total	Sources			Disposition				
		Nonbank Deposits	Cashed Checks	Deposits of Banks	Clearings**	Sent Direct to Drawee#	To Corre- spondents	To Federal Reserve ##	Miscella- neous***
On Local Banks	100%	65.2%	5.5%	29.3%	85.4%	-	*	8.5%	6.1%
On Other Par Banks in Same F. R. District	100	68.6	8.7	22.7	-	7.6	32.3	54.1	6.0
On Other Par Banks in Other F. R. Districts	100	66.5	7.6	25.9	-	2.9	44.9	51.8	0.4
Nonpar and Restricted Items	<u>100</u>	<u>67.5</u>	<u>-</u>	<u>32.5</u>	<u>-</u>	<u>54.6</u>	<u>45.4</u>	<u>-</u>	<u>-</u>
Average	100%	66.8%	6.9%	26.3%	34.3%	5.3%	21.9%	33.6%	4.9%

* Some local items go to correspondents; these are included in miscellaneous.

** Includes local messenger presentations and some special clearing arrangements.

*** Includes county and country clearing houses, as well as various special arrangements. Includes some items payable at Reserve Banks.

Transit items only, including nonpar items (See footnote 10, page 29)

Includes some, but not all, items payable at Reserve Banks.

Table IV completes the picture of sources and disposition of items in the process of collection by showing the flow of work through the Federal Reserve Banks and branches on a typical day.

4. Routing Patterns Applicable to Collection of Out-of-town Items

From the standpoint of a collecting bank, out-of-town items may be classified as follows:

A. Intradistrict items-

1. Items drawn on or payable through the Federal Reserve Bank of the district.
2. Items drawn on commercial banks in the city of the Federal Reserve Bank.
3. Items drawn on banks in communities adjacent to the community of the collecting bank.

4. Items drawn on other banks within the district.

B. Interdistrict items-

1. Items drawn on or payable through the Federal Reserve Bank of another district, or drawn on commercial banks in the Federal Reserve Bank city of another district.
2. Items drawn on all other banks in other districts.

(The first two groups of intradistrict items would not apply in the case of a bank in the Federal Reserve Bank city, since such a bank would regard them as local items to be handled in the clearings or presented directly.)

Some indication of routing patterns applicable to collection of out-of-town items appears from the data regarding disposition of intradistrict and interdistrict items presented in Tables III-B and III-C. The

Table IV

Check Volume, by Source and Disposition, in Federal Reserve Banks on an Average Day in July 1952 (Thousands of items)

Types of Items	Total	Sources				Disposition			
		From Own Members	From Member Banks in Other Districts	From Other F.R. Offices in District	From Other F.R. Banks	To Clearing House	Direct to Commercial Banks	To Other F.R. Banks	Debits
Items Drawn on or Payable through the Reserve Bank*	2,849	2,849	-	-	-	-	-	-	2,849
Other Items Payable in the Reserve Bank City	2,702	1,525	936	35	206	2,196	506	-	-
Other Items Payable in the Same District	5,423	4,146	897	59	321	-	5,423	-	-
Items Payable in Other Districts	<u>578</u>	<u>578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30</u>	<u>548</u>	<u>-</u>
Total	11,552	9,098	1,833	94	527	2,196	5,959	548	2,849

* Includes U. S. Treasury checks and postal money orders.

Note: These data are taken from the surveys made of the Federal Reserve Banks and branches and do not check out precisely with the complementary data from the commercial bank surveys. The differences are small, however, and a reconciliation is shown in the appendix.

Also to be noted is the fact that the above classifications are from the standpoint of the Federal Reserve offices handling the items and not from the standpoint of the sending commercial banks. For example, local items in this table represent local, intradistrict and interdistrict items as seen by the sending bank.

following facts developed in the survey shed further light on these patterns:

- (1) Most items payable at Federal Reserve Banks were presented by commercial banks in the same city, which shows that country banks tended to send a substantial portion of such items to correspondent banks rather than to Federal Reserve Banks.¹¹
- (2) A large proportion of items payable at commercial banks in Federal Reserve cities were sent to Federal Reserve Banks for presentation through local clearing arrangements. The Federal Reserve survey disclosed that 755,000 items payable at commercial banks in Federal Reserve cities were received daily by the Reserve Banks from country banks in the same Federal Reserve district. The Reserve City bank survey showed that of 1.4 million items payable at commercial banks in Federal Reserve cities where the sending banks also had accounts with correspondent banks, 949,000 were sent to Federal Reserve Banks and 438,000 to correspondent banks. Commercial banks in Federal Reserve cities received daily from

11. Table IV shows that the Federal Reserve Banks received 2,849,000 items payable by them on an average day in July, 1952. These were postal money orders, Treasury checks, and items drawn on the Federal Reserve Banks. Since 10 per cent of the money orders processed by the Reserve Banks came from the post offices, and did not enter commercial bank collection channels, the number of items payable by the Reserve Banks sent in by commercial banks daily was about 2.7 million. Of these, the great bulk (perhaps 80 per cent) came from banks in the same cities as the Reserve Banks, although they normally would have received as original deposits and cashed checks just about 55 per cent of the volume for collection. In other words, between 550,000 and 600,000 items on the Reserve Banks were sent by the first collecting banks to correspondents for presentation to the Federal Reserve rather than directly to the Reserve Banks. This reflects the fact that nonmember banks do not send items directly to Federal Reserve Banks, and also it reflects the regular routing habits of country banks, both member and nonmember.

correspondents about 2.4 million items payable at other commercial banks in those cities. Well over half of these were received from country banks in the same district.

- (3) As a rule, it appeared in July, 1952, that in handling out-of-town intradistrict items, country banks did not differentiate between items payable at nearby banks and items payable elsewhere in the district. In a relatively few scattered instances, an effort was made to collect such items locally by direct presentation or through local clearing arrangements. In order to ascertain what proportion of out-of-town items were drawn on nearby banks, the questionnaire directed to country banks asked them to classify par transit items according to the distance from the drawee banks. For all country banks combined, 31 per cent of par transit items were drawn on banks within a 25 mile radius of the collecting bank, and 16 per cent more were payable at banks from 25 to 50 miles away from the collecting bank. In terms of numbers of items, 2.5 million items were payable within 25 miles and 1.3 million were payable from 25 to 50 miles away, out of the 8.2 million par transit items¹² handled daily by country banks. Most of these items on nearby points would be intradistrict items.
- (4) In collecting other intradistrict items, some country member banks sent them directly to the Federal Reserve Bank. Most country member

12. Some of these items would be payable at Federal Reserve Banks or at commercial banks in Federal Reserve cities, since some country banks are within 25 or 50 miles of a Federal Reserve city.

banks, however, and all non-member banks customarily sent such items to correspondent member banks, and the latter as a rule collected the items through the Federal Reserve. The Federal Reserve Banks received daily from commercial banks in their own districts 4.1 million intradistrict items payable outside their cities. Almost 3 million of these came from banks in Federal Reserve cities.

- (5) Most interdistrict items were collected through Federal Reserve facilities. Table IV shows that the Federal Reserve Banks received directly from commercial banks in other districts a daily volume of 936,000 items drawn on banks in the cities of the receiving Reserve Banks.
- (6) As shown by Table IV, the Federal Reserve Banks received daily 897,000 items payable outside their cities but elsewhere in their districts direct from commercial banks outside their districts. They also received 578,000 items payable at commercial banks in other districts from banks in their own districts.

Bearing on the routing patterns applicable to the collection of out-of-town items are the following findings relative to the extent of direct use of Federal Reserve collection facilities by member banks:

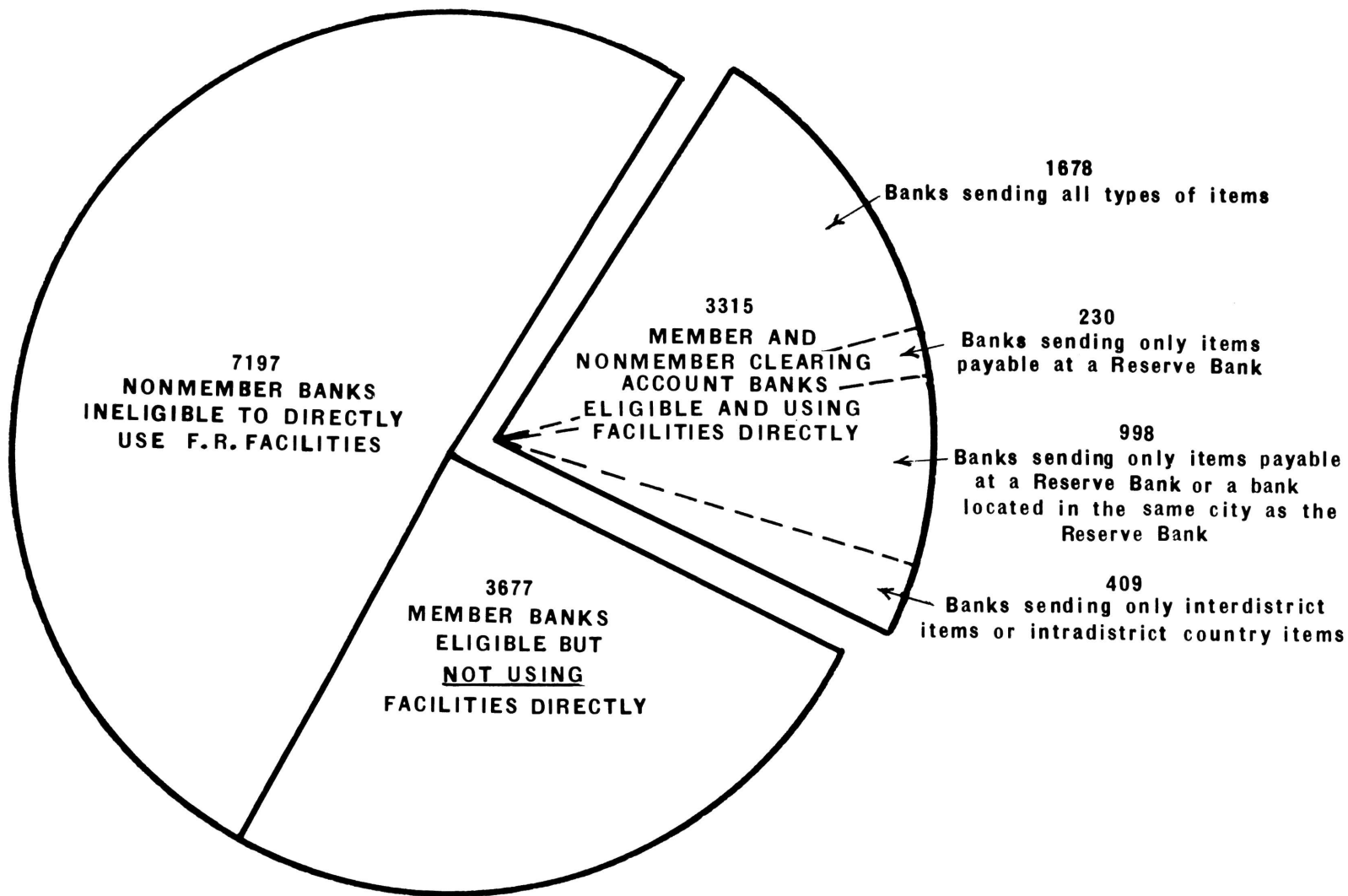
- (1) According to Federal Reserve survey data, only 3,315 of the nation's 14,189 banks sent items directly to Federal Reserve Banks in July, 1952. At that time, there were 7,197 nonmember banks that were not eligible to send items directly to the Federal Reserve; there were 6,739 member banks and 253 nonmember clearing banks that did have direct access to Federal Reserve facilities. Of the latter, 230 sent only

items payable at Reserve Banks, 998 sent only such items plus those payable at commercial banks in the same city, 409 sent only items payable elsewhere, and 1,678 banks sent all types of items. Less than 2,000 of nearly 12,000 small banks (each with less than \$7.5 million in deposits) sent items to Federal Reserve Banks; 800 of the 1,800 banks with deposits between \$7.5 million and \$25 million sent items directly to the Federal Reserve, and 550 of the 718 banks with \$25 million or more in deposits made direct use of Federal Reserve facilities.

- (2) Federal Reserve Banks presented items directly to virtually all banks on which checks were drawn. Local items usually were presented through clearings, intradistrict items were presented directly by mail to drawee banks, and interdistrict items as a rule were sent to the Federal Reserve office serving the territory of the drawee bank. A few interdistrict items were sent directly to drawee banks across district lines.

These facts, considered with the data presented in Tables III, III-A, III-B, and III-C, and IV, show the customary check routing patterns prevailing in the United States. Checks deposited by customers or cashed at the window flow into the check collection system daily. Items drawn on the banks receiving them are paid, and items on other local banks are presented through the clearings. The pattern, insofar as "on us" and local items are concerned, prevails regardless of the size or status of the bank. In the case of out-of-town items, however, the pattern varies according to whether the bank is a member of the Federal Reserve System and, among member banks, it also varies with the size of the bank. Almost all non-member banks and many smaller member banks tend to send all or most out-of-town items to correspondent banks. Some smaller member

PROPORTION OF 14,189 COMMERCIAL BANKS MAKING DIRECT AND INDIRECT USE OF THE RESERVE BANK CHECK COLLECTION FACILITIES *



* Federal Reserve Survey data.

banks send directly to Federal Reserve Banks items drawn on or payable through the Federal Reserve Banks and items drawn on other banks in the Federal Reserve city; a comparatively small number of smaller member banks send all types of par items to the Federal Reserve Banks. The larger member banks send to the Federal Reserve Banks all items drawn on or payable through the latter, including such items received from member and nonmember correspondent banks. They also tend to send most out-of-town par items, including many received from country banks, to the Federal Reserve Banks for collection.

A schematic outline of the flow of checks through the check collection system is contained in Appendix B.

D. Check Activity Patterns at Banks of Different Sizes and Reserve Status

The foregoing discussion concerns primarily the sources and disposition of check collection volume in terms of the entire check collection system -- the nation's 14,000 commercial banks and the Federal Reserve Banks. References to differences according to size or type of collecting bank have been incidental for the most part.

Major differences in volume of checks handled and in check routing patterns appear among banks of different reserve status and different size. Two additional sets of

three dimensional views of the check collection network are presented in this section, the first showing differences between Reserve City and country banks, the second showing differences between banks of different size classes.

1. Contrast Between Reserve City and Country Banks

Tables V, V-A, and V-B present data on sources and disposition of check volume at Reserve City banks and country banks. The tables make clear the differences between the two types of banks. They point up the following facts:

- (1) The Reserve City banks are a much more homogeneous group, from the standpoint of their check collection operations, than are the country banks; the percentage distributions among the various categories in the tables do not vary among the size groupings to the same extent as in the case of country banks. Most Reserve City banks, regardless of size, do a correspondent banking business and serve as major collecting banks. This is reflected in the fact that in all size classifications of Reserve City banks, the volume of items received for collection

Table V

Patterns of Check Volume, Sources and Disposition on an Average Day in July 1952

	Reserve City Banks Banks with Deposits of*					Country Banks Banks with Deposits of*				
	Total	\$7.5-24.9 Million	\$25-99.9 Million	\$100-499.9 Million	\$500 Million and Over	Total	Less Than \$7.5 Million	\$7.5-24.9 Million	\$25-99.9 Million	\$100-499.9 Million
	%	%	%	%	%	%	%	%	%	%
Total Volume	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Items Paid	37.5	36.6	34.4	35.7	39.2	53.4	59.1	51.4	47.7	48.0
Items for Collection	62.5	63.4	65.6	64.3	60.8	46.6	40.9	48.6	52.3	52.0
Items for Collection	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
On Local Banks	45.8	47.8	38.7	43.8	49.2	32.7	29.9	32.5	34.5	40.0
Intradistrict Par	34.2	34.1	44.0	34.6	31.3	45.8	49.8	46.4	42.2	39.0
Interdistrict Par	17.3	15.0	13.0	16.9	18.8	17.0	15.3	18.5	16.8	18.8
Nonpar and Restricted	2.7	3.1	4.3	4.7	0.7	4.5	5.0	2.6	6.5	2.2

* As of June 30, 1952.

JOINT STUDY OF CHECK COLLECTION

Table V-A

Patterns of Check Volume, Sources and Disposition
on an Average Day in July 1952

	Reserve City Banks					Country Banks				
	Banks with Deposits of*					Banks with Deposits of*				
	Total	\$7.5-24.9	\$25-99.9	\$100-499.9	\$500	Less Than	\$7.5	\$7.5-24.9	\$25-99.9	\$100-499.9
%	Million	Million	Million	and Over	Million	Million	Million	Million	Million	
	%	%	%	%	%	%	%	%	%	%
Sources of										
Items Paid	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Clearings**	62.4	42.6	42.8	61.2	68.2	28.5	21.6	33.7	36.3	29.0
Federal Reserve	5.8	25.6	25.4	7.0	***	35.6	38.8	34.8	30.1	35.3
Other Banks	9.4	8.5	7.9	8.6	10.4	11.8	12.1	15.5	7.6	5.9
Other Deposits	9.4	10.8	9.5	8.6	9.9	14.1	16.6	6.4	18.0	19.2
Cashed Checks	13.0	12.5	14.4	14.6	11.5	10.0	10.9	9.6	8.0	10.6

* As of June 30, 1952.

** Clearing House, local messenger presentations, special clearing arrangements.

*** Nominal; only one bank in this size class is located outside a Federal Reserve City.

TABLE V-B

Patterns of Check Volume, Sources and Disposition
on an Average Day in July 1952

	Reserve City Banks					Country Banks				
	Banks with Deposits of*					Banks with Deposits of*				
	Total	\$7.5-24.9	\$25-99.9	\$100-499.9	\$500	Less Than	\$7.5	\$7.5-24.9	\$25-99.9	\$100-499.9
%	Million	Million	Million	and over	Million	Million	Million	Million	Million	
	%	%	%	%	%	%	%	%	%	%
Items for Collection										
Sources:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Deposits of										
Banks	41.6	31.4	36.7	42.0	43.3	6.4	0.9	0.9	16.2	21.8
Nonbank Deposits	54.7	60.0	57.2	54.5	54.2	82.2	83.2	86.7	77.8	74.0
Cashed Checks	3.7	8.6	6.1	3.5	2.5	11.4	15.9	12.4	6.0	4.2
Disposition:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Clearings**	37.0	28.1	32.2	35.5	40.1	30.6	25.8	30.6	34.5	39.3
Direct to Drawee#	8.3	16.7	9.3	9.6	6.6	1.8	0.8	0.6	4.1	1.2
Correspondents	7.5	16.1	10.0	9.7	4.6	40.5	48.2	45.8	30.9	18.3
Federal Reserve###	42.0	38.2	46.2	42.1	40.9	22.7	17.4	19.6	28.9	38.3
Miscellaneous***	5.2	0.9	2.3	3.1	7.8	4.4	7.8	3.4	1.6	2.9

* As of June 30, 1952.

** Includes local messenger presentations and some special clearing arrangements.

*** County and country clearing houses, as well as various special arrangements. Includes some items payable at Reserve Banks.

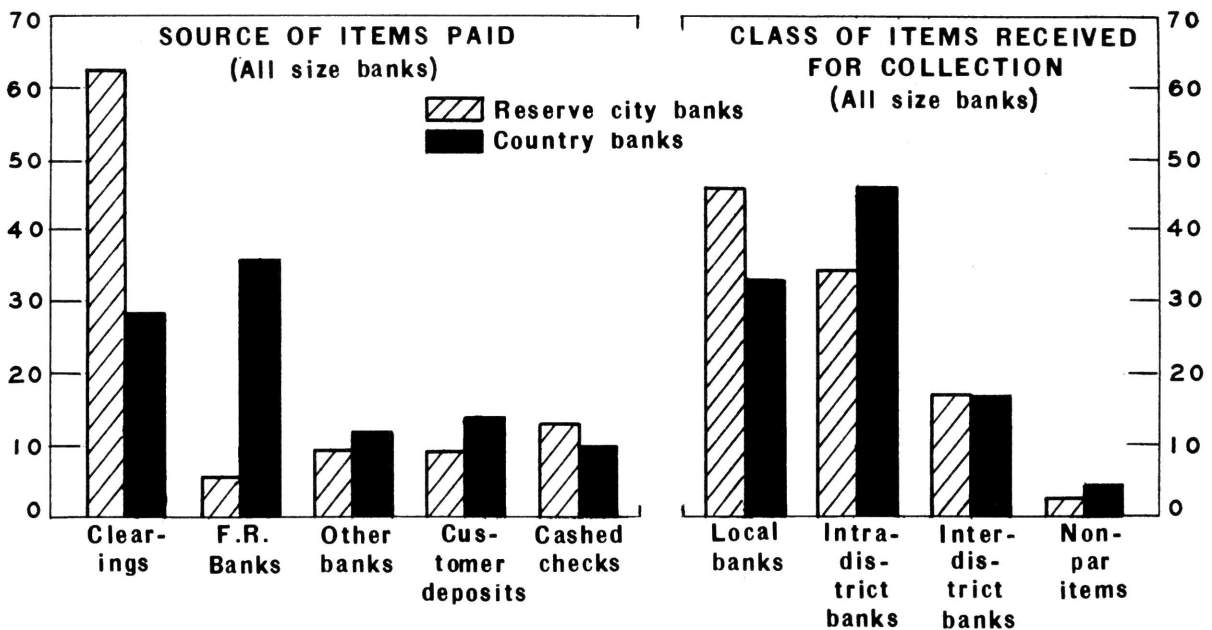
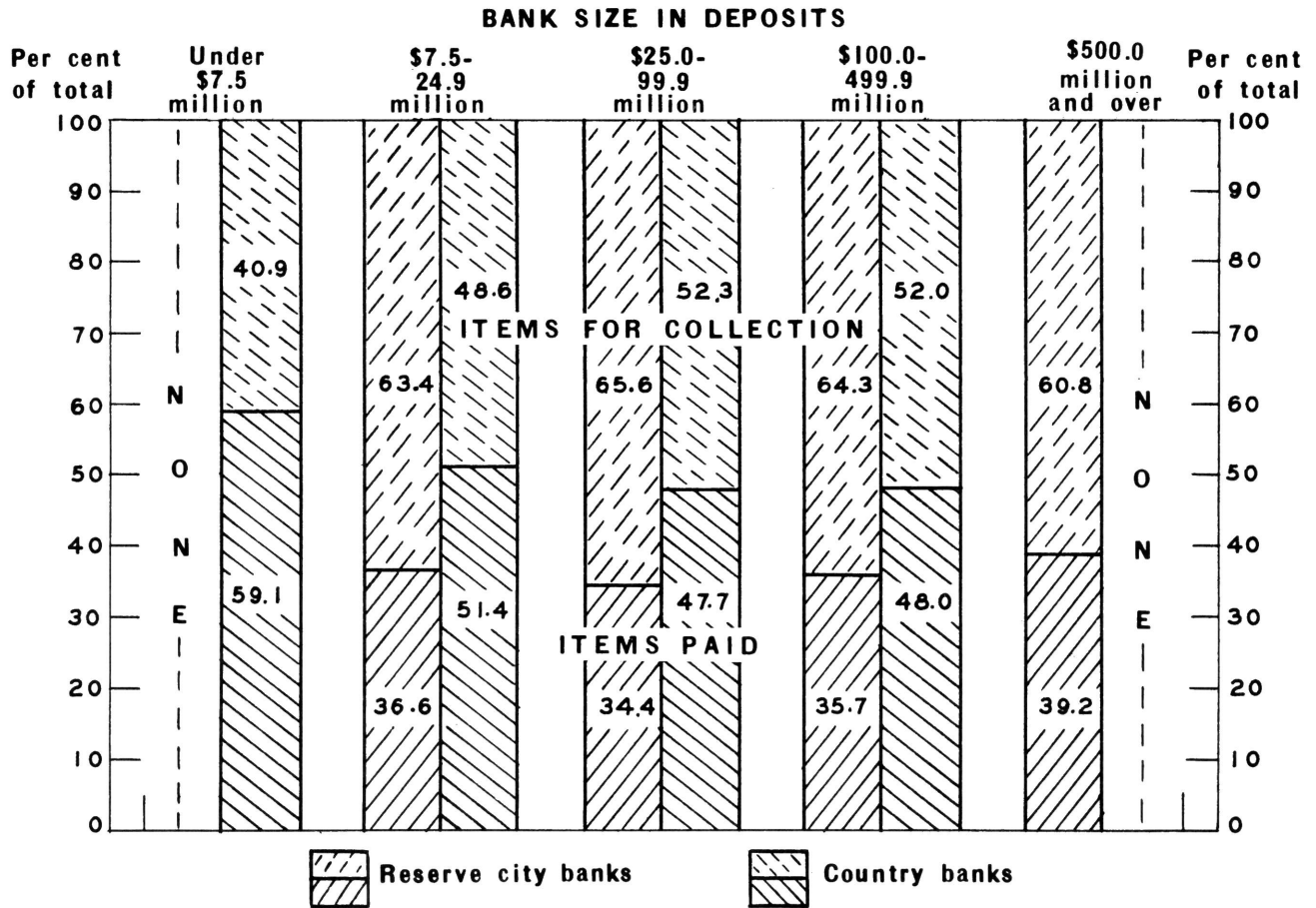
Transit items only, including nonpar items.

Includes some but not all items payable at Reserve Banks.

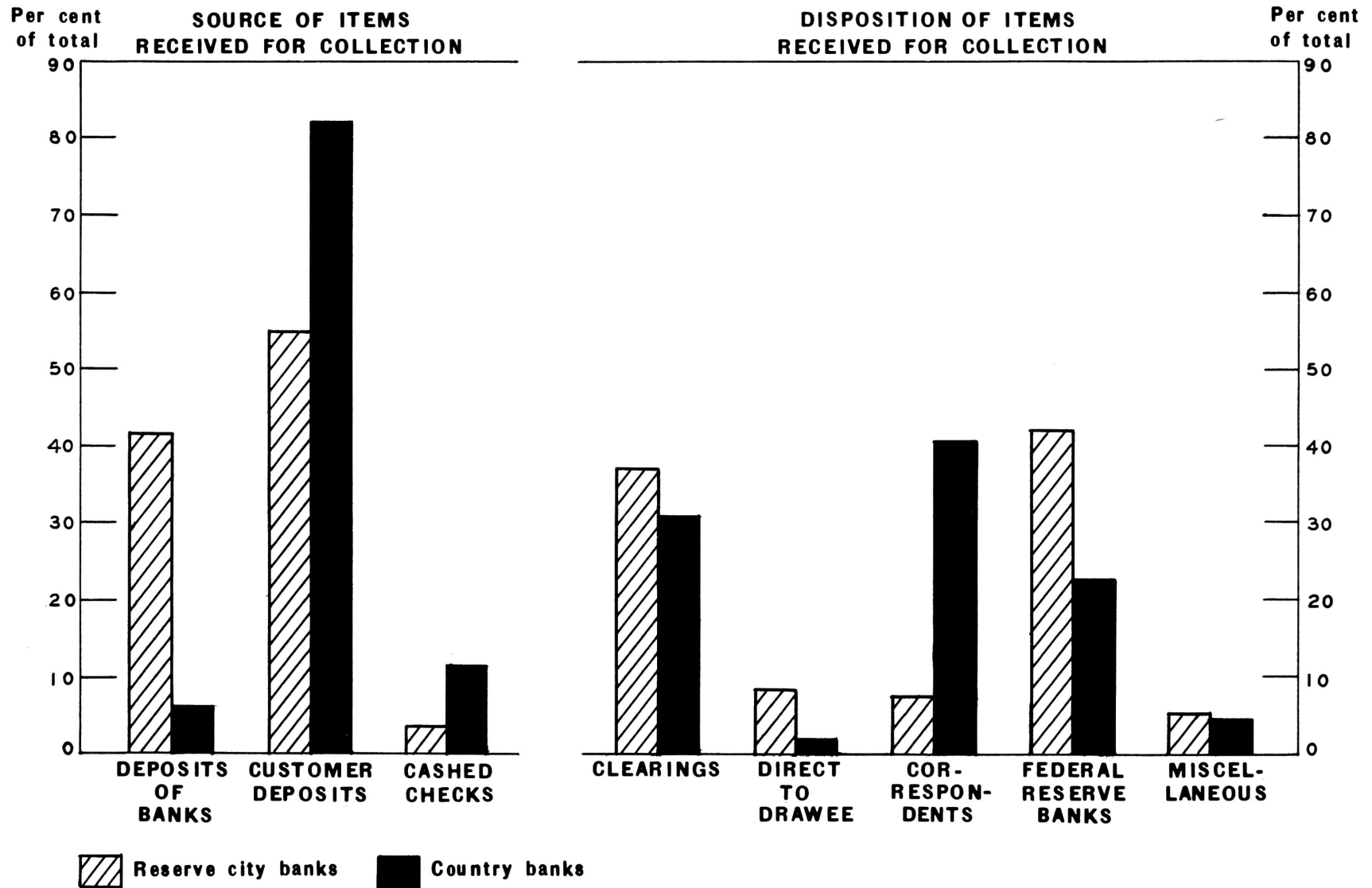
substantially exceeded the number of items presented to them for payment. For all country banks combined, the number of items paid was larger than the number received for collection. Some of the larger country banks

do a correspondent business, of course, and this is reflected in higher percentages of items received for collection, but generally country correspondent banks are less active as collecting banks than are Reserve City banks.

CONTRASTS BETWEEN CHECK COLLECTIONS AT RESERVE CITY BANKS AND COUNTRY BANKS



CONTRASTS BETWEEN ITEMS RECEIVED FOR COLLECTION AT RESERVE CITY BANKS AND COUNTRY BANKS (All size banks combined)



- (2) Differences between Reserve City banks and country banks in the proportions of various types of items handled for collection reflect mainly the location of Reserve City banks in larger cities, where there are proportionately more items on other local banks and proportionately fewer intradistrict transit items.
- (3) Table V-A, showing where items paid came from, indicates that a relatively small proportion of the items were received by Reserve City banks from the Federal Reserve, as mentioned earlier. This reflects the location of Reserve City banks mainly in Federal Reserve cities, so that items received from the Federal Reserve show up as items received through local clearings.
- (4) A striking fact is that about one-third of all items presented to country banks for payment, regardless of the size of the banks, were received from Federal Reserve Banks. More than half of all country banks are not members of the Federal Reserve System, with the proportion of nonmembership (and the proportion of nonpar banks) much larger in the small size class than in the larger size classes. Yet nonmember country banks covered by the survey actually received from Federal Reserve Banks a slightly higher proportion of their total check volume than did member banks. These facts illustrate the extent to which items drawn on nonmember banks flow through the Reserve Banks.
- (5) The pattern of sources of items received for collection is shown in Table V-B.

The large percentage of such items received by Reserve City banks in deposits by other banks emphasizes the function of the Reserve City banks as collecting banks, and is in sharp contrast to the pattern shown for the country banks.

- (6) The pattern of disposition of items received for collection points up again the check routing habits of commercial banks. The smaller country banks made major use of correspondents for collecting out-of-town items; the bigger the country bank, the more it used the Federal Reserve collection service. Reserve City banks, with little regard for size, made major use of the Federal Reserve check collection facilities.
- (7) Among commercial banks, most check collections by direct sendings to drawee banks are by correspondent banks; a substantial part of these direct sendings are to nonpar banks.

Check collection patterns and activities vary not only in relation to reserve classification but also according to the size of banks. Although Reserve City banks of all sizes tended to show the same general patterns in their check activity, the characteristics at country banks differed according to size. Most banks in the two smallest size classes were country banks, about 75 per cent of the third size class were country banks, and most banks in the two largest size classes were Reserve City banks. In order to point up the contrasts in patterns and activities, discussion of the two smallest size classes is followed immediately by discussion of the two largest, and the more heterogeneous middle group is treated last.

2. Banks with Less than \$25 Million in Deposits

Almost 13,300 out of the 14,000 commer-

cial banks in the United States fell in the two smaller size classes -- those with less than \$7.5 million in deposits and those with deposits between \$7.5 and \$25 million. All of the 11,486 banks with less than \$7.5 million in deposits were country banks; 1,730 of the banks with deposits between \$7.5 and \$25 million were country banks, and 72 were Reserve City banks. Total deposits on June 30, 1952, of banks in the two size classes amounted to almost \$51 billion. During 1952 about 3.2 billion checks were drawn on these banks, approximately 40 per cent of all checks drawn in that year.

(a) Banks with Deposits of
Less than \$7.5 Million

The 11,486 country banks making up this size class held deposits of \$28 billion on June 30, 1952, and paid about 1.9 billion checks in the year as a whole. Less than 5,000 of these banks were members of the Federal Reserve System, and about the same number were nonmember par remitting banks. Most of the nation's nonpar banks were in this size group. Banks in this size class were located predominantly in the midwest and south.

The average bank in this group, which held about \$2.4 million in deposits, handled about 980 checks on an average day in July, 1952. About 580 items drawn on the bank were presented to it and paid and 400 items drawn on other banks were received by it for collection. The number of checks handled per day by banks of this size seemed to vary directly with the amount of deposits, with about 400 items being handled daily for each million dollars of deposits. Thus a \$500,000 bank handled about 200 items; a \$7.5 million bank handled about 3,000 items. Geographic differences in check volume seemed to reflect primarily differences in average size of banks in the areas. In the east, far west, and southwest, where the average bank tended to be larger than in the midwest or south, check volume was larger also.

Of the 580 items paid each day, about 230 were received in cash letters from the Federal Reserve, 120 from local clearings, 160 in deposits of customers or in checks cashed at the window, and 70 in cash letters from other banks. The 400 items received for collection consisted almost entirely of checks deposited by customers or cashed at the window. The few items received from

other banks for collection reflected for the most part the practice of certain midwestern correspondent banks which sent to their principal correspondent in a town all items payable at banks in the town. Some of these items also represented nonpar items received for collection.

The 400 items received for collection consisted of 120 items drawn on other local banks, 200 payable at par banks in the same Federal Reserve district, 60 payable at par banks in other districts, and 20 items which either were drawn on nonpar banks or were otherwise restricted as to handling as cash items. Most local items were collected through local clearing arrangements;¹³ some nonpar items were sent directly to drawee banks and the balance were sent to correspondents; transit items were collected by sending them either to a city correspondent bank or to a Federal Reserve Bank.

Only 5,000 of the banks in this size group were members of the Federal Reserve System. The 6,500 nonmembers for the most part did not have direct access to Federal Reserve collection facilities and therefore had to have other outlets for collection of their transit items. Of the 5,000 small member banks, less than 2,000 actually sent items directly to their Reserve Banks, and only 1,100 sent any items other than those payable at the Reserve Banks or drawn on commercial banks in the Federal Reserve city. In other words, only one small bank out of six sent any items to a Federal Reserve Bank. The average small member bank which sent items to Federal Reserve Banks sent about 400 items; all other banks sent none.¹⁴ This works out to an average of about 65 transit items going to the Federal Reserve per small bank. On the other hand, practically all banks in the smallest size class received

13. In meetings held with groups of bankers in the twelve Federal Reserve districts, the committee learned of a number of cases where items on one local bank, received by another local bank for collection, were not cleared locally but were sent to out-of-town correspondents for collection. The total volume involved in all such cases combined apparently is quite small relative to the number of local items cleared locally, and the number of instances cited also is small. Therefore, the effect on the total collection system is negligible.

14. The average small member bank tends to be larger than the average small nonmember and consequently would have more check volume to handle. Also, small member banks that send items to Federal Reserve Banks tend to be larger than those which do not.

daily cash letters from the Federal Reserve Bank containing items drawn on them. The differences between the number of items per bank sent to and received from the Federal Reserve and the number sent to and received from other banks serve as rough indicators of the volume actually routed indirectly through correspondents to Federal Reserve offices for presentation by mail to drawee banks.

Of the 260 transit items received by the average small bank for collection, about 90 were payable at banks within 25 miles and another 40 were payable within 25 to 50 miles. A very small number of the banks collected any of these items through local area clearing arrangements.

(b) Banks With \$7.5 to \$25
Million Deposits

The 1,802 banks in this size class held \$23 billion in deposits on June 30, 1952, and paid 1.3 billion checks during that year. Most of the banks are country banks; the 72 Reserve City banks held only 5 per cent of the group's deposits and handled only 6 per cent of the group's check volume. Reserve City banks in this size class are located in four Federal Reserve districts -- Richmond, Chicago, St. Louis and Kansas City.

Since the Reserve City banks made up such a small part of the group, their presence had little effect on the collection patterns of the group, and it is, therefore, discussed as a whole.

The average bank in this size class had \$13 million in deposits on June 30, 1952, and handled about 5,100 checks daily during July of that year. About 2,600 items drawn on the bank were presented to it and paid. About 2,500 items drawn on other banks were received by it for collection. About one-third of the items received for collection were drawn on other local banks, a little less than half were intradistrict par items, about one-sixth were interdistrict par items, and about 2 per cent were nonpar or restricted items.

Items drawn on these banks were received as follows: about 870 items were received from Federal Reserve Banks and a like number through local clearings; about 430 items were received in deposits of customers or were cashed at the window, and about the

same number were received in cash letters from other banks. Items received for collection were derived almost entirely from customers' deposits and cashed checks, a pattern almost identical with that of the smallest size group.¹⁵

Items on other local banks were collected for the most part through local clearing arrangements. A larger share of transit items went to Federal Reserve Banks, and a smaller share to correspondents, than was the case among banks in the smallest size class. Three-fourths of the banks in the \$7.5-\$25 million deposit group were members of the Federal Reserve System, and 60 per cent of the members (less than half of the group as a whole) sent some items to Federal Reserve Banks for collection. The number of items sent to correspondent banks, however, was more than double the number sent to Federal Reserve Banks: 60 per cent of intradistrict par items and 80 per cent of interdistrict par items were sent to correspondents, in contrast to the 36 per cent and 17 per cent, respectively, sent to Federal Reserve Banks.¹⁶ Seven out of every ten nonpar items were sent to correspondents; the rest were presented to drawee banks by direct mail.

Of the 2,500 items received for collection daily by the average bank, about 850 local items (including some on the Federal Reserve Banks) were collected locally. Of the 1,650 transit items, 500 were sent to the Federal Reserve,¹⁷ 1,050 were sent to correspondents, and the remaining 100 items were sent directly to drawee banks or collected through miscellaneous channels, including regional clearing arrangements for

15. Reserve City banks in this group received relatively more items drawn on them from clearings and relatively fewer from the Federal Reserve and from other banks; almost one-third of the items received for collection were deposited by other banks. These facts reflect (1) location of most such banks in Federal Reserve cities, and (2) their correspondent bank activity pattern.

16. In this instance the Reserve City banks do influence the figures for the group. While they handle only 6 per cent of total volume, they account for 15 per cent of the group's sendings to Federal Reserve offices.

17. This figure is for the "average" bank. Less than half of all banks in this size class sent any items to the Federal Reserve. Thus, this figure is an average of (1) about 1,200 items per member bank using Federal Reserve facilities directly, and (2) no items per bank not sending anything to the Federal Reserve.

certain local area checks. Slightly smaller proportions of transit items were payable nearby than in the case of the smallest banks -- 29 per cent within 25 miles; 15 per cent from 25 to 50 miles.

The picture shown by banks of this size class is not greatly different from that shown by banks in the smallest class. Patterns of check volume and sources of items were quite similar; the major difference is that more banks were eligible to send items to Federal Reserve Banks and more banks did so.

3. The Larger Banks

There were 207 commercial banks which had \$100 million or more in deposits on June 30, 1952. Of these, 153 were Reserve City banks and the remaining 54 were country banks. They held an aggregate of \$88 billion in deposits, more than half of all commercial bank deposits. Almost all of these banks did a correspondent banking business and handled a substantial volume of checks received for collection.

Most of the larger banks were members of the Federal Reserve System, and used its check collection facilities extensively. More than 60 per cent of all items received by Federal Reserve Banks came from these 207 commercial banks. Most of them sent inter-district items directly to the Federal Reserve office serving the drawee bank.

(a) Banks with \$500 Million or More in Deposits

There were 37 banks in this size class, with aggregate deposits of almost \$55 billion, an average of \$1.5 billion per bank. All were Reserve City banks. They were located in seven of the twelve Federal Reserve districts, although two of the seven districts each contained only one bank this size. Most were found in three districts, New York, Chicago, and San Francisco.

One out of every five checks drawn in the United States in 1952 was drawn on these 37 banks. Altogether, they paid 1.5 billion checks, or more than 5 million checks each day.¹⁸ The average bank in the group paid 140,000 checks and handled about 220,000

18. On an average day in July 1952, these 37 banks paid 5,211,000 checks and handled 8,066,000 checks for collection.

for collection daily in July, 1952. Roughly half of all items received by them for collection were drawn on other banks in the same city (including Federal Reserve Banks), and half were par transit items. The average bank in this size class handled relatively few nonpar items -- about 1,500 per day in July, 1952.

The patterns of receipts and disposition of check volume, both items presented to the 37 banks for payment and items received by them for collection, were not greatly different from those shown by all Reserve City banks combined. In relation to total volume handled, the number of checks paid by these banks and the number received by them for collection from other local banks and from banks outside their Reserve districts were slightly higher, and the number of nonpar items handled was lower, than the average for all Reserve City banks. This pattern is easily understood; the big banks did a nationwide business, they were located in the big financial centers, in concentrations of other big banks, and only one of them was in a district containing any nonpar banks. Since all but one were located in Federal Reserve cities, virtually all of the items drawn on them that were presented by Federal Reserve Banks are shown in the tables as items received through the clearings. As a group, they did relatively little direct sending to drawee banks and sent relatively few items to correspondents for collection. Most of the items deposited with or cashed by them were collected through Federal Reserve Banks or through local clearings.

(b) Banks with Deposits of \$100 to \$500 Million

The 170 banks in this group held \$35 billion in deposits on June 30, 1952. The group contained 116 Reserve City banks averaging \$220 million in deposits and 54 country banks averaging \$165 million in deposits. The average country bank in this size class paid about 20,000 items and received about 22,000 items for collection from other banks on an average day in July, 1952. Since the Reserve City banks were somewhat larger, and since, as a group, they tended to engage more actively in correspondent bank functions, the average number of items which they paid was 29,000 and the number received for collection was 52,000 daily.

The patterns of sources and disposition of check volume of Reserve City banks and country banks in this group differed primarily in the following respects:

- (1) Substantially more items presented to Reserve City banks for payment were received through clearings and substantially less were received directly from the Federal Reserve, than in the case of the country banks. As noted earlier, items presented by Federal Reserve Banks to local Reserve City banks are shown in the tables as received through clearings.
- (2) The Reserve City banks received proportionately twice as many items for collection from other banks as did the country banks, giving evidence of greater correspondent bank activity in the Reserve City group.
- (3) Direct sending to drawee banks was relatively heavy in banks of this size class; about 8 per cent of all items collected were sent direct. The prevalence of direct sending is explained by two facts: (1) banks in this size class handled a very large volume of nonpar items (almost one-third of the total), and collected most of them by direct sendings; and (2) a few banks in this size class traditionally have collected much of their transit volume by direct mail presentations to drawee banks.

4. The Middle-sized Banks -- \$25-\$100 Million Deposits

The 511 banks in this class held \$23 billion in deposits on June 30, 1952, an average of \$47 million per bank. The group contained 130 Reserve City banks averaging about \$53 million in deposits, and 381 country banks with an average deposit liability of about \$43 million. Most of these banks

are Federal Reserve members, but the check routing patterns for the group are the most heterogeneous of the five classes. The Reserve City banks for the most part show characteristics common to those of Reserve City banks in the other size classes. On the other hand, because some of the country banks do a correspondent bank business like the country banks in the next larger size class while others do virtually no correspondent bank business, the totals for the group reflect mixed influences.

The average number of items paid daily in July, 1952, for each of the 130 Reserve City banks in this group was 9,000, and the average number of items received for collection was 17,000. The items collected consisted of about 6,600 items on other local banks, 7,500 intradistrict par items, 2,200 interdistrict par items, and 700 nonpar or restricted items. More than one-third of all items received for collection were deposited by other banks. Almost half the items were collected through Federal Reserve Banks, about one-third went to clearings, one-tenth were sent directly to drawee banks, and a like amount went to other correspondents for collection.

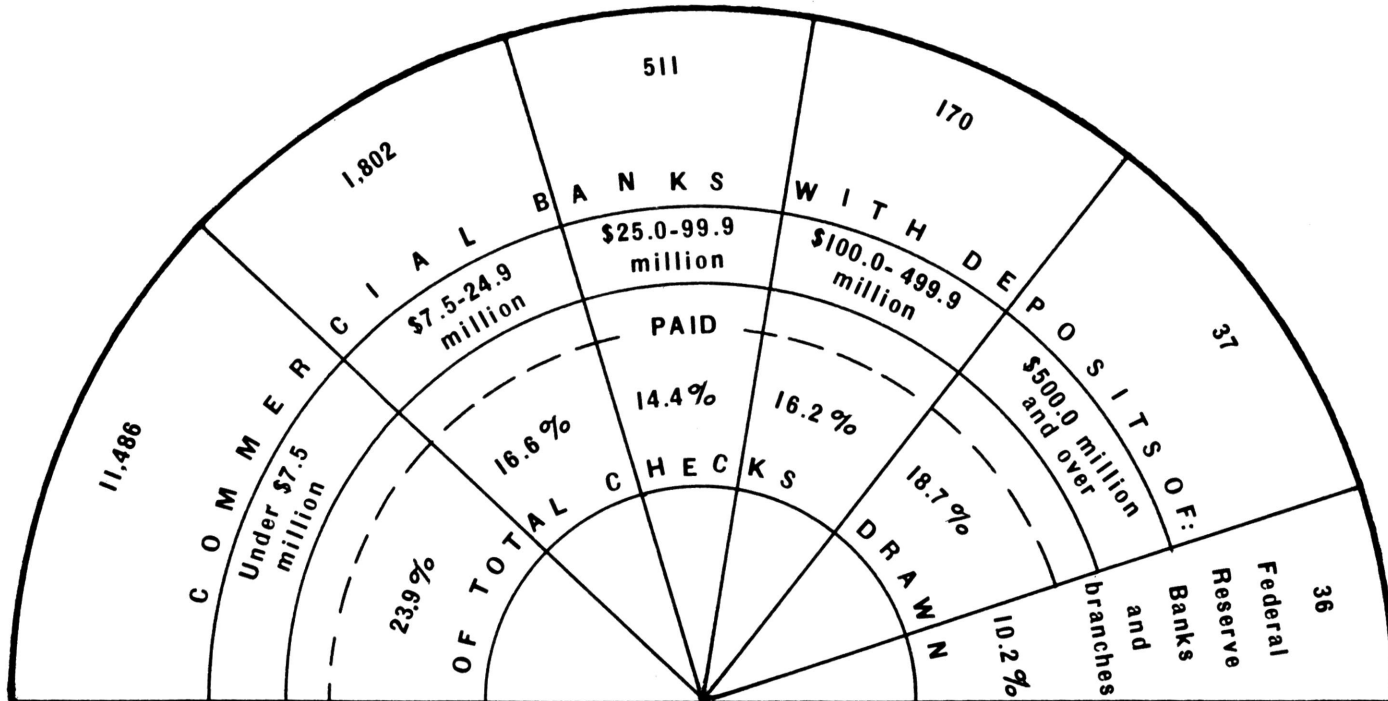
The average bank among the 381 country banks paid about 7,500 items daily. It received a little more than 8,000 items daily for collection, about one-sixth of which were sent to it by other banks. Country banks in this class collected about the same proportion of items through local clearings as did the Reserve City banks of the same group, but sent three times as many items to correspondents, and only about half as many to Federal Reserve Banks or directly to drawee banks.

E. The Federal Reserve Banks and Branches

The 12 Federal Reserve Banks and their 24 branches handled 2.3 billion items for collection in 1952. About 820 million additional items were presented to them and paid.¹⁹ The details of volume handled by the Federal Reserve System, and sources and

19. Included in this figure are 446 million Treasury checks and 371 million postal money orders. (About 10 per cent of the latter did not enter the commercial banking system but were paid by the various post offices and sorted and tabulated by Federal Reserve offices.)

DISTRIBUTION OF CHECKS DRAWN ON COMMERCIAL BANKS AND FEDERAL RESERVE BANKS ON AN AVERAGE DAY IN JULY 1952



dispositions of that volume, have already been given. (Table IV gives this information for the System as a whole, and Tables VI and XI, appearing at the end of this chapter, give it by districts.) This section discusses Federal Reserve operating procedures and practices in connection with check collection activities. Also, it contains a summary of comments of commercial bankers regarding such practices, obtained from letters to the committee, from the questionnaires, and from observations made at meetings with the committee.

Only member banks and nonmember clearing banks deposit checks with the Federal Reserve Banks for collection. In July, 1952, 253 nonmember banks maintained clearing accounts with Federal Reserve offices. Most of these were maintained primarily to facilitate participation by nonmember banks in city or group clearing arrangements, and to permit settlement of the balances arising from clearings to be made on the books of the Federal Reserve Banks.

Although the Federal Reserve Act (with some restrictions) authorizes nonmember par banks to maintain clearing accounts and to send items for collection to Federal Reserve Banks, it has not been the policy of the Federal Reserve System to encourage the opening of these accounts, or the direct use of its check collection facilities, by nonmember banks. In part, this attitude in the System has reflected the view that the direct benefits of its facilities should be extended only to those banks willing to assume the responsibilities of membership; also, it has probably reflected a desire to avoid a situation that might be regarded with disfavor by country member banks, or that might seem to interfere with established correspondent arrangements.

The statutory authority of the Federal Reserve Banks limits them to the collection of checks payable at par. They collect checks regularly, by direct presentation, to practically every par remitting bank in the country, nonmember as well as member. In addition, they present checks payable to the United States Government or its agencies to nonpar banks, and receive remittances at par for these items.

While the Reserve Banks do not accept items directly from nonmember banks for collection, in actual practice they receive from

member banks and present to the drawee banks many items originally deposited with nonmember banks for collection. The preceding sections point up the fact that the bulk of par transit items flows through the Federal Reserve Banks. Nonmember banks, including nonpar banks, send par transit items to correspondent banks for collection, and most of these items, other than those payable at the correspondent bank or in its city, are sent by the correspondent banks to Federal Reserve offices.

The preceding sections also have indicated that only four of every ten small member banks send items for collection directly to Federal Reserve Banks. In large measure, this is a product of (a) the System's practice of deferred availability credit for transit items, (b) the small banks' reluctance to disturb their reserve accounts, coupled with their disinclination to handle the accounting entries incident to deferred availability credits, and (c) the long-established relationships of small banks with their city correspondents. The larger member banks tend to use Federal Reserve check collection facilities extensively.

1. Federal Reserve Practices in Receiving Checks for Collection²⁰

In general the Federal Reserve Banks establish definite closing hours for receipt of checks, for the purpose of fixing the date on which they will give credit according to their availability schedules. The closing hours are geared to Federal Reserve operating facilities and to transportation schedules; they are set on the general theory that items received up to the hour specified can be processed and either presented to local drawee banks, or dispatched to out-of-town drawee banks, on the day of receipt.

Sorting requirements of Federal Reserve Banks are the subject of much discussion, and are sometimes misunderstood. Sorting requirements generally are established by the individual Reserve Banks. They are set so that the Banks can process as many items as possible on the day of receipt, are required only when volume warrants, are not rigid but may be changed under changed conditions, and are not complex. Most Reserve

20. The practices noted in this and subsequent portions of this section of the report were those existing in July 1952. Changes since that time have been minor.

Banks relate their sorting requirements to their availability schedules.

(a) Immediate Credit Items

These items fall into two broad categories: (1) items drawn on the Federal Reserve Bank, official checks of other Federal Reserve Banks, U. S. Treasury checks and postal money orders, and (2) items drawn on commercial banks, which are either in the same city as the Federal Reserve Bank,²¹ or which are members of special clearing or collection arrangements providing for immediate presentation and payment. Closing hours for receipt of items in the first category are generally later than those for the second. (Closing hours for receipt of items drawn on or payable through the Reserve Bank usually are set so that these items can be processed and charged to the appropriate accounts on the day received.)

The hours for receiving items payable at other local banks for immediate credit are generally geared to the final clearing hours of local clearing houses or other clearing arrangements. Seven Federal Reserve offices²² grant immediate credit (on day of receipt) only if the items are received in time to be cleared (or presented for payment in some other way) on that day; those offices have no specific closing hours for receipt of local items. The other 29 offices set definite hours, and give credit whether or not the items arrive in time to be processed and presented for payment on the day of receipt. In five districts, concessions are made to a few member banks faced with inadequate or unsatisfactory transportation facilities, and immediate credit is given even though the items from these banks come in after regular closing hours.²³

21. Items on other local banks accepted for immediate credit are limited to those that can be presented over the counter or through clearings the same day.

22. In this and following parts of this section, reference to number of offices pertains to the 12 Banks and 24 branches except where the text specifically refers to districts or to Banks alone. For check collection purposes, the System may be regarded as operating 36 separate offices, each one tending to set its own operating rules within the framework of general operating policies developed by the System as a whole.

23. In July 1952, 151 banks were so treated; their total volume was only 14,000 items daily.

Twelve offices require no sorts at all of immediate credit items, fifteen require sorting only if volume warrants, four require only one split, and five require a three-way break -- commercial bank items, Treasury checks, and money orders.

(b) Intradistrict Items

Closing hours for intradistrict items vary from noon to 3 p.m. and are related primarily to transportation schedules. The closing hours of five offices are as early as noon; of four, as late as 3 p.m. Closing hours at the majority of offices, however, are between 1 p.m. and 2 p.m. And all offices but five accept items for large amounts after regular closing hours. The cut-off time for large items is keyed to processing ability and outgoing transportation schedules.

With few exceptions, there are no formal sorting requirements for intradistrict items, but the cooperation of sending banks is solicited informally when intradistrict volume is so heavy that some sorting will expedite collections.

In general, Federal Reserve offices will not accept from one office of a bank items drawn on another office of the same bank in the same town or city. In some districts, this restriction extends to items drawn on out-of-town offices as well.

(c) Interdistrict Items

In order to eliminate one handling and to expedite presentation, any member bank customarily receiving a substantial volume of checks drawn on banks in another Federal Reserve district will ordinarily be requested by the local Federal Reserve Bank to send them direct to the Federal Reserve office of the area in which they are payable, rather than to send them to the local Reserve office for transmission to the other district. If a bank receives between 200 and 300 items payable in another district, it usually is requested to send direct to the other Reserve office. The Reserve Banks pay transportation costs on such shipments, and compute availability of credit from date of dispatch.

Nine Federal Reserve offices send items drawn on banks in adjacent areas of an ad-

joining district directly to the drawee banks, for remittance through the Federal Reserve office of the area in which the drawees are located. Such arrangements, which require cooperation by both Reserve offices concerned and by the drawee bank, are relatively few.

2. Night Forces and Saturday Work

About one-third of the Federal Reserve offices use night forces to process work. These are employed where transportation facilities warrant them. Where mail and express facilities are not available after normal working hours, or where volume can be processed in normal hours, night forces are not employed.

While 25 of the Reserve offices are located in cities where banks are closed on Saturdays, all these 25 offices process checks on Saturdays. Saturday work is devoted primarily to deferred credit items, since items cannot be presented to the local banks, which are closed. All but two offices dispatch both intradistrict and interdistrict items on Saturdays, however.

3. Remittances for Items Presented by Federal Reserve Offices

Drawee banks remit the proceeds of items received from Federal Reserve offices in a variety of ways: some by drafts on correspondents; some by drafts on (or authorization to charge) their reserve accounts; some by shipments of currency.

4. Banker Comments

Federal Reserve check collection operations generally are regarded by the nation's banks as being efficient. A number of bankers, however, do not like the accounting procedures required by deferred credit availability, and these are probably the major factor responsible for the relatively limited direct use of Federal Reserve facilities by the smaller member banks. Federal Reserve sorting requirements may also be a deterrent, since bankers sometimes suggest that if all items were received by Federal Reserve Banks for immediate credit, there would be no occasion to require banks to sort items according to availability schedules.

A more pertinent bankers' suggestion is that Federal Reserve Banks accept items from country member banks for credit to those banks' accounts with a designated city correspondent. Such a practice would relieve the country bank of the accounting requirements of deferred availability credits, since the bank would presumably receive immediate book credit in its account with the correspondent bank. The Reserve Bank would give credit to the city correspondent bank on the basis of the regular availability schedule. This procedure would presumably create no new problem, since the city bank is accustomed to deferred credit availability. The practice is now being followed in the Minneapolis District, with apparently satisfactory results both for country and city banks. The Federal Reserve Banks, asked by the committee about their attitudes with respect to this practice, indicated no objection to it provided the country and city banks wished to adopt it.

A number of bankers also suggested that the Reserve Banks and branches establish later closing hours for receipt of items, and that Federal Reserve offices not using night forces might employ them. Most Reserve Bank officers feel, however, that their closing hours are already set about as late as they can be, and that setting them any later would not leave enough time to process items and to meet outgoing transportation schedules. They believe that later closing hours would result in holding work over, because of insufficient time for processing. And they point out that night forces are useful only if transportation facilities are available for sending out the work the night forces processed.

To meet the objection (based on lack of transportation facilities) to more night operations, one banker urged the Reserve Banks to explore the possibility of using trucks (either their own or those of contract motor carriers) for delivery of cash letters to drawee banks within a suitable radius. Then, he pointed out, transportation schedules could be geared to working hours, rather than the reverse. A few Reserve Banks have already taken steps in the direction suggested.

Another point mentioned by bankers had to do with so-called "restricted items",

those which Federal Reserve Banks will not receive for collection as cash items, but which are frequently regarded as cash items by commercial banks. Bankers apparently believe that the practices of the Reserve Banks in handling restricted items should be more uniform, and that efforts should be made to persuade the issuers of such items to use checks instead. One of the committee's recommendations deals with this matter.

The number of "restricted" items is really quite small. According to the survey, only 86,000 such items were in the check collection system on an average day in July, 1952. This figure represents less than 0.3 per cent of all items in the process of collection at all commercial banks on that day. In the statistical portions of this report, restricted items have been combined with nonpar items, because neither class of items is handled by Federal Reserve offices and because they represent too small a proportion of total items to warrant separate classification.

F. Variations Among Federal Reserve Districts

In this section, data on check volume, sources and disposition are subdivided according to Federal Reserve districts.²⁴ The basic data are the same as those used earlier to show the pattern of check collections among banks of different sizes and different reserve classifications.

The tables at the end of this chapter give all the pertinent district data. Tables VI through XI show data (by Federal Reserve district) on check volume by type of item handled, by sources of check volume,

24. The figures shown as totals for the 12 districts do not correspond exactly with corresponding national totals shown in earlier tables. Most of the differences, which result largely from the rounding of the figures for each district, are minor and may be ignored. In Tables IX and X, however, the differences are somewhat larger, amounting to about one per cent, because in the data obtained in the survey, the number of items presented to drawee banks for payment did not exactly match the number of items charged to depositors' accounts. In the national figures, these items were brought into balance by adjusting a miscellaneous category in the data; the comparable adjustment was not made on a district basis, since the differences are too small to have any appreciable effect upon the percentage computations or to distort the patterns of distribution.

and by disposition of check volume, for all commercial banks and all Federal Reserve offices, all Reserve City banks, all country banks with more than \$7.5 million in deposits, all country banks with less than \$7.5 million in deposits (as of June, 1952), and all Federal Reserve offices.

Tables XII through XIV show data (by Federal Reserve district) on number of banking offices, by number of offices sending items to Federal Reserve Banks, and by banking offices receiving items from the Federal Reserve Banks. This information is subclassified by type of item sent and by size and reserve status of sending and receiving banks.

Tables XV through XVI-3 present a district breakdown of certain information developed specifically to point up certain recommendations contained in the report. They show percentages of items payable within various distances from the first collecting bank, and proportions of various types of items handled by Reserve City banks and Federal Reserve Banks.

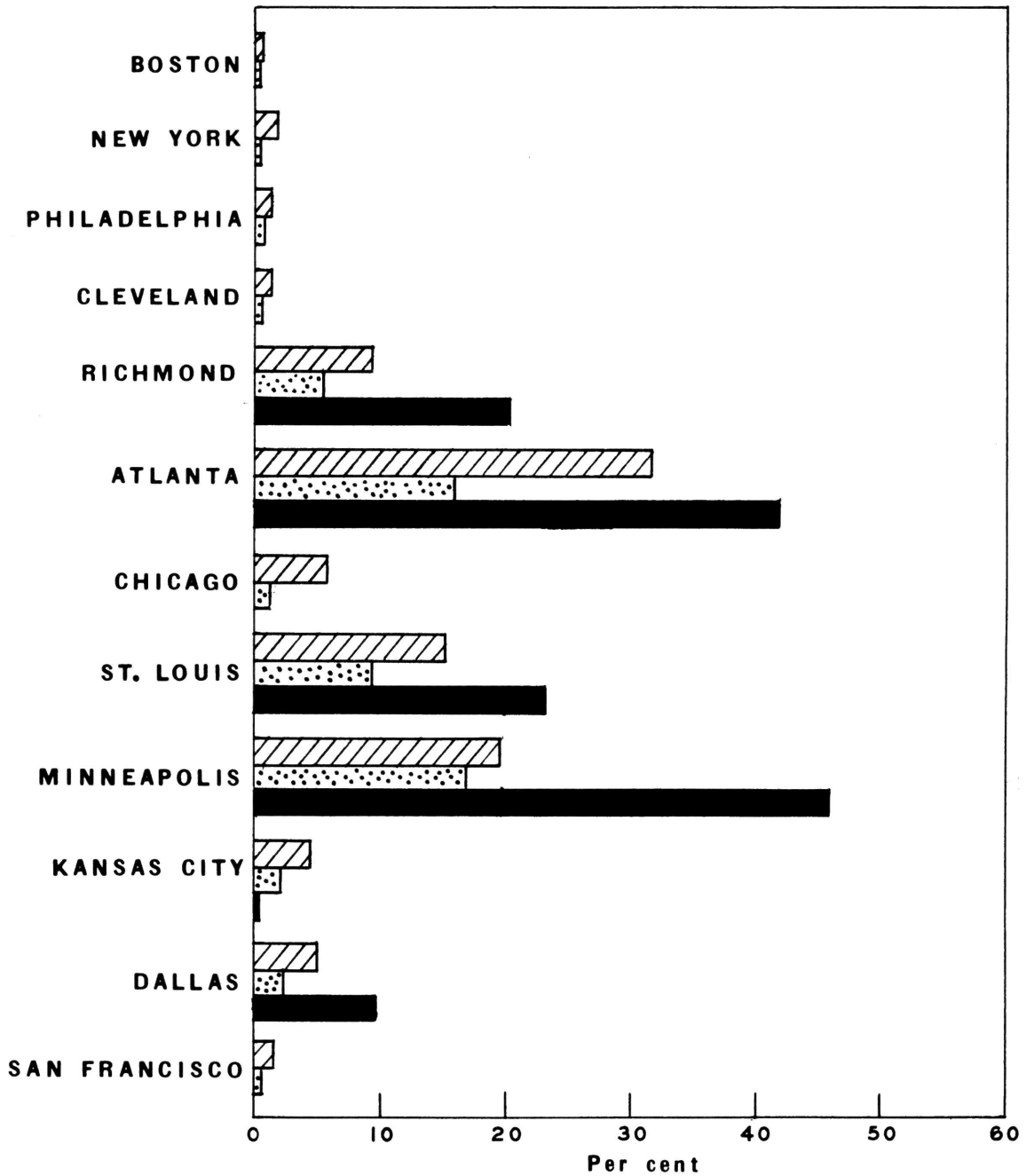
The variations from district to district are apparent from the tables and require no extended discussion. The following points, which bear upon interpretations of the district figures, should be noted however:




(1) Check collection patterns do not differ greatly among the various districts. Differences in collection patterns seem to be related more directly to differences in sizes of banks than to differences in locations of banks. The different mixtures of bank sizes in the various Reserve districts account in large measure for the geographic differences that exist.

(2) Apart from differences attributable to mixtures of bank sizes, geographic differences reflect four factors: (a) concentrations of big banks in important financial centers; (b) large scale branch banking; (c) correspondent bank activity, e.g., solicitation of check collections and direct sendings to drawee banks; and (d) concentrations of nonpar banks.

(3) The volume of items received by Reserve City banks for collection, including the volume of transit items, is pro-

DISTRIBUTION OF NONPAR ITEMS RECEIVED AND OF NONPAR BANKING OFFICES BY FEDERAL RESERVE DISTRICTS



-  Per cent of total nonpar items received in all districts
-  Per cent of nonpar items received in each district to all items received in each district
-  Per cent of nonpar banking offices in each district to all banking offices in each district

portionately heavier than deposit volume would indicate in the Philadelphia, Cleveland, Chicago and Kansas City districts. The proportion of items presented directly to smaller banks by correspondents is also relatively large in those districts, reflecting a substantial amount of direct sendings. These facts indicate intensive activity in check collections characteristic of the correspondent banks in those areas.

(4) Direct sendings to drawee banks are prevalent also in the Richmond, Atlanta, Minneapolis and San Francisco districts. In the first three areas, this reflects largely the concentrations of nonpar items handled; in the last, it reflects inter-office clearings of the large branch banking systems in that area.

(5) The volume of items received at Reserve City banks for collection from other local banks is proportionately heavier in the New York and San Francisco districts, reflecting concentrations of big banks.

(6) Tables XV and XV-A show, on a district basis, the rough orders of magnitude of local area check volume potentially available for collection through regional clearing arrangements. Generally speaking, the checks payable within a 25 mile radius of the collecting bank would seem amenable to collection through regional arrangements; perhaps some of those in the 25 to 50 mile circle might also be counted. Naturally enough, the concentrations are greater in the more populous districts.²⁵

(7) Table XVI-1 shows the proportions of local items handled by Federal Reserve Banks and by Reserve City banks in each Federal Reserve district. It points up the fact that a substantial number of items are sent to Federal Reserve Banks for collection from local commercial banks, mainly by presentation through local clearings. High percentages for Reserve Bank handlings tend to indicate more double handling than is necessary. If all items payable at commercial

25. The committee recognizes that mere distance is not the controlling factor in establishing regional clearing arrangements. As pointed out earlier, some of the checks payable within 25 miles or 50 miles of the collecting bank actually are payable in big cities and would be sent to banks there rather than cleared in a regional arrangement. Nevertheless, the very fact that such large proportions of transit items are payable at nearby points indicates that the regional clearing arrangement potential is far greater than is actually being realized today.

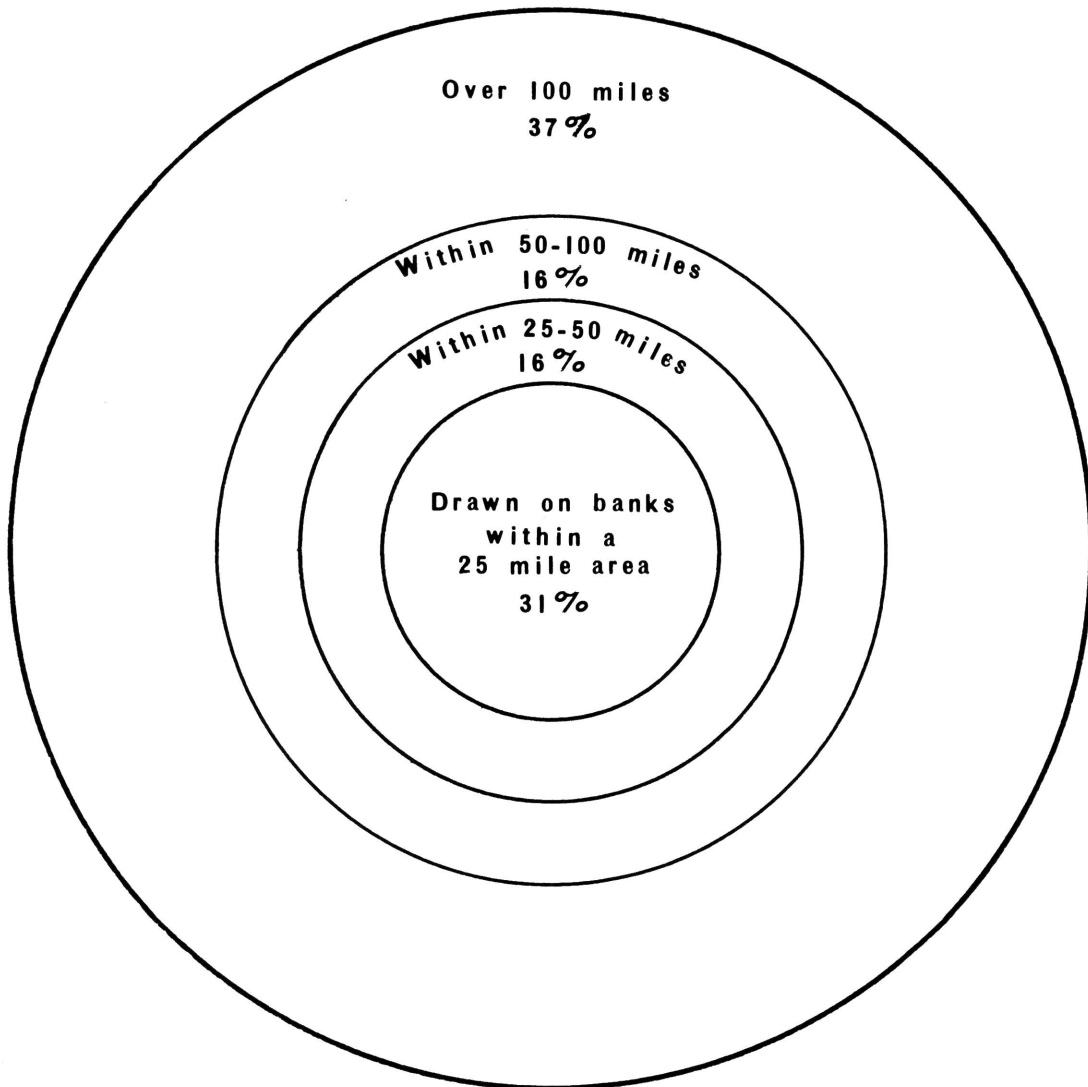
banks in a Federal Reserve city were sent to correspondent banks for collection, a certain proportion of the items received by each bank would be drawn on it and would not have to be collected through clearings; no matter how small that proportion, it would represent an economy in handlings as contrasted with the handlings required when items drawn on other local banks are sent to Federal Reserve Banks.

The items shown in the table under Federal Reserve Banks are limited to items payable at commercial banks in their cities which were received by the Federal Reserve Banks from country banks in the same Federal Reserve district. The comparison would be more pointed if it were possible to limit in the same manner the items shown under Reserve City banks, but such a breakdown is not available. Included in the Reserve City figures are items drawn on or payable at other local banks (including the Federal Reserve Bank) received from both city and country banks in the same and other districts, and other items of that nature received in customers' deposits or cashed at the window.

(8) Table XVI-2 gives the same sort of information for intradistrict country items. The table on intradistrict country items is subject to the same sort of limitations noted with respect to that for city items, in that the Reserve City figures include items received in deposits of nonbank customers or cashed at the window. High percentages for the Reserve City banks indicate double handlings, representing many items received by them from country member banks and thereafter deposited by the Reserve City banks with Federal Reserve Banks for collection.

(9) Table XVI-3 presents the picture for interdistrict items. Federal Reserve handlings come only from city or country members, and do not include items sent by member banks direct to other districts. Correspondent bank handlings, whether received in nonbank deposits or in sendings from banks, can be sent directly to the Federal Reserve offices of the territories in which the drawee banks are located, in order to save time and minimize handlings. In the table, high percentages for Reserve City banks and low ones for Federal Reserve Banks indicate a substantial use of direct sendings to other districts. This technique is used more extensively by banks in the New York and St. Louis districts than by banks elsewhere.

**PROPORTION OF PAR TRANSIT ITEMS HANDLED BY ALL COUNTRY BANKS
DRAWN ON BANKS WITHIN VARYING DISTANCES**



PROPORTION OF INTERDISTRICT PAR ITEMS HANDLED BY RESERVE CITY AND FEDERAL RESERVE BANKS IN EACH FEDERAL RESERVE DISTRICT

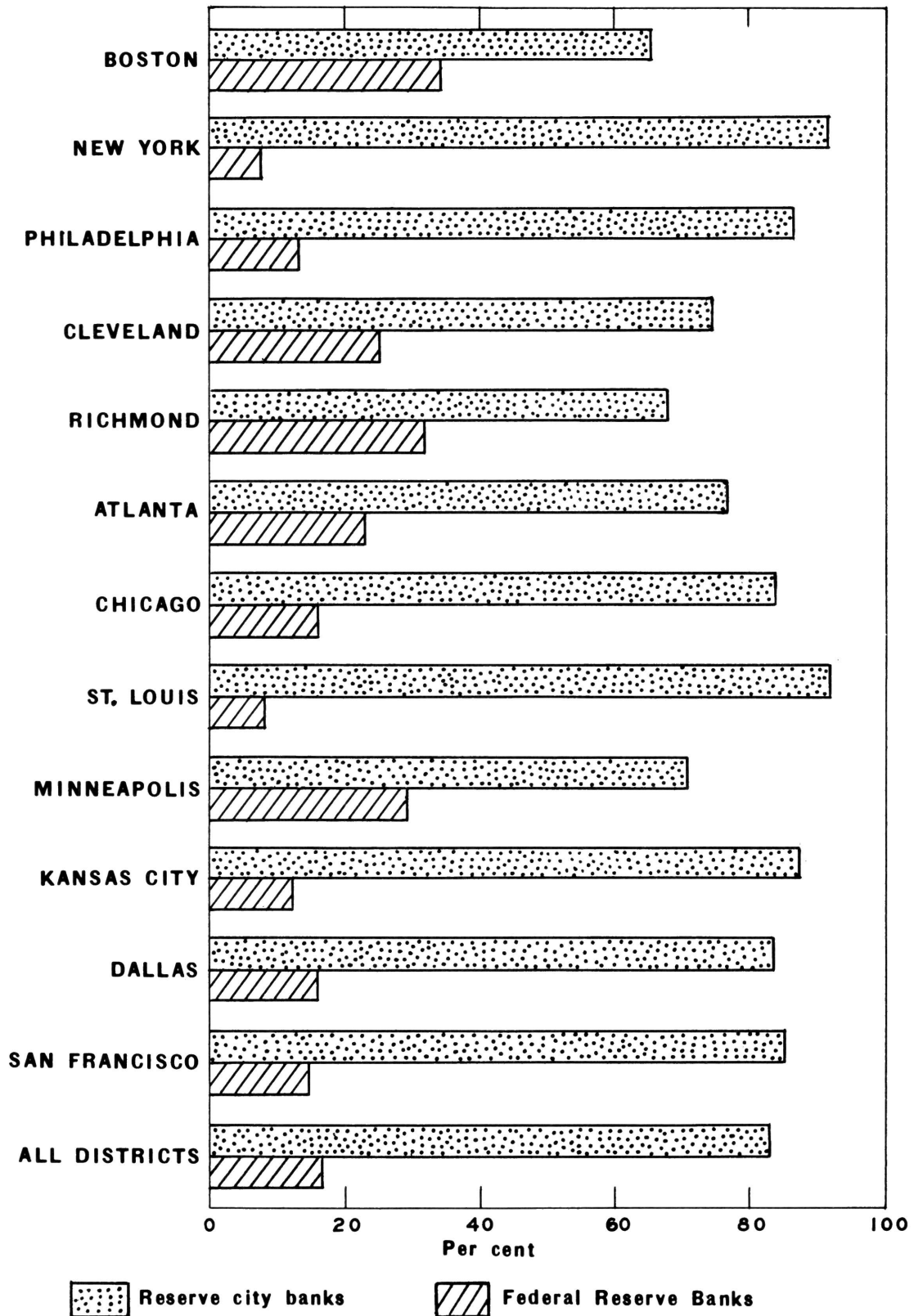


Table VI

Check Volume on an Average Day in July 1952
By Federal Reserve District
(Items in thousands, deposits in millions)

Federal Reserve District	Commercial Banks					Federal Reserve Banks											
	Total Commercial Bank Deposits*	Total Volume#	Subtotal Commercial Bank Volume	Items Paid	Total	Items Received for Collection					Subtotal Reserve Bank Volume#	Items Paid**	Items Received for Collection				
						On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items	Total			Other Immediate Credit#	Intra-district Par Items	Inter-district Par Items		
1. Boston	\$ 7,642.6	3,966	2,980	1,410	1,570	470	811	282	7	986	145	841	134	669	38		
2. New York	38,840.1	11,129	9,082	4,389	4,693	2,249	1,569	853	22	2,047	390	1,657	725	878	54		
3. Philadelphia	8,569.4	3,981	3,149	1,269	1,880	582	734	548	16	832	199	633	149	433	51		
4. Cleveland	13,046.5	4,989	4,113	1,906	2,207	743	912	537	15	876	220	656	130	428	98		
5. Richmond	8,774.6	3,930	3,238	1,461	1,777	685	686	308	98	692	208	484	59	353	72		
6. Atlanta	8,948.3	4,357	3,709	1,692	2,017	781	590	321	325	648	268	380	78	268	34		
7. Chicago	26,585.3	10,552	8,994	3,915	5,079	1,892	2,322	805	60	1,558	436	1,122	239	777	106		
8. St. Louis	7,468.7	3,742	3,151	1,465	1,686	674	533	321	158	591	219	372	75	283	14		
9. Minneapolis	5,179.7	2,543	2,225	1,031	1,194	432	390	170	202	318	89	229	35	168	26		
10. Kansas City	8,391.2	4,549	3,859	1,692	2,167	725	1,007	387	48	690	185	505	87	386	32		
11. Dallas	8,476.8	4,468	3,935	1,829	2,106	1,021	745	288	52	533	145	388	63	303	22		
12. San Francisco	20,424.6	7,381	6,370	2,922	3,448	1,706	1,434	291	17	1,011	345	666	158	477	31		
Total	\$162,347.8	65,587	54,805	24,981	29,824	11,960	11,733	5,111	1,020	10,782	2,849	7,933	1,932	5,423	578		

* As of June 30, 1952.

** Treasury checks, postal money orders, and checks drawn on the Federal Reserve Banks.

*** Mostly on banks in same city as handling Reserve Bank.

These figures exclude 770,000 local items handled as packages by the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis. Consequently the total of other immediate items is shown as 1,932,000 items rather than the 2,702,000 shown in Tables I and IV, and total Federal Reserve volume is shown as 10,782,000 rather than 11,552,000 items. Total volume is shown as 65,587,000 rather than 66,357,000.

Table VI-A
 Check Volume on an Average Day in July 1952
 Per Cent Distribution by Federal Reserve District

Federal Reserve District	Commercial Banks										Federal Reserve Banks					
	Total Commercial Bank Deposits*	Total Volume#	Items Received for Collection				Subtotal Reserve Bank Volume#	Items Paid**	Items Received for Collection							
			Subtotal Commercial Bank Volume	Items Paid	Total	On Local Banks			Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items	Total	Other Immediate Credit# Items***	Intra-district Par Items	Inter-district Par Items	
1. Boston	4.7	6.0	5.4	5.6	5.3	3.9	6.9	5.5	0.7	9.1	5.1	10.6	6.9	12.3	6.6	
2. New York	23.9	17.0	16.6	17.6	15.7	18.8	13.4	16.7	2.1	19.0	13.7	20.9	37.5	16.2	9.4	
3. Philadelphia	5.3	6.1	5.7	5.1	6.3	4.9	6.3	10.7	1.6	7.7	7.0	8.0	7.7	8.0	8.8	
4. Cleveland	8.0	7.6	7.5	7.6	7.4	6.2	7.8	10.5	1.5	8.1	7.7	8.3	6.7	7.9	16.9	
5. Richmond	5.4	6.0	5.9	5.8	5.9	5.7	5.8	6.0	9.6	6.4	7.3	6.1	3.1	6.5	12.5	
6. Atlanta	5.5	6.6	6.8	6.8	6.8	6.5	5.0	6.3	31.9	6.0	9.4	4.8	4.0	5.0	5.9	
7. Chicago	16.4	16.1	16.4	15.7	17.0	15.8	19.8	15.8	5.9	14.5	15.3	14.1	12.4	14.3	18.3	
8. St. Louis	4.6	5.7	5.8	5.9	5.6	5.7	4.6	6.3	15.5	5.5	7.7	4.7	3.9	5.2	2.4	
9. Minneapolis	3.2	3.9	4.1	4.1	4.0	3.6	3.3	3.3	19.8	2.9	3.1	2.9	1.8	3.1	4.5	
10. Kansas City	5.2	6.9	7.0	6.8	7.3	6.1	8.6	7.6	4.7	6.4	6.5	6.3	4.5	7.1	5.5	
11. Dallas	5.2	6.8	7.2	7.3	7.1	8.5	6.3	5.6	5.1	5.0	5.1	4.9	3.3	5.6	3.8	
12. San Francisco	<u>12.6</u>	<u>11.3</u>	<u>11.6</u>	<u>11.7</u>	<u>11.6</u>	<u>14.3</u>	<u>12.2</u>	<u>5.7</u>	<u>1.6</u>	<u>9.4</u>	<u>12.1</u>	<u>8.4</u>	<u>8.2</u>	<u>8.8</u>	<u>5.4</u>	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

* As of June 30, 1952.

** Treasury checks, postal money orders, and checks drawn on the Federal Reserve Banks.

*** Mostly on banks in same city as handling Reserve Bank.

These figures exclude 770,000 local items handled as packages by the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis.

Table VI-B

Items Received for Collection on an Average Day in July 1952
By Federal Reserve District
Per Cent Distribution by Type of Item

Federal Reserve District	Commercial Banks					Federal Reserve Banks			
	Total Items Received*	On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items	Total Items Received*	Immediate Credit* Items**	Intra-district Par Items	Inter-district Par Items
1. Boston	100.0	29.9	51.7	18.0	0.4	100.0	15.9	79.6	4.5
2. New York	100.0	47.9	33.4	18.2	0.5	100.0	43.8	53.0	3.2
3. Philadelphia	100.0	31.0	39.0	29.1	0.9	100.0	23.5	68.4	8.1
4. Cleveland	100.0	33.7	41.3	24.3	0.7	100.0	19.8	65.3	14.9
5. Richmond	100.0	38.6	38.6	17.3	5.5	100.0	12.2	72.9	14.9
6. Atlanta	100.0	38.7	29.3	15.9	16.1	100.0	20.5	70.5	9.0
7. Chicago	100.0	37.3	45.7	15.8	1.2	100.0	21.3	69.3	9.4
8. St. Louis	100.0	40.0	31.6	19.0	9.4	100.0	20.1	76.1	3.8
9. Minneapolis	100.0	36.2	32.7	14.2	16.9	100.0	15.3	73.4	11.3
10. Kansas City	100.0	33.4	46.5	17.9	2.2	100.0	17.2	76.5	6.3
11. Dallas	100.0	48.5	35.4	13.7	2.4	100.0	16.2	78.1	5.7
12. San Francisco	100.0	49.5	41.6	8.4	0.5	100.0	23.7	71.6	4.7
Average	100.0	40.1	39.4	17.1	3.4	100.0	24.3	68.4	7.3

* These figures exclude 770,000 local items handled as packages by the Federal Reserve Banks of New York, Philadelphia, Chicago, and St. Louis.

** Mostly on banks in same city as handling Reserve Bank.

Table VII-1

Check Volume on an Average Day in July 1952
Reserve City Banks
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total Volume	Items Paid	Total	Items Received for Collection			
				On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items
1. Boston	788	305	483	174	235	73	1
2. New York	5,589	2,527	3,062	1,808	597	640	17
3. Philadelphia	1,429	337	1,092	397	354	326	15
4. Cleveland	2,022	763	1,259	458	511	285	5
5. Richmond	1,293	440	853	402	283	153	15
6. Atlanta	1,156	415	741	311	209	111	110
7. Chicago	4,556	1,418	3,138	1,299	1,256	553	30
8. St. Louis	1,157	375	782	330	198	164	90
9. Minneapolis	678	207	471	193	99	62	117
10. Kansas City	1,804	595	1,209	421	543	231	14
11. Dallas	1,513	494	1,019	504	374	114	27
12. San Francisco	4,738	2,089	2,649	1,382	1,074	183	10
Total	26,723	9,965	16,758	7,679	5,733	2,895	451

Table VII-2

Check Volume on an Average Day in July 1952
Country Banks with \$7.5 Million or More Deposits*
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total Volume	Items Paid	Items Received for Collection				
			Total	On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items
1. Boston	1,631	779	852	260	425	162	5
2. New York	2,888	1,523	1,365	366	805	190	4
3. Philadelphia	1,151	619	532	118	249	164	1
4. Cleveland	1,373	733	640	229	223	179	9
5. Richmond	1,146	522	624	180	282	115	47
6. Atlanta	1,567	694	873	352	236	136	149
7. Chicago	2,645	1,424	1,221	417	619	164	21
8. St. Louis	940	448	492	203	157	96	36
9. Minneapolis	596	278	318	108	127	53	30
10. Kansas City	776	355	421	145	162	89	25
11. Dallas	1,000	476	524	243	187	88	6
12. San Francisco	1,115	508	607	284	238	78	7
Total	16,828	8,359	8,469	2,905	3,710	1,514	340

* As of June 30, 1952.

Table VII-3

Check Volume on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total Volume	Items Paid	Items Received for Collection				
			Total	On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items
1. Boston	561	326	235	36	151	47	1
2. New York	605	339	266	75	166	24	1
3. Philadelphia	569	313	256	67	132	57	**
4. Cleveland	718	409	309	56	178	73	2
5. Richmond	799	499	300	103	121	40	36
6. Atlanta	986	583	403	118	144	75	66
7. Chicago	1,793	1,073	720	176	446	89	9
8. St. Louis	1,054	642	412	141	178	61	32
9. Minneapolis	951	546	405	132	164	54	55
10. Kansas City	1,279	743	536	159	302	66	9
11. Dallas	1,422	859	563	274	184	86	19
12. San Francisco	517	325	192	40	122	30	**
Total	11,254	6,657	4,597	1,377	2,288	702	230

* As of June 30, 1952.

** Less than 500 items.

Table VII-A-1

Check Volume on an Average Day in July 1952
Reserve City Banks
By Type of Item
Percentage Distribution by Federal Reserve District

Federal Reserve District	Total Volume	Items Paid	Total	Items Received for Collection			Nonpar and Restricted Items
				On Local Banks	Intra-district Par Items	Inter-district Par Items	
1. Boston	3.0	3.1	2.9	2.3	4.1	2.5	0.2
2. New York	20.9	25.3	18.3	23.5	10.4	22.1	3.8
3. Philadelphia	5.4	3.4	6.5	5.2	6.2	11.3	3.3
4. Cleveland	7.6	7.7	7.5	6.0	8.9	9.9	1.1
5. Richmond	4.8	4.4	5.1	5.2	4.9	5.3	3.3
6. Atlanta	4.3	4.2	4.4	4.0	3.7	3.8	24.4
7. Chicago	17.0	14.2	18.7	16.9	21.9	19.1	6.7
8. St. Louis	4.3	3.8	4.7	4.3	3.5	5.7	20.0
9. Minneapolis	2.5	2.1	2.8	2.5	1.7	2.1	25.9
10. Kansas City	6.8	6.0	7.2	5.5	9.5	8.0	3.1
11. Dallas	5.7	4.9	6.1	6.6	6.5	3.9	6.0
12. San Francisco	17.7	20.9	15.8	18.0	18.7	6.3	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table VII-A-2

Check Volume on an Average Day in July 1952
Country Banks with \$7.5 Million or More Deposits*
By Type of Item
Percentage Distribution by Federal Reserve District

Federal Reserve District	Total Volume	Items Paid	Total	Items Received for Collection			Nonpar and Restricted Items
				On Local Banks	Intra-district Par Items	Inter-district Par Items	
1. Boston	9.7	9.3	10.1	9.0	11.5	10.7	1.5
2. New York	17.2	18.2	16.1	12.6	21.7	12.5	1.2
3. Philadelphia	6.8	7.4	6.3	4.1	6.7	10.8	0.3
4. Cleveland	8.2	8.8	7.5	7.7	6.0	11.8	2.6
5. Richmond	6.8	6.3	7.4	6.2	7.6	7.6	13.8
6. Atlanta	9.3	8.3	10.3	12.1	6.4	9.0	43.8
7. Chicago	15.7	17.0	14.4	14.4	16.7	10.8	6.2
8. St. Louis	5.6	5.4	5.8	7.0	4.2	6.4	10.6
9. Minneapolis	3.5	3.3	3.7	3.7	3.4	3.5	8.8
10. Kansas City	4.6	4.2	5.0	5.0	4.4	5.9	7.4
11. Dallas	6.0	5.7	6.2	8.4	5.0	5.8	1.8
12. San Francisco	6.6	6.1	7.2	9.8	6.4	5.2	2.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* As of June 30, 1952.

Table VII-A-3

Check Volume on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
by Type of Item
Percentage Distribution by Federal Reserve District

Federal Reserve District	Total Volume	Items Paid	Items Received for Collection				
			Total	On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items
1. Boston	5.0	4.9	5.1	2.6	6.6	6.7	0.4
2. New York	5.4	5.1	5.8	5.4	7.2	3.4	0.4
3. Philadelphia	5.0	4.7	5.6	4.9	5.8	8.1	**
4. Cleveland	6.4	6.1	6.7	4.1	7.8	10.4	0.9
5. Richmond	7.1	7.5	6.5	7.5	5.3	5.7	15.7
6. Atlanta	8.8	8.8	8.8	8.6	6.3	10.6	28.7
7. Chicago	15.9	16.1	15.7	12.8	19.5	12.7	3.9
8. St. Louis	9.4	9.6	9.0	10.2	7.8	8.7	13.9
9. Minneapolis	8.4	8.2	8.8	9.6	7.2	7.7	23.9
10. Kansas City	11.4	11.2	11.6	11.5	13.2	9.4	3.9
11. Dallas	12.6	12.9	12.2	19.9	8.0	12.3	8.3
12. San Francisco	4.6	4.9	4.2	2.9	5.3	4.3	**
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* As of June 30, 1952.

** Less than 0.05%.

Table VII-B-1

Items Received for Collection on an Average Day in July 1952
Reserve City Banks by Federal Reserve District
Percentage Distribution by Type of Item

Federal Reserve District	Total	On Local Banks	Intra-district Par Items	Inter-district Par Items	Nonpar and Restricted Items
1. Boston	100.0	36.0	48.7	15.1	0.2
2. New York	100.0	59.0	19.5	20.9	0.6
3. Philadelphia	100.0	36.4	32.4	29.8	1.4
4. Cleveland	100.0	36.4	40.6	22.6	0.4
5. Richmond	100.0	47.1	33.2	17.9	1.8
6. Atlanta	100.0	42.0	28.2	15.0	14.8
7. Chicago	100.0	41.4	40.0	17.6	1.0
8. St. Louis	100.0	42.2	25.3	21.0	11.5
9. Minneapolis	100.0	41.0	21.0	13.2	24.8
10. Kansas City	100.0	34.8	44.9	19.1	1.2
11. Dallas	100.0	49.5	36.7	11.2	2.6
12. San Francisco	100.0	52.2	40.5	6.9	0.4
Average	100.0	45.8	34.2	17.3	2.7

Table VII-B-2

Items Received for Collection on an Average Day in July 1952
Country Banks with \$7.5 Million or More Deposits*
By Federal Reserve District
Percentage Distribution by Type of Item

<u>Federal Reserve District</u>	<u>Total</u>	<u>On Local Banks</u>	<u>Intra-district Par Items</u>	<u>Inter-district Par Items</u>	<u>Nonpar and Restricted Items</u>
1. Boston	100.0	30.5	49.9	19.0	0.6
2. New York	100.0	26.8	59.0	13.9	0.3
3. Philadelphia	100.0	22.2	46.8	30.8	0.2
4. Cleveland	100.0	35.8	34.8	28.0	1.4
5. Richmond	100.0	28.9	45.2	18.4	7.5
6. Atlanta	100.0	40.3	27.0	15.6	17.1
7. Chicago	100.0	34.2	50.7	13.4	1.7
8. St. Louis	100.0	41.3	31.9	19.5	7.3
9. Minneapolis	100.0	34.0	39.9	16.7	9.4
10. Kansas City	100.0	34.5	38.5	21.1	5.9
11. Dallas	100.0	46.4	35.7	16.8	1.1
12. San Francisco	100.0	46.8	39.2	12.9	1.1
Average	100.0	34.3	43.8	17.9	4.0

* As of June 30, 1952.

Table VII-B-3

Items Received for Collection on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
Percentage Distribution by Type of Item

<u>Federal Reserve District</u>	<u>Total</u>	<u>On Local Banks</u>	<u>Intra-district Par Items</u>	<u>Inter-district Par Items</u>	<u>Nonpar and Restricted Items</u>
1. Boston	100.0	15.3	64.3	20.0	0.4
2. New York	100.0	28.2	62.4	9.0	0.4
3. Philadelphia	100.0	26.2	51.5	22.3	**
4. Cleveland	100.0	18.1	57.6	23.6	0.7
5. Richmond	100.0	34.3	40.4	13.3	12.0
6. Atlanta	100.0	29.3	35.7	18.6	16.4
7. Chicago	100.0	24.4	61.9	12.4	1.3
8. St. Louis	100.0	34.2	43.2	14.8	7.8
9. Minneapolis	100.0	32.6	40.5	13.3	13.6
10. Kansas City	100.0	29.7	56.3	12.3	1.7
11. Dallas	100.0	48.6	32.7	15.3	3.4
12. San Francisco	100.0	20.8	63.6	15.6	**
Average	100.0	29.9	49.8	15.3	5.0

* As of June 30, 1952.

** Less than 0.05%.

Table VIII-1

Sources of Checks Handled by Country Banks on an Average Day in July 1952
 All Country Banks
 By Federal Reserve District
 (Thousands of items)

Federal Reserve District	Total Receipts	From Clearing House*	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	2,192	244	575	118	1,059	196
2. New York	3,493	360	1,036	196	1,515	386
3. Philadelphia	1,720	191	502	132	675	220
4. Cleveland	2,091	350	354	177	983	227
5. Richmond	1,945	292	330	340	753	230
6. Atlanta	2,553	341	278	341	1,362	231
7. Chicago	4,438	647	753	379	2,186	473
8. St. Louis	1,994	379	399	121	860	235
9. Minneapolis	1,547	240	268	174	722	143
10. Kansas City	2,055	330	328	230	1,007	160
11. Dallas	2,422	532	313	202	1,032	343
12. San Francisco	1,632	374	225	200	697	136
Total	28,082	4,280	5,361	2,610	12,851	2,980

* Includes local messenger presentation and special local clearing arrangements.

Table VIII-2

Sources of Checks Handled by Country Banks on an Average Day in July 1952
 Country Banks with \$7.5 Million or More in Deposits*
 By Federal Reserve District
 (Thousands of items)

Federal Reserve District	Total Receipts	From Clearing House**	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	1,631	212	375	106	819	119
2. New York	2,888	335	829	159	1,271	294
3. Philadelphia	1,151	143	300	84	489	135
4. Cleveland	1,373	292	180	118	648	135
5. Richmond	1,146	187	129	265	448	117
6. Atlanta	1,567	258	142	237	834	96
7. Chicago	2,645	439	375	225	1,320	286
8. St. Louis	940	221	134	64	417	104
9. Minneapolis	596	112	55	93	283	53
10. Kansas City	776	160	53	135	369	59
11. Dallas	1,000	192	94	131	527	56
12. San Francisco	1,115	291	112	147	496	69
Total	16,828	2,842	2,778	1,764	7,921	1,523

* As of June 30, 1952.

** Includes local messenger presentation and special local clearing arrangements.

Table VIII-3

Sources of Checks Handled by Country Banks on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total Receipts	From Clearing House**	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	561	32	200	12	240	77
2. New York	605	25	207	37	244	92
3. Philadelphia	569	48	202	48	186	85
4. Cleveland	718	58	174	59	335	92
5. Richmond	799	105	201	75	305	113
6. Atlanta	986	83	136	104	528	135
7. Chicago	1,793	208	378	154	866	187
8. St. Louis	1,054	158	265	57	443	131
9. Minneapolis	951	128	213	81	439	90
10. Kansas City	1,279	170	275	95	638	101
11. Dallas	1,422	340	219	71	505	287
12. San Francisco	517	83	113	53	201	67
Total	11,254	1,438	2,583	846	4,930	1,457

* As of June 30, 1952.

** Includes local messenger presentation and special local clearing arrangements.

Table VIII-A-1

Sources of Checks Handled by Country Banks on an Average Day in July 1952
All Country Banks
By Federal Reserve District
Percentage Distribution by Source

Federal Reserve District	Total Receipts	From Clearing House*	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	100.0	11.1	26.2	5.4	48.3	9.0
2. New York	100.0	10.3	29.7	5.6	43.4	11.0
3. Philadelphia	100.0	11.1	29.2	7.7	39.2	12.8
4. Cleveland	100.0	16.7	16.9	8.5	47.0	10.9
5. Richmond	100.0	15.0	17.0	17.5	38.7	11.8
6. Atlanta	100.0	13.4	10.9	13.4	53.3	9.0
7. Chicago	100.0	14.6	17.0	8.5	49.3	10.6
8. St. Louis	100.0	19.0	20.0	6.1	43.1	11.8
9. Minneapolis	100.0	15.5	17.3	11.2	46.7	9.3
10. Kansas City	100.0	16.0	16.0	11.2	49.0	7.8
11. Dallas	100.0	22.0	12.9	8.3	42.6	14.2
12. San Francisco	100.0	22.9	13.8	12.3	42.7	8.3
Average	100.0	15.2	19.1	9.3	45.8	10.6

* Includes local messenger presentation and special local clearing arrangements.

Table VIII-A-2

Sources of Checks Handled by Country Banks on an Average Day in July 1952
Country Banks with \$7.5 Million or More in Deposits*
By Federal Reserve District
Percentage Distribution by Source

Federal Reserve District	Total Receipts	From Clearing House**	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	100.0	13.0	23.0	6.5	50.2	7.3
2. New York	100.0	11.6	28.7	5.5	44.0	10.2
3. Philadelphia	100.0	12.4	26.1	7.3	42.5	11.7
4. Cleveland	100.0	21.3	13.1	8.6	47.2	9.8
5. Richmond	100.0	16.3	11.3	23.1	39.1	10.2
6. Atlanta	100.0	16.5	9.1	15.1	53.2	6.1
7. Chicago	100.0	16.6	14.2	8.5	49.9	10.8
8. St. Louis	100.0	23.5	14.2	6.8	44.4	11.1
9. Minneapolis	100.0	18.8	9.2	15.6	47.5	8.9
10. Kansas City	100.0	20.6	6.8	17.4	47.6	7.6
11. Dallas	100.0	19.2	9.4	13.1	52.7	5.6
12. San Francisco	100.0	26.1	10.0	13.2	44.5	6.2
Average	100.0	16.9	16.5	10.5	47.1	9.0

* As of June 30, 1952.

** Includes local messenger presentation and special local clearing arrangements.

Table VIII-A-3

Sources of Checks Handled by Country Banks on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
Percentage Distribution by Source

Federal Reserve District	Total Receipts	From Clearing House**	From Federal Reserve Bank	From Other Commercial Banks	Nonbank Deposits	Cashed Checks
1. Boston	100.0	5.7	35.7	2.1	42.8	13.7
2. New York	100.0	4.2	34.2	6.1	40.3	15.2
3. Philadelphia	100.0	8.4	35.5	8.4	32.7	15.0
4. Cleveland	100.0	8.1	24.2	8.2	46.7	12.8
5. Richmond	100.0	13.1	25.1	9.4	38.2	14.2
6. Atlanta	100.0	8.4	13.8	10.5	53.6	13.7
7. Chicago	100.0	11.6	21.1	8.6	48.3	10.4
8. St. Louis	100.0	15.0	25.2	5.4	42.0	12.4
9. Minneapolis	100.0	13.4	22.4	8.5	46.2	9.5
10. Kansas City	100.0	13.3	21.5	7.4	49.9	7.9
11. Dallas	100.0	23.9	15.4	5.0	35.5	20.2
12. San Francisco	100.0	16.0	21.9	10.3	38.9	12.9
Average	100.0	12.8	23.0	7.5	43.8	12.9

* As of June 30, 1952.

** Includes local messenger presentation and special local clearing arrangements.

Table IX

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total	To Debits	Items Received for Collection					
			Total	To Clearings*	To Federal Reserve	To Correspondents	Direct To Drawee Bank	Other**
1. Boston	2,980	1,375	1,605	448	911	232	1	13
2. New York	9,082	4,426	4,656	1,958	2,019	470	28	181
3. Philadelphia	3,149	1,281	1,868	485	748	524	23	88
4. Cleveland	4,113	1,905	2,208	664	774	547	147	76
5. Richmond	3,238	1,462	1,776	653	607	411	29	76
6. Atlanta	3,709	1,693	2,016	662	513	575	122	144
7. Chicago	8,994	3,875	5,119	1,720	1,757	1,101	380	161
8. St. Louis	3,151	1,442	1,709	452	603	498	83	73
9. Minneapolis	2,225	1,048	1,177	366	294	357	125	35
10. Kansas City	3,859	1,674	2,185	634	550	724	164	113
11. Dallas	3,935	1,847	2,088	895	541	496	73	83
12. San Francisco	6,370	2,913	3,457	1,301	696	651	205	604
Total	54,805	24,941	29,864	10,238	10,013	6,586	1,380	1,647

* Includes local messenger presentation.

** Includes county and country clearing houses and special local clearing arrangements.

Table IX-A

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
By Federal Reserve District
Per Cent Distribution by Means of Disposition

Federal Reserve District	Total	Debits	Collections	Items Received for Collection					
				Total	To Clearings*	To Federal Reserve	To Correspondents	Direct To Drawee Bank	Other**
1. Boston	100.0	46.1	53.9	100.0	27.9	56.8	14.4	0.1	0.8
2. New York	100.0	48.7	51.3	100.0	42.0	43.4	10.1	0.6	3.9
3. Philadelphia	100.0	40.7	59.3	100.0	26.0	40.0	28.1	1.2	4.7
4. Cleveland	100.0	46.3	53.7	100.0	30.1	35.0	24.8	6.7	3.4
5. Richmond	100.0	45.2	54.8	100.0	36.8	34.2	23.1	1.6	4.3
6. Atlanta	100.0	45.6	54.4	100.0	32.8	25.5	28.5	6.1	7.1
7. Chicago	100.0	43.1	56.9	100.0	33.6	34.3	21.5	7.4	3.2
8. St. Louis	100.0	45.8	54.2	100.0	26.4	35.3	29.1	4.9	4.3
9. Minneapolis	100.0	47.1	52.9	100.0	31.1	25.0	30.3	10.6	3.0
10. Kansas City	100.0	43.4	56.6	100.0	29.0	25.2	33.1	7.5	5.2
11. Dallas	100.0	46.9	53.1	100.0	42.9	25.9	23.7	3.5	4.0
12. San Francisco	100.0	45.7	54.3	100.0	37.6	20.1	18.9	5.9	17.5
Average	100.0	45.5	54.5	100.0	34.3	33.5	22.1	4.6	5.5

* Includes local messenger presentation.

** Includes county and country clearing houses and special local clearing arrangements.

Table X-1

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
Reserve City Banks
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total	To Debits	Items Received for Collection					Direct to Drawee Bank	Other**
			Total	To Clearings*	To Federal Reserve	To Correspondents	To Reserve		
1. Boston	788	305	483	130	339	11	1	2	
2. New York	5,589	2,527	3,062	1,635	1,320	73	28	6	
3. Philadelphia	1,429	337	1,092	322	615	105	23	27	
4. Cleveland	2,022	763	1,259	370	525	157	147	60	
5. Richmond	1,293	440	853	358	358	72	29	36	
6. Atlanta	1,156	414	742	236	298	64	122	22	
7. Chicago	4,556	1,420	3,136	1,159	1,382	154	380	61	
8. St. Louis	1,157	374	783	142	502	46	83	10	
9. Minneapolis	678	207	471	135	170	40	125	1	
10. Kansas City	1,804	595	1,209	320	488	159	164	78	
11. Dallas	1,513	495	1,018	407	425	86	73	27	
12. San Francisco	4,738	2,089	2,649	1,003	615	278	205	548	
Total	26,723	9,966	16,757	6,217	7,037	1,245	1,380	878	

* Includes local messenger presentation.

** Includes special local clearing arrangements.

Table X-2

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
Country Banks with \$7.5 Million or More in Deposits*
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total	To Debits	Items Received for Collection				Other#
			Total	To Clearings**	To Federal Reserve	To Correspondents	
1. Boston	1,631	765	866	289	417	152	8
2. New York	2,888	1,557	1,331	312	603	309	107
3. Philadelphia	1,151	620	531	114	115	260	42
4. Cleveland	1,373	733	640	238	194	203	5
5. Richmond	1,146	498	648	201	191	234	22
6. Atlanta	1,567	694	873	349	141	295	88
7. Chicago	2,645	1,386	1,259	376	198	635	50
8. St. Louis	940	426	514	183	82	213	36
9. Minneapolis	596	274	322	112	74	112	24
10. Kansas City	776	349	427	149	50	212	16
11. Dallas	1,000	462	538	243	72	214	9
12. San Francisco	1,115	501	614	262	43	270	39
Total	16,828	8,265	8,563	2,828	2,180	3,109	446

* As of June 30, 1952.

** Includes local messenger presentation.

Includes county and country clearing houses and special local clearing arrangements.

Table X-3

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
Country Banks with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
(Thousands of items)

Federal Reserve District	Total	To Debits	Items Received for Collection				
			Total	To Clearings**	To Federal Reserve	To Correspondents	Other#
1. Boston	561	305	256	29	155	69	3
2. New York	605	342	263	11	96	88	68
3. Philadelphia	569	324	245	49	18	159	19
4. Cleveland	718	409	309	56	55	187	11
5. Richmond	799	524	275	94	58	105	18
6. Atlanta	986	585	401	77	74	216	34
7. Chicago	1,793	1,069	724	185	177	312	50
8. St. Louis	1,054	642	412	127	19	239	27
9. Minneapolis	951	567	384	119	50	205	10
10. Kansas City	1,279	730	549	165	12	353	19
11. Dallas	1,422	890	532	245	44	196	47
12. San Francisco	517	323	194	36	38	103	17
Total	11,254	6,710	4,544	1,193	796	2,232	323

* As of June 30, 1952.

** Includes local messenger presentation.

Includes county and country clearing houses and special local clearing arrangements.

Table X-A-1

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
Reserve City Banks
By Federal Reserve District
Per Cent Distribution by Means of Disposition

Federal Reserve District	Total	Debits	Collections	Items Received for Collection					
				Total	To Clearings*	To Federal Reserve	To Correspondents	Direct to Drawee Bank	Other**
1. Boston	100.0	38.7	61.3	100.0	26.9	70.2	2.3	0.2	0.4
2. New York	100.0	45.2	54.8	100.0	53.4	43.1	2.4	0.9	0.2
3. Philadelphia	100.0	23.6	76.4	100.0	29.5	56.3	9.6	2.1	2.5
4. Cleveland	100.0	37.7	62.3	100.0	29.4	41.7	12.5	11.7	4.7
5. Richmond	100.0	34.0	66.0	100.0	42.0	42.0	8.4	3.4	4.2
6. Atlanta	100.0	35.8	64.2	100.0	31.8	40.2	8.6	16.4	3.0
7. Chicago	100.0	31.2	68.8	100.0	37.0	44.1	4.9	12.1	1.9
8. St. Louis	100.0	32.3	67.7	100.0	18.1	64.1	5.9	10.6	1.3
9. Minneapolis	100.0	30.5	69.5	100.0	28.7	36.1	8.5	26.5	0.2
10. Kansas City	100.0	33.0	67.0	100.0	26.5	40.4	13.1	13.6	6.4
11. Dallas	100.0	32.7	67.3	100.0	40.0	41.7	8.4	7.2	2.7
12. San Francisco	100.0	44.1	55.9	100.0	37.9	23.2	10.5	7.7	20.7
Average	100.0	37.3	62.7	100.0	37.1	42.0	7.4	8.2	5.3

* Includes local messenger presentation.

** Includes special local clearing arrangements.

Table X-A-2

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
with \$7.5 Million or More in Deposits*
By Federal Reserve District
Per Cent Distribution by Means of Disposition

Federal Reserve District	Total	Debits	Collections	Items Received for Collection				
				Total	To Clearings**	To Federal Reserve	To Correspondents	Other#
1. Boston	100.0	46.9	53.1	100.0	33.4	48.1	17.6	0.9
2. New York	100.0	53.9	46.1	100.0	23.5	45.3	23.2	8.0
3. Philadelphia	100.0	53.9	46.1	100.0	21.5	21.6	49.0	7.9
4. Cleveland	100.0	53.4	46.6	100.0	37.2	30.3	31.7	0.8
5. Richmond	100.0	43.5	56.5	100.0	31.0	29.5	36.1	3.4
6. Atlanta	100.0	44.3	55.7	100.0	40.0	16.1	33.8	10.1
7. Chicago	100.0	52.4	47.6	100.0	29.9	15.7	50.4	4.0
8. St. Louis	100.0	45.3	54.7	100.0	35.6	16.0	41.4	7.0
9. Minneapolis	100.0	46.0	54.0	100.0	34.8	23.0	34.8	7.4
10. Kansas City	100.0	45.0	55.0	100.0	34.9	11.7	49.7	3.7
11. Dallas	100.0	46.2	53.8	100.0	45.1	13.4	39.8	1.7
12. San Francisco	100.0	44.9	55.1	100.0	42.7	7.0	44.0	6.3
Average	100.0	49.1	50.9	100.0	33.0	25.5	36.3	5.2

* As of June 30, 1952.

** Includes local messenger presentation.

Includes county and country clearing houses and special local clearing arrangements.

Table X-A-3

Disposition of Checks Handled by Commercial Banks on an Average Day in July 1952
with Less Than \$7.5 Million in Deposits*
By Federal Reserve District
Per Cent Distribution by Means of Disposition

Federal Reserve District	Total	Debits	Collections	Items Received for Collection				
				Total	To Clearings**	To Federal Reserve	To Correspondents	Other#
1. Boston	100.0	54.4	45.6	100.0	11.3	60.5	27.0	1.2
2. New York	100.0	56.5	43.5	100.0	4.2	36.5	33.5	25.8
3. Philadelphia	100.0	56.9	43.1	100.0	20.0	7.3	64.9	7.8
4. Cleveland	100.0	57.0	43.0	100.0	18.1	17.8	60.5	3.6
5. Richmond	100.0	65.6	34.4	100.0	34.2	21.1	38.2	6.5
6. Atlanta	100.0	59.3	40.7	100.0	19.2	18.4	53.9	8.5
7. Chicago	100.0	59.6	40.4	100.0	25.6	24.4	43.1	6.9
8. St. Louis	100.0	60.9	39.1	100.0	30.8	4.6	58.0	6.6
9. Minneapolis	100.0	59.6	40.4	100.0	31.0	13.0	53.4	2.6
10. Kansas City	100.0	57.1	42.9	100.0	30.0	2.2	64.3	3.5
11. Dallas	100.0	62.6	37.4	100.0	46.1	8.3	36.8	8.8
12. San Francisco	100.0	62.5	37.5	100.0	18.5	19.6	53.1	8.8
Average	100.0	59.6	40.4	100.0	26.3	17.5	49.1	7.1

* As of June 30, 1952.

** Includes local messenger presentation.

Includes county and country clearing houses and special local clearing arrangements.

Table XI

Sources of Checks Handled on an Average Day in July 1952
Federal Reserve Banks by District
(Thousands of items)

Federal Reserve District	Items Paid**	Immediate Credit Items*					Intradistrict Items					Interdistrict Items			
		Total	From Member Banks#	From Offices in District	From Other Federal Reserve Banks	From Direct Sending out-of-District Commercial Banks	Total	From City Member Banks	From Other Member Banks#	From Offices in District	From Other Federal Reserve Banks	From Direct Sending out-of-District Commercial Banks	Total	From City Member Banks#	From Other Member Banks
1. Boston	145	134	87	//	7	40	669	214	314	//	14	127	38	12	26
2. New York	390	725	264	4	51	406	878	503	252	2	43	78	54	18	36
3. Philadelphia	199	149	72	//	15	62	433	241	71	//	29	92	51	9	42
4. Cleveland	220	130	46	6	20	58	428	215	84	10	31	88	98	42	56
5. Richmond	208	59	19	3	7	30	353	140	78	15	28	92	72	50	22
6. Atlanta	268	78	36	3	9	30	268	144	47	5	20	52	34	19	15
7. Chicago	436	239	60	7	41	131	777	476	128	3	44	126	106	74	32
8. St. Louis	219	75	16	1	15	43	283	172	24	2	36	49	14	8	6
9. Minneapolis	89	35	17	***	2	16	168	108	29	1	9	21	26	18	8
10. Kansas City	185	87	28	2	16	41	386	227	74	4	20	61	32	10	22
11. Dallas	145	63	19	2	9	33	303	165	54	6	19	59	22	18	4
12. San Francisco	345	158	91	7	14	46	477	313	73	11	28	52	31	22	9
Total	2,849	1,932	755	35	206	936	5,423	2,918	1,228	59	321	897	578	300	278

* Almost all on banks in same city as Reserve Bank or branch. Does not include items handled in packages.

** Treasury checks, postal money orders and checks drawn on the Federal Reserve Banks - virtually all from own member banks.

*** Less than 500 items.

Including direct senders in other district office territories.

// Not including items sent in consolidated shipments.

// No branch offices.

Table XII

Number of Banks and Their Out-of-Town Branches, July 1952
By Federal Reserve District

Federal Reserve District	All Banks and Their Out-of-Town Branches		Nonmember Par Banks and Their Out-of-Town Branches		Nonpar Banks and Their Out-of-Town Branches		Member Banks and Their Out-of-Town Branches	
	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches
1. Boston	458	233	138	60	-	-	320	173
2. New York	859	245	132	24	-	-	727	221
3. Philadelphia	835	56	211	-	-	-	624	56
4. Cleveland	1,099	125	422	35	-	-	677	90
5. Richmond	1,006	358	338	112	193	149	475	97
6. Atlanta	1,221	104	271	14	594	40	356	50
7. Chicago	2,683	583	1,674	573	-	-	1,009	10
8. St. Louis	1,468	109	650	45	323	64	495	-
9. Minneapolis	1,285	38	211	-	600	11	474	27
10. Kansas City	1,737	4	1,042	4	9	-	686	-
11. Dallas	1,039	18	304	8	101	10	634	-
12. San Francisco	499	1,001	237	49	-	-	262	952
Total	14,189	2,874	5,630	924	1,820	274	6,739	1,676

Note on Sources: The survey of Federal Reserve Banks and branches produced the basic data for number of all banks and out-of-town branches for member and nonmember banks. Data on nonpar banks are from the Federal Reserve Bulletin. Data on nonmember par banks are derived.

Table XIII

Number of Commercial Banks and Their Out-of-Town Branches Sending Items to Federal Reserve Banks, July 1952
By Federal Reserve District
By Type of Item Sent

Federal Reserve District	Total Potential Senders*		Total Senders**		Send Only Treasury Checks and Postal Money Orders		Send Only Immediate Credit Items#		Send Only Deferred Credit Items##		Send All Classes of Items	
	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches	Banks	Branches
1. Boston	322	173	276	92	-	-	16	2	17	4	243	86
2. New York	764	242	423	78	18	2	84	5	37	18	284	53
3. Philadelphia	628	56	306	4	-	-	114	1	77	3	115	-
4. Cleveland	680	90	303	37	59	2	74	1	21	5	149	29
5. Richmond	475	97	282	36	39	-	52	15	30	-	161	21
6. Atlanta	358	50	212	25	12	-	73	1	10	2	117	22
7. Chicago	1,011	12	622	6	-	-	275	-	112	-	235	6
8. St. Louis	529	1	193	1	38	-	59	-	14	-	82	1
9. Minneapolis	475	27	234	14	20	-	76	3	43	4	95	7
10. Kansas City	752	1	164	-	15	-	61	-	24	-	64	-
11. Dallas	637	-	184	-	18	-	81	-	4	-	81	-
12. San Francisco	361	1,001	116	474	11	29	33	125	20	52	52	268
Total	6,992	1,750	3,315	767	230	33	998	153	409	88	1,678	493

* All member banks plus 253 nonmember banks and their 74 branches which had clearing accounts with the Federal Reserve Banks of their districts. Most of the latter were in four districts: New York, St. Louis, Kansas City, and San Francisco.

** Includes all banks which send even occasionally. Of this group 3,035 banks and 725 branches were regular senders, 280 banks and 42 branches were infrequent but occasional senders.

Items on commercial banks in same city as Federal Reserve Bank handling the items, plus Treasury checks, postal money orders and items drawn on the Federal Reserve Banks.

Items on commercial banks outside the city of the Federal Reserve Bank handling the items.

Table XIII-A

Number of Commercial Banks Eligible* to Send Items
to Federal Reserve Banks, July 1952
By Federal Reserve Districts
Senders and Nonsenders by Size of Bank

Federal Reserve District	Under \$7.5 Million Deposits		\$7.5 Million- \$24.9 Million Deposits		Over \$25 Million Deposits	
	Send	Not Send	Send	Not Send	Send	Not Send
	1. Boston	161	38	73	8	42
2. New York	229	236	106	89	88	16
3. Philadelphia	229	247	52	60	25	15
4. Cleveland	196	299	72	65	35	13
5. Richmond	170	165	71	25	41	3
6. Atlanta	92	121	71	21	49	4
7. Chicago	383	271	153	78	96	30
8. St. Louis	116	298	47	34	30	4
9. Minneapolis	149	236	65	6	19	-
10. Kansas City	80	514	43	70	41	4
11. Dallas	109	396	34	48	41	9
12. San Francisco	52	178	22	52	42	15
Total	1,966	2,999	809	556	549	113

* All member banks plus 253 nonmember clearing banks. Branches excluded from this tabulation.

Table XIV

Number of Banking Offices* Regularly Sent Cash Letters
By Federal Reserve Banks, July 1952
By Federal Reserve District

Federal Reserve District	Member Bank Offices	Nonmember Par Bank Offices	Nonpar Bank** Offices
1. Boston	410	173	-
2. New York	1,418	136	-
3. Philadelphia	647	207	-
4. Cleveland	832	435	-
5. Richmond	647	472	342
6. Atlanta	402	257	634
7. Chicago	1,237	1,971	-
8. St. Louis	480	678	387
9. Minneapolis	485	205	611
10. Kansas City	779	996	9
11. Dallas	613	327	111
12. San Francisco	1,249	221	-
Total	9,199	6,078	2,094

* Includes branch offices. Also includes some offices located in other districts and collection zones which thus receive letters from more than one Federal Reserve office.

** Federal Reserve Banks and branches send to nonpar drawee banks items payable to the United States Government and its agencies, and the drawee banks are required to remit at par for them.

Table XV

Number of Par Transit Items Handled by all Country Banks
on an Average Day in July 1952
By Federal Reserve District
By Distance from Handling Bank
(Thousands of items)

Federal Reserve District	Par Transit Items Handled	Total Number on Other Banks Within <u>x</u> Miles of Handling Bank				
		25 Miles or Less	25-50 Miles	50 Miles or Less	50-100 Miles	Over 100 Miles
1. Boston	785	259	173	432	118	235
2. New York	1,185	557	213	770	190	225
3. Philadelphia	602	199	114	313	138	151
4. Cleveland	653	183	98	281	117	255
5. Richmond	558	134	89	223	101	234
6. Atlanta	591	148	77	225	83	283
7. Chicago	1,318	435	211	646	198	474
8. St. Louis	492	123	84	207	108	177
9. Minneapolis	398	83	32	115	52	231
10. Kansas City	619	130	80	210	87	322
11. Dallas	545	136	49	185	82	278
12. San Francisco	468	127	84	211	70	187
Total	8,214	2,514	1,304	3,818	1,344	3,052

Table XV-A

Number of Par Transit Items Handled by All Country Banks
on an Average Day in July 1952
By Federal Reserve District
Per Cent Distribution by Distance from Handling Bank

Federal Reserve District	Total Par Transit Items Handled	Per Cent on Other Banks Within <u>x</u> Miles of Handling Bank				
		25 Miles or Less	25-50 Miles	50 Miles or Less	50-100 Miles	Over 100 Miles
1. Boston	100	33	22	55	15	30
2. New York	100	47	18	65	16	19
3. Philadelphia	100	33	19	52	23	25
4. Cleveland	100	28	15	43	18	39
5. Richmond	100	24	16	40	18	42
6. Atlanta	100	25	13	38	14	48
7. Chicago	100	33	16	49	15	36
8. St. Louis	100	25	17	42	22	36
9. Minneapolis	100	21	8	29	13	58
10. Kansas City	100	21	13	34	14	52
11. Dallas	100	25	9	34	15	51
12. San Francisco	100	27	18	45	15	40
Average	100	31	16	47	16	37

Table XVI-1

Amounts and Percentages of Local Items in
Reserve City and Federal Reserve Banks on an Average Day in July 1952*

Federal Reserve District	Thousands of Items			Per Cent of Total	
	Total Reserve City Banks and Federal Reserve Banks	Reserve City Banks	Federal Reserve Banks	Reserve City Banks	Federal Reserve Banks
1. Boston	261	174	87	66.7%	33.3%
2. New York	2,072	1,808	264	87.3	12.7
3. Philadelphia	469	397	72	84.6	15.4
4. Cleveland	504	458	46	90.9	9.1
5. Richmond	421	402	19	95.5	4.5
6. Atlanta	347	311	36	89.6	10.4
7. Chicago	1,359	1,299	60	95.6	4.4
8. St. Louis	346	330	16	95.4	4.6
9. Minneapolis	210	193	17	91.9	8.1
10. Kansas City	449	421	28	93.8	6.2
11. Dallas	523	504	19	96.4	3.6
12. San Francisco	<u>1,473</u>	<u>1,382</u>	<u>91</u>	<u>93.8</u>	<u>6.2</u>
Total	8,434	7,679	755	(91.0%)**	(9.0%)**

* For Federal Reserve Banks the items shown include only those received from country member banks in the same district as the Federal Reserve Bank and do not include items drawn on or payable through the Reserve Bank. Items handled in packages are not included.

** Average.

Table XVI-2

Amounts and Percentages of Intradistrict Par Items in
Reserve City and Federal Reserve Banks on an Average Day in July 1952*

	<u>Thousands of Items</u>			<u>Per Cent of Total</u>	
	<u>Total Reserve City Banks and Federal Reserve District</u>	<u>Federal Reserve Banks</u>	<u>Reserve City Banks</u>	<u>Federal Reserve Banks</u>	<u>Federal Reserve Banks</u>
1. Boston	763	235	528	30.8%	69.2%
2. New York	1,352	597	755	44.2	55.8
3. Philadelphia	666	354	312	53.2	46.8
4. Cleveland	810	511	299	63.1	36.9
5. Richmond	501	283	218	56.5	43.5
6. Atlanta	400	209	191	52.3	47.7
7. Chicago	1,860	1,256	604	67.5	32.5
8. St. Louis	394	198	196	50.3	49.7
9. Minneapolis	236	99	137	41.9	58.1
10. Kansas City	844	543	301	64.3	35.7
11. Dallas	593	374	219	63.1	36.9
12. San Francisco	<u>1,460</u>	<u>1,074</u>	<u>386</u>	<u>73.6</u>	<u>26.4</u>
Total	9,879	5,733	4,146	(58.0%)**	(42.0%)**

* For Federal Reserve Banks the number of items shown include only those received from member banks in the same district as the Federal Reserve Bank.

** Average.

Table XVI-3

Amounts and Percentages of Interdistrict
Par Items in Reserve City and Federal Reserve
Banks on an Average Day in July 1952

	<u>Thousands of Items</u>			<u>Per Cent of Total</u>	
	Total Reserve City Banks and Federal Reserve Banks	Reserve City Banks	Federal Reserve Banks	Reserve City Banks	Federal Reserve Banks
1. Boston	111	73	38	65.8%	34.2%
2. New York	694	640	54	92.2	7.8
3. Philadelphia	377	326	51	86.5	13.5
4. Cleveland	383	285	98	74.4	25.6
5. Richmond	225	153	72	68.0	32.0
6. Atlanta	145	111	34	76.6	23.4
7. Chicago	659	553	106	83.9	16.1
8. St. Louis	178	164	14	92.1	7.9
9. Minneapolis	88	62	26	70.5	29.5
10. Kansas City	263	231	32	87.8	12.2
11. Dallas	136	114	22	83.8	16.2
12. San Francisco	<u>214</u>	<u>183</u>	<u>31</u>	<u>85.5</u>	<u>14.5</u>
Total	3,473	2,895	578	(83.4%)*	(16.6%)*

* Average.

CHAPTER IV

SUGGESTIONS FOR IMPROVING PRESENT CHECK COLLECTION METHODS

A. Introduction

Information gathered in response to the questionnaires sent to commercial banks and Federal Reserve Banks discloses the methods and practices generally followed at present in collecting checks. In order to determine to what extent it would be possible to improve on these methods and practices from the standpoint both of the banking system and of its depositors, the committee has formulated what it considers to be the criteria of an ideal check collection system, and has examined current methods and practices in the light of these criteria. Where such methods and practices fall short, changes that will contribute to speed and efficiency, and bring the check collection system closer to the ideal, are recommended.

B. The Criteria of an Ideal Collection System

The principal subject of this study involves the collection of a check drawn on one bank which is deposited in another bank. In its simplest terms, the problem for consideration is how the check may be presented to the drawee bank for payment, and the proceeds remitted to the first collecting bank, as quickly and as simply as possible. Speed and simplicity of collection imply presentation to the drawee by the most expeditious and direct route available, with a minimum number of handlings, and with prompt remittance of the proceeds in a form readily available to the first collecting bank. There are obvious limits beyond which direct routing of checks from the first collecting bank to the drawee bank cannot be extended. For example, the extreme possibility where every check received on deposit would be forwarded directly to the drawee bank would create an unreasonable number of separate sendings and a multiplicity of accounting entries in connection with the remittances. Fundamentally, therefore, the problem involves the extent to which presentation of checks to drawee banks can be

simplified and expedited without unnecessarily complicating the remittance operation.

In the light of these considerations, the following are submitted as the criteria of an ideal collection system:

1. Presentation to drawee by most expeditious and direct route available.
2. Minimum number of handlings.
3. Prompt remittance of proceeds in form readily available to first collecting bank and its depositor.
4. Prompt notification and prompt return to first collecting bank in the event of nonpayment.

The following portion of this report is subdivided according to the various categories of checks for which collection methods may differ. A description of methods currently employed¹ is followed by a reference to the areas in which improvements appear possible and desirable. The recommendations, in each instance, embody changes in collection methods which appear to be practicable and to meet the suggested criteria as closely as possible.

C. Checks Payable at Par in the Same Federal Reserve District

1. Local checks

The term "local checks" refers to checks drawn on a bank in the same town as the bank in which they are received for collection. The survey indicates (1) that

1. The methods mentioned are those most commonly employed; no attempt is made to describe all minor or local variations, except where the variations may be regarded as improvements over the methods generally employed.

38 per cent of the number of all checks received for collection on a given day are drawn on other banks in the same town, and (2) that 42 per cent of the number of all checks presented to drawee banks for payment are presented by other banks in the same town, although many of these items also bear the preceding endorsement of an out-of-town bank.

(a) Recommendations

The established criteria indicate the following as the best methods of collecting local checks, and they are therefore recommended:

(i) Where there is a formal check clearing organization, such checks should be exchanged through the clearing organization, and net balances resulting from the exchanges should be settled on the day of the exchanges by entries on the books of a correspondent bank or of a Federal Reserve Bank.

(ii) Where there is no formal check clearing organization, informal arrangements should be made for the reciprocal exchange of such checks among all banks in the community and settlement of the exchanges should be made on the same day by entries on the books of a correspondent bank or of a Federal Reserve Bank.

(iii) In either case, the time for exchanges of checks should be set at such an hour as to permit checks received in morning mails to be included in the exchanges.

(b) Current methods

Methods of collecting local checks depend largely upon conditions in the community.

In communities in which there is a clearing house association or other formal check clearing organization, local checks drawn on one clearing house member which are received by another member are, of course, collected through the clearing organization. In many instances arrangements

have been made to settle balances on the books of a correspondent bank or the Federal Reserve Bank of the district. Some local banks not members of the clearing organization clear through a member.

In the larger cities, banks in outlying areas which by reason of their location do not find it practicable to participate as regular members of the clearing organization sometimes engage in a "package exchange" of checks with the regular members of the clearing organization and among themselves. This arrangement may be part of the principal clearing organization, or it may be a separate organization. In either case, availability of credit on items included in the "package exchange" is substantially the same as on items included in the regular exchanges through the clearings.

In some communities where there is no formal check clearing organization, local banks have developed informal arrangements for the reciprocal exchange of checks drawn on one another, settlements usually being made by check on a correspondent bank.

In some instances, no attempt is made to exchange local checks but they are sent to a correspondent bank or a Federal Reserve Bank for collection in the same manner as out-of-town items.

(c) Areas for improvement of current methods

The exchange of local checks through a clearing house or the reciprocal exchange of such items by informal arrangement results in the most direct presentation possible, and the minimum number of handlings. Settlement of net balances resulting from the exchanges on the same day by entries on the books of a correspondent bank or of the Federal Reserve Bank provides the most prompt remittance available.

Where settlement of balances is made by drafts drawn on out-of-town correspondent banks, availability of the proceeds of the items cleared is delayed pending collection of the drafts. By working out an arrangement for settlement of net balances on the books of a correspondent bank or Federal Reserve Bank, instead of settling by drafts, participants in the clearings will render

better service to their customers and will save the trouble and expense involved in handling and collecting the drafts.

Attention has been called to the fact that in some cities the hour for clearing local checks is so early in the morning that it is impossible to clear items received in the first mail on that day, while in other cities the actual exchange of checks is in the evening with settlement deferred until the following day. Either of these limitations defers the final payment of local items, and the committee recommends that the time for exchanges of checks should be set at an hour to permit checks received in morning mails to be included in the exchanges on that day, and that settlement be made on the same day.

It has been observed that although banks in many cities have recently adopted the practice of fully deferred posting, very often the hour for final exchanges of checks through the clearings in such cities has not been changed in many years. The committee recommends that, in any such case, the hour for final exchanges of checks through the clearings be reviewed and re-determined in the light of changed conditions resulting from the adoption of fully deferred posting. In most instances, it should be possible to establish a later hour for final exchanges.

In a number of cities where clearing houses operate, banks in outlying sections of the city do not participate in the clearings. The committee recommends that in such cases, where volume warrants, consideration be given to arranging for participation by such banks either as direct clearing members, or by means of a "package exchange" of checks with the regular clearing members and among the outlying banks themselves. In other cities, it has been observed that there would be advantages in arranging for "package exchanges" including suburban banks beyond the city limits. Such an arrangement operates successfully in St. Louis, where 47 banks not members of the St. Louis Clearing House Association, of which 26 are located outside the city limits, participate in a check exchange on a package basis. A similar procedure is followed to advantage in other cities.

It has also been observed that in some

areas where two cities are in reasonably close proximity, check collections between the two cities could be expedited and simplified by providing an inter-city clearing arrangement. Such an arrangement operates successfully in Minneapolis and St. Paul. In addition to a clearing house in each city, through which commercial banks in the city clear checks among themselves, there is the Twin City Clearing House Association. Through that association, Minneapolis banks clear checks on St. Paul banks, and St. Paul banks clear checks on Minneapolis banks. Settlements of clearings through the Twin City Clearing House are made on the books of the Federal Reserve Bank of Minneapolis, which also participates in the clearings.

In summary, the following are submitted as the principles which should govern the organization and operation of clearing houses in the larger cities:

1. The premises where checks are exchanged should be in a central location in relation to the locations of the participants.
2. As many local banks as possible should participate. Where full participation by banks in outlying areas is not feasible, they should be afforded the opportunity to participate in a package exchange, both with clearing house members and among themselves. These arrangements should be extended to suburban banks where volume warrants.
3. If volume warrants, arrangements should be made for preliminary exchanges at hours best suited to the working hours of the participants.
4. The final exchange of checks should be arranged at a reasonable hour to permit clearance of checks received in morning mails. The hour should be fixed in relation to the time of arrival of principal mail and express deliveries by train and plane.

5. Settlement of net amounts due or owed as the result of the exchanges should be made on the books of a correspondent bank or Federal Reserve Bank on the same day. When settlement is made on the books of the Reserve Bank, arrangements should be made for nonmember banks to settle through correspondent member banks.
6. Return items should be exchanged as early as the posting hours at the participating banks will reasonably permit.

In communities where there is no arrangement for exchanging local checks, there is room for decided improvement. Sending local checks to a correspondent bank or Federal Reserve Bank at a distance, for collection from a bank in the same town as the first collecting bank, involves circuitous routing, unnecessary handlings, and delayed presentation and remittance. Where this method is employed for the collection of local items, the committee recommends that arrangements be developed by the banks in the community for the exchange of local checks. Federal Reserve Banks and correspondent banks can do much to encourage the development and adoption of appropriate arrangements in these instances.

2. Checks drawn on nearby out-of-town banks

This section is devoted to checks received by one bank for collection that are drawn on a (par) bank in a nearby community. The survey indicates that of all out-of-town checks received for collection by banks outside of Reserve and Central Reserve Cities, 31 per cent are drawn on banks within a radius of 25 miles, and 16 per cent are drawn on banks between 25 and 50 miles away. In the more populous districts, as might be expected, these percentages run much higher than the national average. A breakdown by Federal Reserve districts appears in Tables XV and XV-A at page 70.

(a) Recommendations

The following methods of collecting checks drawn on out-of-town banks in the vicinity will result in a closer approach

to the criteria established, and they are therefore recommended:

(i) Where volume warrants, such checks should be presented to the drawees through a central clearing arrangement serving all banks in the area, with settlements being made on the books of a correspondent bank or on the books of the Federal Reserve Bank.

(ii) Where volume warrants but a central clearing arrangement is not feasible, such checks should be presented directly by mail to the respective drawees, with settlement through a correspondent bank or the Federal Reserve Bank.

(b) Current methods

As a general rule, no particular effort is made to keep checks drawn on nearby banks within the area. Most banks treat all out-of-town items alike, regardless of the distance of the banks on which they are drawn, and send them to their principal correspondent or to the Federal Reserve Bank of the district. Many bankers have called to the committee's attention the fact that this practice, in many instances, results in transportation of checks over unnecessarily long distances, and in a superfluous number of handlings.

In numerous instances cited by bankers who participated in the survey, a check drawn on one bank and deposited in a bank a few miles distant for collection travels several hundred miles, and is handled by two or three other banks, before being presented to the drawee for payment. In addition to being a conspicuous departure from the established criteria, this procedure for the collection of items drawn on nearby banks is unnecessarily inefficient and uneconomical, and provides an opportunity for check kiting. By sending these items to correspondent banks or Federal Reserve Banks in distant cities, instead of keeping them in the area where they belong, the first collecting banks delay presentation of the items and cause unnecessary work for the banking system. The present situation also has important customer relations aspects, arising out of

the delay in presentation and the time required for collection; depositors are frequently unable to understand why the proceeds of a check drawn on a bank only a few miles distant are not available until several days after deposit.

(c) Areas for improvement of current methods

Several alternative methods of collecting items of this nature, that will result in speedier and more direct presentation to the drawee banks, reduce the number of handlings to a minimum, and accelerate the availability of the proceeds of collection, are available. The choice between the alternative methods will depend on circumstances in the particular area.

The ideal approach to the suggested criteria in the handling of checks payable in nearby communities would be to provide a central clearing house for all banks in a given trade area or other locality, and to conduct it in the same manner as the usual form of city clearing house association, with settlements being made on the books of a correspondent bank of all members or on the books of the Federal Reserve Bank. Under this procedure, each participant would list the checks drawn on each of the other participants, and package them separately. The packages would be delivered to the exchanges by contract motor carrier or other form of messenger service, and the packages received through the exchanges would be sent to the drawee banks in the same manner.

If it is not considered practicable for the participants to list and package checks drawn on each of the other participants separately, each participant at the close of business on one day may send to a central location all checks drawn on other participants, and the fine sorting and preparation of the outgoing listings to the respective drawee banks may be done during evening hours at the central point, for delivery to the drawees before the opening of business on the next day. Either of these arrangements for handling a substantial volume of checks payable in the vicinity provides the most direct and expeditious presentation available, the minimum number of handlings, and the promptest payment.

Descriptions of several variations of arrangements of the type recommended, which are currently in operation on a successful basis, are contained in Appendix C. The surveys indicate that there may be as many as 150 other areas throughout the country where the possibility of establishing clearing arrangements of this nature should be seriously considered.²

In an area where the system described above may not be considered practicable, the so-called "county" clearing arrangement may represent an improvement over current methods for collecting checks drawn on nearby banks. This arrangement should be disassociated from the "county" unit, however, and should be established on the basis of trade areas or other integrated territorial units or population centers, not necessarily related to political boundaries. Under this arrangement, each participating bank mails daily to each of the other participants checks received by it which are drawn on them, and on the same day sends by mail to the Federal Reserve Bank of the district a statement of the total of its sendings to each of the other participants. On the following business day, when statements are received by the Federal Reserve Bank, the Reserve Bank credits each bank for its total sendings and charges the accounts of the recipient banks for the amounts sent to them. Credits and charges to nonmember banks may be arranged through accounts of correspondent member banks. Any unpaid items are returned by mail to the presenting bank, along with checks drawn on it, and the amounts of the unpaid items are

2. The growth in use of trucks (including contract motor carriers) for transporting checks has enhanced the prospects for establishing regional clearing arrangements by introducing very flexible transportation facilities, which can be geared to a variety of operating conditions.

It is interesting to note in this connection that most existing arrangements for clearing items drawn on nearby banks are found in the eastern Federal Reserve districts, where the Reserve Banks and many correspondent banks have followed a policy of encouraging such arrangements. While the short distances and population concentrations found in the eastern sections undoubtedly make for favorable operating conditions in those areas, the establishment of actual working arrangements may well be as much a result of active encouragement as of the favorable conditions.

included in the charge against it for items presented on that day.³

One further method for collecting local area checks has been suggested to the committee which, although not having an opportunity to test it, believes that it may be found valuable in some circumstances. A survey has indicated that, in most country banks, an analysis of checks received for collection will show that a larger percentage of them (10 per cent or more) tend to be drawn rather consistently on a particular bank; in most cases, this will be a bank not very far away. The suggestion is that if each country bank were to make an analysis of checks received for collection, and then determine on what bank or banks the larger percentage of them appeared to be drawn, and were to send such items directly to the drawees with instructions to remit to a correspondent bank or to the Federal Reserve Bank for account of the sender, a substantial portion of checks would be presented and paid more quickly without passing either through correspondent banks or Federal Reserve Banks.

3. Checks drawn on banks in a Federal Reserve city when the collecting bank is not in a Federal Reserve city

(a) Recommendations

(i) Checks drawn on commercial banks in a Federal Reserve city should be sent directly to correspondent banks in that city.

(ii) Items payable at the Federal Reserve Bank (including Government checks and postal money orders) should be sent by member banks directly to the Federal Reserve Bank, and arrangements

3. At the time of the survey, clearing arrangements of this type were operating as follows:

<u>Federal Reserve District</u>	<u>Number of Arrangements</u>	<u>Number of Participants</u>
Boston	2	12
New York	22	265
Philadelphia	26	732
Cleveland (Pittsburgh)	1	3
Chicago (Detroit)	1	2
Dallas (San Antonio)	1	14
San Francisco (Seattle)	4	17
Total	57	1,045

should be available for crediting the proceeds of such items to a correspondent member bank if the sending bank and the correspondent member bank so desire.

(iii) The Federal Reserve should consider modification of its current policy, so that, upon the joint request of a member and a nonmember bank, the nonmember bank may send items payable at a Federal Reserve Bank (including Government checks and postal money orders) direct to the Federal Reserve Bank, for credit to the member bank's account. This would eliminate the need for the member bank to handle these items.

(b) Current methods

The survey indicates that 40 per cent of the member banks not located in Federal Reserve cities send at least some of the items they receive that are drawn on or payable at banks in Federal Reserve cities direct to the Federal Reserve Bank for collection. The other 60 per cent of the member banks not located in Federal Reserve cities send all these items to correspondent banks in Federal Reserve cities.⁴ (Nonmember banks, of course, send all items drawn on banks in Federal Reserve cities to correspondent banks.) On an average day in 1952, the Federal Reserve Banks received 755,000 checks drawn on banks in Federal Reserve cities from member banks outside the city, while between 550,000 and 600,000 items payable at or through the Reserve Bank were sent by out-of-town banks to correspondent banks for collection.

(c) Areas for improvement of current methods

Checks drawn on a commercial bank in a Federal Reserve city that are sent to the Reserve Bank must be handled by two banks-- the Reserve Bank and the drawee bank -- before they are paid. But if the checks are sent to a correspondent bank, a certain percentage (which will vary from city to city) will be drawn on the correspondent bank, and will therefore not need to be handled by another bank before they are

4. See Table XIII, p. 68.

paid. Also, items drawn on the correspondent bank will be paid on the day of receipt, even though transportation delays may cause them to arrive later than the local clearing hour.

The committee recommends, therefore, that checks payable at commercial banks in Federal Reserve cities be sent to a correspondent bank, rather than to the Federal Reserve Bank. Sending these checks to a correspondent bank will provide direct presentation to the drawee and will minimize the number of handlings for those items drawn on the correspondent banks. Consequently, out-of-town member banks that send Federal Reserve city items directly to the Federal Reserve Bank would contribute to a more efficient collection system if they would instead send these items to correspondent banks in the Federal Reserve city.

Checks drawn on the Federal Reserve Bank, Government checks, and postal money orders require additional handling when sent to a correspondent bank. A member bank sending these items to the Reserve Bank gets direct presentation, minimizes handling, and obtains the earliest final payment. Accordingly, the committee recommends that member banks send these items direct to Federal Reserve Banks.

When a nonmember bank receives these kinds of items, it customarily sends them to a correspondent member bank, which in turn presents them to the Reserve Bank. One handling of the items would be eliminated if the nonmember bank were to send them direct to the Reserve Bank, for credit to the correspondent member bank. The committee recommends further, therefore, that the Federal Reserve System consider modification of its current policy, so that, upon the joint request of a nonmember bank and a member bank, the nonmember bank may send items drawn on a Federal Reserve Bank, Government checks and postal money orders direct to the Federal Reserve Bank, for credit to the member bank's account. This would eliminate the need for the member bank to handle these items.

4. All other checks drawn on banks in the same Federal Reserve District

(a) Recommendations

(i) Where volume warrants and where appropriate arrangements exist or can be made, such checks should be sent directly to the drawee banks for credit of the sending bank or for remittance to a correspondent bank or Federal Reserve Bank for account of the sending bank.

(ii) When not handled as suggested above, such items received by member banks of the Federal Reserve System should be sent directly to the Federal Reserve Bank, and arrangements should be available for crediting the proceeds to a correspondent member bank, if the sending bank and the correspondent member bank so desire.

(iii) The Federal Reserve System should consider modification of its current policy, so that, upon the joint request of a nonmember bank and a member bank, the nonmember bank may send direct to the Federal Reserve Bank for account of the member bank items which the member bank otherwise would receive from the nonmember bank and collect through the Federal Reserve Bank. This would eliminate the need for the member bank to handle these items.

(b) Current methods

The survey indicates that very few banks outside Reserve cities send out-of-town intradistrict items directly to the banks on which they are drawn. Reserve City banks, on the other hand, send about 15 per cent of such items directly to the drawee banks.

Further, only three out of every ten member banks send any intradistrict country items to the Federal Reserve Bank. The other seven send all such items to correspondent banks in the same cities.⁵ Nonmember banks, of course, send such items to correspondent banks. Finally, a large percentage of the items sent by member and

5. See Table XIII, p. 68.

nonmember banks to member bank correspondents are sent by the latter to the Federal Reserve Bank for collection.

(c) Areas for improvement of current methods

Where volume warrants, collection of these items by sending them directly to the drawee banks results in expeditious presentation and the minimum number of handlings. Comparatively few city correspondent banks engage extensively in sending items directly to drawee banks in their respective areas. Aside from the objection on the part of some country banks to the additional work involved in receiving and remitting for more than one cash letter daily, these direct sending arrangements appear to conform with the criteria established in this study.

Where volume does not justify direct presentation to the drawee banks, the sending by a member bank of these items to a correspondent bank involves indirect routing, an unnecessary double handling, and delayed presentation for payment. The criteria for a simplified and more efficient check collection system then dictate that items in this category be sent by member banks directly to the Federal Reserve Bank, and the committee so recommends.

One of the reasons why such a small percentage of out-of-town member banks send directly to the Federal Reserve Bank is the Federal Reserve practice of giving deferred credit. This requires banks to make accounting entries that are not necessary if they send the items to a correspondent bank, which will give them "immediate" book credit. Another reason is that many country member banks prefer to maintain a relatively level balance in their reserve accounts with the Federal Reserve Bank, and to keep surplus funds with correspondents.

To encourage more out-of-town member banks to send intradistrict country items directly to Federal Reserve Banks, the committee recommends that arrangements be made so that out-of-town member banks may send items directly to Federal Reserve Banks for credit to accounts with correspondent member banks. Country banks would then be able to maintain reserve balances in relatively level amounts, approximating their

required reserves, and correspondent banks could continue to give them "immediate" book credit for the items sent directly to Federal Reserve Banks. Also, it would not be necessary for correspondent banks to handle the items, and as a general rule presentation for payment would be expedited. The committee's investigation indicates that the wish to avoid accounting details required by the Federal Reserve deferred availability schedules has been the principal reason why country member banks have preferred to send intradistrict country items to correspondent banks rather than directly to Federal Reserve Bank. The committee's recommendation would remove this problem.

The sorting requirements of Federal Reserve Banks are said to deter country member banks from sending deferred availability items directly to the Reserve offices. But the committee is satisfied from its investigation, which included conferences with many country bankers, that this observation has received more gratuitous repetition and more attention than the facts warrant.⁶ Country bankers generally are not opposed to reasonable sorting requirements that will have the effect of simplifying and expediting presentation of items for the benefit of their customers.

The larger country banks, which handle the major portion of country bank check volume, usually have mechanical sorting equipment (proof machines) available; and with such equipment, a reasonable number of sorts should create no hardship or problem. Banks using manual sorting are smaller banks, as a rule, with correspondingly smaller volume. Even they may make a reasonable number of sorts without added expense or delay. The committee concluded, therefore, that limited sorting at the country bank level is justified, since the result not only directly benefits the depositors of the bank doing the sorting, but also contributes to speedier and more efficient check collections for the banking system as a whole, thus benefiting the general public also.

6. Resistance by some country banks to sorting checks appears to be based in large measure on the emphasis by some city correspondent banks upon their willingness to accept unsorted checks for collection.

Adoption of the foregoing recommendations for the routing of other intradistrict country items would affect operations at Federal Reserve Banks. Under present practices, country items are sent to correspondent banks, and items received by correspondent banks in the morning are not delivered to the Federal Reserve Bank until later in the day. The Reserve Bank's closing hour for the receipt of such items must be related to the hours at which outgoing shipments must be made, to provide adequate time for processing and shipment on the same day. As a result, the work at the Reserve Bank must be crowded into the period between the time it receives the items and the time the items must be dispatched to the drawee banks. If, as recommended, the items are sent directly to the Reserve Bank, they will arrive early in the morning, and more time will be available for processing before the hours at which outgoing shipments must be made. This may facilitate operations at Federal Reserve offices to the point where later closing hours for the receipt of intradistrict country items that correspondent banks have received from local depositors can be established.

Improved operating conditions may also affect Federal Reserve sorting requirements. Future requirements would presumably reflect the effect of any improvements in operating conditions at Federal Reserve offices that resulted from the recommendations of this report.

In the normal collection pattern, a nonmember bank receiving intradistrict country items forwards them to a correspondent member bank for collection through the Federal Reserve. If the nonmember bank could send them directly to the Federal Reserve, the correspondent member bank would not need to handle them at all. Accordingly, the committee recommends that the Federal Reserve System consider modification of its current policy, so that, upon the joint request of a nonmember bank and a member bank, the nonmember bank may send direct to the Federal Reserve Bank for account of the member bank items which the member bank otherwise would receive from the nonmember bank and collect through the Federal Reserve Bank. This would eliminate the necessity for the member bank to handle these items.

(d) General observations regarding other intradistrict checks

In its general review of the methods of collecting intradistrict checks, the committee's attention was directed to the fact that a general curtailment over the past 25 years in the number of trains carrying mail and express has resulted in noticeable delays in the presentation and collection of checks. These delays have affected collection time to various suburban points, and also to more distant points that are not sufficiently remote from a Federal Reserve Bank city to warrant the use of air transportation.

In several suburban areas affected by curtailed service, substantial advantages in collection schedules have been realized by using contract motor carriers. These carriers call at suburban banks in the evening, and pick up (usually from outside safes) the checks those banks are sending to city correspondents or to the Federal Reserve Bank. When the checks from the suburban banks are delivered, the carriers pick up the checks the city banks (including the Federal Reserve Bank) are sending the suburban banks, and leave them at the suburban banks before they open the next morning.

With this arrangement, suburban banks do not, as a rule, have to cut their outgoing work off as early as they would to make mail or express shipments, and their incoming work is on hand before they open in the morning. Correspondent banks and Federal Reserve Banks (particularly those employing night check forces) have also found that contract motor carriers deliver checks much earlier than other forms of transportation. The committee believes, therefore, that banks in areas where contract motor carriers have not been used, and where conventional transportation services are unsatisfactory, should explore the use of motor carrier service.

D. Checks Payable at Par in Other Federal Reserve Districts

Interdistrict checks constitute 32 per cent of all out-of-town items for the Reserve City banks, 25 per cent for other banks, and 29 per cent for the banking system as a whole.

(a) Recommendations

(i) Where volume warrants and where appropriate arrangements exist or can be made, such checks should be sent directly to the drawee banks for credit of the sending bank or for remittance to a correspondent bank or Federal Reserve Bank for account of the sending bank.

(ii) When not handled as suggested above, such items should be collected to the greatest extent practicable through the Federal Reserve System's procedures for direct sendings and consolidated air shipments of interdistrict items.

(iii) Where volume warrants, Federal Reserve Banks should send such items directly to drawee banks in adjacent areas of adjoining districts.

(iv) For expediting presentation of items drawn on banks in important financial centers where there is no Federal Reserve Bank or branch, and where volume and other circumstances warrant, the Federal Reserve System should consider providing facilities for consolidated direct air shipments to such centers, permitting presentation to the drawees without the items having to pass through the Federal Reserve Bank of the district in which they are payable.

(b) Current methods

When volume warrants, interdistrict items are generally sent directly by the first collecting member bank (usually by air) to the Federal Reserve Bank of the district in which the drawee bank is situated. The Federal Reserve Bank of the district in which the sending bank is located reimburses it for the transportation expense incurred in sending directly to another Federal Reserve Bank. When volume is not sufficient to warrant direct sending to the other district, the first collecting bank sends such items either to the

local Federal Reserve Bank or to a correspondent; in the latter case, the correspondent usually sends direct to the Federal Reserve Bank of the other district, and, if in a Federal Reserve Bank city, may consolidate its shipment with that of the Federal Reserve; in either event the local Federal Reserve Bank pays the expense of the shipment. Nonmember banks customarily send such items to member bank correspondents.

Although most interdistrict items are collected through the Federal Reserve System in the manner indicated, the committee's survey disclosed that about 24 per cent of interdistrict items handled by Reserve and Central Reserve City banks are sent to correspondents for credit or remittance and about 5 per cent are sent direct to the drawee banks.

(c) Areas for improvement of current methods

Collection of interdistrict items by sending them directly to the drawee banks results in the most expeditious presentation and involves a minimum number of handlings. Where volume warrants, therefore, and where appropriate arrangements exist or can be made, this method for collecting such items should be followed.

The procedures established by the Federal Reserve System for direct sendings and consolidated air shipments of interdistrict items expedite presentation and minimize handlings of the items. Except in circumstances in which it is practicable to send interdistrict items directly to the drawee banks, the committee favors full utilization of these procedures. A member bank which does not have a sufficient volume of items payable in other districts to send directly to Federal Reserve offices in the other districts should send interdistrict items either to its correspondent member bank in the nearest Federal Reserve Bank city or to its Federal Reserve Bank. A nonmember bank in such circumstances should send interdistrict items to its correspondent member bank in the nearest Federal Reserve Bank city. In this manner, both smaller member banks and smaller nonmember banks will realize the benefits of the procedures for expediting presentation and collection of interdistrict items.

Two situations came to the committee's attention in which it would be possible to expedite and simplify the handling of interdistrict items payable at banks outside Federal Reserve cities.

In instances in which one Federal Reserve Bank receives a considerable volume of items drawn on banks in an adjacent area of an adjoining district, and collection through the other Federal Reserve office will result in roundabout transportation, arrangements have been made for the drawee banks to accept daily cash letters directly from the Federal Reserve Bank of the district in which the items are deposited for collection. For example, the 31 banks in Fairfield County, Connecticut, which is in the New York Federal Reserve District receive a daily cash letter from the Federal Reserve Bank of Boston (the rest of the State of Connecticut is in the Boston District). The banks receiving such cash letters remit to the Federal Reserve Bank of New York for account of the Federal Reserve Bank of Boston; unpaid items are returned directly to the Boston Federal Reserve, with a copy of the return item letter being sent to the New York Federal Reserve so that it may make the appropriate adjustment entries.

Prior to the institution of this arrangement, the Federal Reserve Bank of Boston sent Fairfield County items to the Federal Reserve Bank of New York, which in turn sent them to the drawee banks in Fairfield County, retracing part of the distance to Boston. Now, items are presented one day earlier, they travel at least 100 miles less, and one handling is eliminated. Unpaid items are received two days earlier, and one less handling of them is involved. Similar arrangements exist in some other Federal Reserve districts. In the interests of speed and efficiency of check collections, the committee recommends extension of this practice where the circumstances warrant.

The other situation to which the committee has devoted its attention involves the collection of interdistrict checks payable at banks in important financial centers where there is no Federal Reserve Bank or branch. Except for items sent to correspondents in such cities, virtually

all these checks are collected through the Federal Reserve System and therefore are sent to the Reserve Bank of the district in which they are payable for presentation to the drawees.

Where the volume of checks drawn on banks in such financial centers warrants, it should be possible to expedite and simplify their collection. For example, under present collection methods, a Philadelphia bank that receives a check drawn on a bank in Indianapolis will include the check in its direct sent cash letter to the Federal Reserve Bank of Chicago. Its letter will be included in the consolidated shipment of the Federal Reserve Bank of Philadelphia, and will go by air to Chicago. The Federal Reserve Bank of Chicago will handle the item, and send it with its cash letter to the drawee bank. This cash letter will go to Indianapolis by train.

If it were possible to send the item directly from Philadelphia to Indianapolis by air, for remittance through the Federal Reserve Bank of Chicago, it would be presented at least one day earlier, many miles of unnecessary travel would be avoided, and one handling could be eliminated. Unpaid items returned by the same route would be received at least two days earlier than under present methods. There are undoubtedly a number of other important financial centers where comparable advantages could be realized by sending interdistrict checks directly for presentation to the drawees through local clearings, rather than through the Federal Reserve Bank of the district.⁷ The committee suggests, therefore, that the possibility of this change in the interdistrict check collection mechanism be explored by the Federal Reserve System.

E. Nonpar Checks

The recommendations contained in the report up to this point have related to the collection of checks drawn on banks which remit at par for all cash items. Many

7. Cities in which no Federal Reserve Bank or branch is located and in which checking account debits exceeded \$5 billion in 1953 were Milwaukee, Washington, D. C., Newark, N. J., Indianapolis, Hartford, Conn., Albany, N. Y., Tulsa, Columbus, O., Oakland, Calif., Sacramento, Fort Worth, Providence, R. I., Toledo, Rochester, N. Y. and Wilmington, Del.

bankers who communicated with the committee referred to the problems of bank operations which grow out of the collection of checks drawn on banks which deduct exchange charges from the remittances for such items, and it is to this matter that this section of the report is devoted.

Summary of Recommendations

(i) The weight of informed banking opinion favors universal par remittance for cash items as a desirable improvement in the check collection system, but, in the light of controlling circumstances, the committee offers no specific recommendation as to how that result may be achieved promptly.

(ii) The committee recommends that rules regarding the absorption of exchange charges by collecting banks be uniform as between member banks of the Federal Reserve System and insured nonmember banks.

(iii) The committee recommends the simplification of record keeping requirements imposed on member banks of the Federal Reserve System in connection with the disposition of exchange charges.

1. Introduction and background

Prior to the development of modern banking methods and relationships, and to the establishment of our present system of centralized reserves, a banker in one section of the country who was called upon to make funds available at a distant point often incurred an out-of-pocket expense in doing so. Accordingly, it was the custom to charge a fee, called "exchange", for the service of making funds available at a distant point. Out of this custom arose the practice of imposing an "exchange charge" for remitting for a check presented by mail for payment. The charge is made against the person presenting the check and is deducted from the remittance. The charge is based on the premise that it costs the remitting bank something to make funds available to the presenting bank. Banks which make such charges are generally referred to as "nonpar banks".

An exchange charge is to be distinguished from a service charge which is imposed on the drawer of the check -- i.e., the depositor of the bank which makes the charge. The service charge arises out of a contract between the bank and its depositor, and the amount of the charge reflects the expense of maintaining the account in relation to the value of the depositor's balance. A service charge is not deducted from the proceeds of the check, and such proceeds are remitted in full, or "at par".

Since this report is concerned primarily with the possibility of improvements in the check collection system from the standpoint of bank operations, the deduction of exchange charges will be considered in the light of the effect on check collection operations of banks; the report will not undertake to cover in detail the effects of nonpar banking upon the general public. In that connection, however, the observation usually made is that since more than 90 per cent of all financial obligations are settled by using bank checks, and since checks have therefore become in effect the principal currency of the country, the public interest dictates that all checks be paid at par, so that the obligations they represent may be discharged in full. Proponents of universal par remittance point out that the justification which nonpar banks assert for deducting exchange charges -- namely, that such charges represent the cost to them of making remittances available to the presenting banks -- is a fictitious one under present conditions.

2. Volume and distribution of nonpar banking

On December 31, 1952, there were 1,820 banks that charged exchange, or 13 per cent of the total number of banks in the country. These nonpar banks, however, held less than \$2 billion in deposits, or slightly more than 1 per cent of total deposits of all commercial banks. The number of nonpar items in the entire bank collection system accounts for only 1 1/2 per cent of the total number of items handled, and for about 4 per cent of all out-of-town items. In some instances, nonpar banks remit at par for checks presented to them by out-of-town banks.

Although nonpar items represent only 1 1/2 per cent of cash items handled by

banks throughout the country, the proportion is substantially higher in the sections where the large concentrations of nonpar banks are situated. At the end of 1952, over 1,700 of the country's 1,820 nonpar banks were located in four Federal Reserve districts--Richmond, Atlanta, St. Louis and Minneapolis. The remainder were in the Kansas City and Dallas Districts (9 and 10, respectively). Six districts had no nonpar banks. Banks in the four districts with the most nonpar banks, and in adjacent districts, handled the bulk of the nonpar items, although some items found their way into all districts. The table on this page shows the number and per cent of total nonpar items handled by banks in each Federal Reserve district on an average day in July 1952.

Banks in the four principal nonpar districts handled 77% of all nonpar items. One out of five transit items (one out of every four in commercial banks) handled in the Atlanta and Minneapolis Districts was not payable at par. Banks in the Chicago and Kansas City Districts, by reason of proximity to nonpar areas, also had a relatively high volume of nonpar items. In the Northeastern section of the country, and on the Pacific coast, the proportion of nonpar items was low.

The process a bank follows to collect nonpar items varies according to the dis-

trict in which the collecting bank is located, the number of items it handles, and its size. In areas where the volume of nonpar items is small, all classes and sizes of banks send practically all such items to correspondents, which in turn send them to other banks that specialize in nonpar collections. Where volume of nonpar items is heavy, even the small banks collect some of the items by sending them directly to the drawee banks, although these are almost entirely items drawn on banks at nearby points; small banks send the bulk of nonpar items to larger banks, which collect the items by sending them directly to drawee banks.

Banks in some areas have combined to establish regular collection arrangements through which nonpar items are handled. The best known of these, in Atlanta and Richmond, receive nonpar items from their members, combine them into cash letters, and generally send them directly to the drawee banks.

3. Operating problems resulting from nonpar collections

Although the total number of nonpar items is relatively small, and volume varies from one section of the country to another, bankers throughout the country have complained that the presence in the collec-

Table XVII

Number and Per Cent of Nonpar Items Handled
in an Average Day in July 1952, by
Federal Reserve District

District	Number of Items	Per Cent of Total		
		Nonpar Items	Items Handled	Transit Items
Boston	5,700	0.6%	0.2%	0.3%
New York	21,200	2.3	0.2	0.6
Philadelphia	11,300	1.2	0.4	0.6
Cleveland	13,800	1.5	0.3	0.7
Richmond	85,200	9.1	2.6	5.6
Atlanta	319,000	34.2	8.6	20.7
Chicago	55,500	5.9	0.6	1.4
St. Louis	148,500	15.9	4.7	11.3
Minneapolis	191,100	20.5	8.6	20.0
Kansas City	38,100	4.1	1.0	2.0
Dallas	35,800	3.8	0.9	2.5
San Francisco	8,800	0.9	0.1	0.4
Total	934,000	100.0%	(1.7%)*	(3.9%)*

* Average

tion system of two classes of items -- one payable at par, and one payable after deduction of exchange charges-- creates an expensive operating problem and results in an inefficient collection system. The reasons cited in support of this complaint are these:

1. The handling of nonpar items received for collection is expensive to collecting banks. The expense arises from the fact that initially the nonpar items must be culled out from the par items and thereafter handled separately. The nonpar items must be sent to particular correspondent banks equipped to collect them, and compensating balances are customarily required to be maintained with those banks; or, in the case of some banks situated in the areas where nonpar banking is widespread, the nonpar items must be sent directly to the respective drawee banks, with the result that numerous separate letters must be processed and dispatched and a like number of separate remittances must be handled. In either case, the additional expense, compared with the expense of handling par items, is substantial. In addition, the accounting procedures incident to the recovery of exchange charges from prior endorsers add materially to bank expenses. (Arrangements provided by the Richmond and Atlanta Clearing Houses for consolidating collections of nonpar items for account of clearing house members reduce exchange charges and collection expenses in some measure.)
2. The exchange charges themselves create an expense to the banking system, whether they are absorbed by one of the collecting banks or whether they are passed along to the original depositor of the item. When ex-

change charges are absorbed the expense is obvious, although two aspects of this matter should be borne in mind. First, there is no gain in earnings of the banking system as a whole, since the revenue derived by the drawee bank is offset by a loss of revenue at one or more of the collecting banks. Second, the bank which absorbs the exchange charge is reimbursed in most instances by the use of a compensating balance from its prior endorser, and in effect therefore the charge is passed along to the prior endorser. When exchange charges are not absorbed but are passed back to the original depositor of the item, the expense to the banking system arises from the work of passing the charges back through each of the banks which handled the item in the course of collection. In the case of member banks of the Federal Reserve System, additional expense is involved in the maintenance of records to establish that such charges have not been absorbed to an extent not permitted by Regulation Q of the Board of Governors of the Federal Reserve System.

3. Except where volume and other circumstances are such as to warrant direct presentation to nonpar drawee banks, banks receiving nonpar items for collection usually send them directly or indirectly to correspondent banks which specialize in handling such items. If it is desired to avoid exchange charges, the items may be further routed so that they will be presented by a bank which either can obtain payment at par by special arrangement with the drawee, or will absorb any

exchange charges. As a result, the collection of nonpar checks frequently involves circuitous routing, unnecessary handlings, delayed presentation for payment, and delayed notice and return in the event of nonpayment.

The extent of the cost to the banking system of handling the collection of nonpar items has not been estimated by the committee. It is known, however, that the operating cost to any collecting bank of handling a nonpar item is several times the cost of handling a par item. One representative of a large bank in an area where nonpar banks predominate told the committee that if all checks were payable at par his bank would save \$150,000 a year in operating expense, not including exchange charges.

It should be recognized that increased operating costs arising out of the handling of nonpar items affect small banks as well as large banks. Since small banks greatly outnumber large banks, the total added costs of all small banks probably exceed those of all large banks. All bankers with whom the committee conferred were of the opinion that bank collection operations would be substantially improved if there were universal par remittance for cash items. (Suggestions as to means for achieving universal par remittance ranged from legislative action to more intensive educational campaigns.)

4. Conclusion regarding nonpar banking

The committee notes, therefore, that the weight of informed banking opinion favors universal par remittance for cash items. After study of the matter, however, the committee offers no specific recommendation as to how that result may be achieved promptly.

The number of nonpar banks has been slowly although steadily decreasing. In the ten years ended December 31, 1952, the number decreased from 2,710 to 1,820; as a percentage of all banks, nonpar institutions declined in that period from 19 per cent to 13 per cent. In three states, Iowa, Nebraska and Wisconsin, legislation removed 367 banks from the nonpar list; the remaining 523 banks adopted par remittance without statutory compulsion. Except when legislation has been

enacted or intensive campaigns for par remittance have been conducted, the year-to-year decrease in number of nonpar banks has been small.

The states in which nonpar banks are situated, the number of such banks, and the proportion of total banks in each state which the nonpar banks represent are presented in the following table.

Table XVIII

Distribution of Nonpar Banks by States

State	Nonpar Banks	Par Banks	Per Cent Nonpar of Total
Alabama	96	134	42
Arkansas	117	113	51
Florida	52	155	25
Georgia	284	119	70
Illinois	2	893	**
Kansas	2	602	**
Louisiana	106	65	62
Minnesota	410	268	60
Mississippi	157	42	79
Missouri	64	529	11
North Carolina	107	102	51
North Dakota	93	60	61
Oklahoma	8	376	2
South Carolina	81	68	54
South Dakota*	97	72	57
Tennessee	84	212	28
Texas	47	870	5
Virginia	4	311	1
West Virginia	1	181	0.5

* All items \$10 and under payable at par.

** Less than 0.5 per cent.

The committee does not believe that the practical answer to universal par remittance lies in legislation, either State or Federal. With the possible exception of one or more states in which the percentage of nonpar banks is small and in which there is already substantial sentiment favoring state legislation, the possibilities of obtaining legislation seem remote. The committee believes, rather, that par remittance must be realized, albeit slowly, by voluntary action of the bankers now favoring exchange charges as they realize that par remittance constitutes good banking and is the best thing for their depositors, themselves, and the general public.

In view of the attitude of a substantial majority of bankers, and of the disadvantages to the banking system and the general public arising out of nonpar banking, why should a small minority of bankers

persist in charging exchange on checks paid by them? The answer is simple: nonpar bankers are reluctant to give up the income derived from the exchange charges. Their position was expressed as follows by Mr. R. E. Gormley, Vice President of the Georgia Savings Bank & Trust Company, Atlanta, Georgia, in testimony before the Committee on Banking and Currency of the House of Representatives in connection with its consideration of the so-called Brown-Maybank bill on January 27, 1944 (Hearings, p. 303):

" . . . (deduction of exchange) has furnished Georgia banks the most beautiful form of service charge they have ever had. Unlike banks in the other States, they have not permitted themselves to be forced or cajoled into going onto a par basis. It is the most beautiful form of revenue they have ever had, and it is a form of revenue you can collect with the least disturbance of public relations between you and your customer. After all, that is banking. As long as I can maintain the good will of my depositors, the people I am dealing with at home, it is up to me to do it. This affords us a wonderful means of collecting toll for these checks; and yet it is being levied against the man on the other side."

The substance of this statement is that nonpar banks are able to meet some of the operating expenses by charging exchange against third parties instead of levying service charges against their own depositors. In fact, however, the committee learned that in many instances nonpar banks deduct exchange and impose service charges.

The argument that nonpar banks need the revenue derived from exchange charges in order to stay in business disregards the fact that in states where par remittance has been required by statute banks not only have managed to remain in business but in many instances have shown increased earnings after adopting par remittance. In this connection, it should also be observed that in the areas where nonpar banks predominate, the exchange charges deducted by any single bank cannot be regarded as clear profit,

since that bank or its depositors will also be paying exchange on items drawn on other nonpar banks in the area.

5. Absorption of exchange charges by collecting banks

At the suggestion of many bankers from all sections of the country, the committee has devoted attention to the current situation with respect to the absorption of exchange charges by some collecting banks, and particularly to the difference in interpretation or application of statutes and regulations regarding such absorption by member banks of the Federal Reserve System, on the one hand, and by nonmember banks the deposits of which are insured by the Federal Deposit Insurance Corporation (hereinafter referred to as "insured nonmember banks"), on the other.

The following provisions apply to member banks:

Section 19 of the Federal Reserve Act

"No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: . . ."

Section 2 of Regulation Q of the Board of Governors of the Federal Reserve System

" . . . no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit. Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest."

The following provisions apply to insured nonmember banks:

The Federal Deposit Insurance Act (12 U.S.C.A. § 1828(g))

"The board of directors (of the F.D.I.C.) shall by regulation

prohibit the payment of interest on demand deposits in insured non-member banks . . ."

Section 2 of Regulation IV
of the Federal Deposit In-
surance Corporation

". . . no insured nonmember bank shall directly or indirectly, by any device whatsoever, pay any interest on any demand deposit. Within this regulation any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.^{6/}

^{6/} The absorption of normal or customary exchange charges by an insured nonmember bank, in connection with the routine collection for its depositors of checks drawn on other banks, does not constitute the payment of interest within the provisions of this regulation."

Thus it appears that under substantially similar statutory authorizations, the Board of Governors and the F.D.I.C. have adopted identically worded regulations which prohibit the payment of interest "directly or indirectly, by any device whatsoever," on any demand deposit, and which define interest as "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit".

In a specific case presented for its consideration in 1943, the Board of Governors ruled that the absorption of exchange charges by a member bank in order to attract and keep compensating balances of depositors violated the prohibition against payment of interest on demand deposits (1943 Federal Reserve Bulletin 817). In the case before the Board, it appeared that in 1942 the bank had absorbed for customers maintaining compensating balances with it \$18,000 out of \$25,000 exchange charges paid, and that in the first three months of 1943 it had absorbed for such customers \$4,600 out of \$5,600 exchange charges paid. In some instances, the amounts absorbed were as much as two or three per cent of customers' balances. Total correspondent bank deposits had increased from less than \$7,000,000 at

the end of 1941 to nearly \$18,000,000 in 1943, a ratio far greater than the increase in total demand deposits, or than the corresponding increases of other banks in the same area. In the case of customers which did not maintain compensating balances, the bank did not absorb exchange charges but passed them along to its endorsers, because the bank had "no way of making it back". In at least one instance, an account had been shifted from a competing bank to the bank in question because of its willingness to absorb exchange charges. In its consideration of the case, the Board pointed out that the questions to be determined were first, whether the absorption of exchange charges by the bank constituted a "payment", and, second, whether such payment was made as compensation for the use of funds constituting a deposit. The Board stated that the absorption of an exchange charge clearly results in a "payment"; and that, on the facts of the specific case, the "payments" resulting from absorption of exchange charges appeared to have been made by the bank for the purpose of soliciting and augmenting its demand deposit accounts, or as "compensation" for the use of funds constituting deposits.

In a subsequent case, the Board held that a member bank which was absorbing exchange charges in order to avoid additional expense which would be involved in collecting such charges was not violating the prohibition against payment of interest on demand deposits (1944 Federal Reserve Bulletin 339). The Board found that the charges were absorbed solely as a matter of operating efficiency where the cost of passing them back would exceed the amount of the charges, and that there was no evidence that the bank in soliciting new accounts or in maintaining existing accounts had offered to absorb such charges as an inducement to the maintenance of balances. The Board concluded, therefore, that the charges were not absorbed as compensation for the use of funds on deposit but as a means of avoiding expense to the bank.

It appears to be the position of the Board of Governors that the absorption of exchange charges may, or may not, constitute the payment of interest on a demand deposit within the meaning of Regulation Q, depending upon the facts of a given case. In general, the view of the Board seems to be that if it appears from any understand-

ing between a bank and a depositor, or from other evidence such as solicitation of deposits upon the basis of a willingness to absorb exchange charges, that it is the intention to absorb the charges as compensation for the use of the depositor's funds, then such bank would be regarded as violating the prohibition against payment of interest on demand deposits (see 1944 Federal Reserve Bulletin 339). The Board has stated as its expectation that no member bank in any case would utilize the absorption of exchange charges as a device for compensating a depositor for the use of funds in order to obtain or retain demand deposits. As a rule of administrative convenience, however, the Board will disregard as trivial the absorption of exchange charges in amounts aggregating not more than \$2.00 for any one depositor in a single month (1945 Federal Reserve Bulletin 564).

Although the wording of section 2 of F.D.I.C. Regulation IV is identical with that of section 2 of Regulation Q, the F.D.I.C. adds as a footnote that "the absorption of normal or customary exchange charges by an insured nonmember bank, in connection with the routine collection for its depositors of checks drawn on other banks, does not constitute the payment of interest" within the meaning of the regulation. This footnote was apparently derived from a ruling of general application to insured nonmember banks, issued by the F.D.I.C. effective December 6, 1943 under the caption "Absorption of Exchange Charges as Payment of Interest". This ruling expressed the view -

" . . . that the absorption of exchange charges by an insured nonmember bank in connection with its routine collection for its depositors of checks drawn on other banks can not be considered a payment of interest, within the terms of the interest regulations of the Federal Deposit Insurance Corporation, in the absence of facts or circumstances establishing that the practice is resorted to as a device for the payment of interest."

Although the concluding clause of this ruling appears to beg the question, the position taken by the F.D.I.C. in the administration of its regulation appears to be that an insured nonmember bank may solicit

deposits upon the basis of a willingness to absorb exchange charges, without violating the prohibition against payment of interest upon demand deposits.

The regulations of the two supervisory bodies are identical (except for the interpretative footnote added to the F.D.I.C. regulation) and at the time they were promulgated it was the intention of the Board of Governors and of the F.D.I.C. that the definition of "interest" as "any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit" was a restatement of principles of law decided by the courts to provide for dealing with each case which might arise on the basis of its specific facts. Given this premise, it seems inconceivable as a matter of law that two contrary conclusions regarding the same facts can be reached.

The result is an anomalous situation in which under identically worded rules a member bank of the Federal Reserve System may not absorb exchange charges in return for compensating balances while an insured nonmember bank may. Not only does this put the member bank at a competitive disadvantage as compared with insured nonmember banks, but it encourages circuitous routing, unnecessary handlings and delayed presentation of nonpar checks.

6. Conclusion regarding absorption of exchange charges

The committee concludes that from the standpoint of the bank check collection system it would be desirable to arrive at a uniform interpretation of the two regulations. Uniformity could take one of two forms: either (1) all insured banks, member and nonmember, might be permitted to absorb exchange charges even though their willingness to do so might be the basis for soliciting deposit balances; or (2) all insured banks might be prohibited from absorbing such charges except when such absorption is merely incidental and not related to the solicitation of deposit balances.

As far as improved speed and efficiency of bank check collections are concerned, the first alternative would be a step in the wrong direction. Permitting all banks to absorb exchange charges without limitation would result in the development of a pattern

for the collection of nonpar checks involving more circuitous routing and more superfluous handlings of such items than occur under current circumstances. This would mean not only inefficiency in check collection operations of the banking system but also unnecessary delay in presentation of the items for payment. Accordingly, from the standpoint of check collection operations, the preferable way to remove the present discriminatory situation as between member banks and insured nonmember banks is to prohibit all insured banks, member and nonmember, from absorbing exchange charges, except where such absorption is merely incidental and not related to the solicitation of deposit balances.

7. Modification of record keeping requirements

Numerous bankers have complained to the committee that member banks of the Federal Reserve System are put to unreasonable trouble and expense in maintaining records of the disposition of exchange charges. As previously stated, the Board of Governors has indicated that in certain circumstances the absorption of exchange charges by a member bank may constitute the payment of interest on a demand deposit in violation of the prohibition contained in Regulation Q, although the Board has ruled that "the absorption of such charges in amounts aggregating not more than \$2.00 for any one depositor in any calendar month or in any other regularly established period of 30 days will be considered as trivial and will be disregarded, provided the bank keeps such records as the appropriate supervisory authority may require for reconciliation purposes" (1945 Federal Reserve Bulletin 564). Assuming that the general absorption of exchange charges by member banks will continue to be prohibited, the committee recommends that the Board of Governors and the Comptroller of the Currency take steps to simplify and minimize the record keeping required of State member banks and national banks, respectively, for this purpose.

F. Items (Other Than Nonpar Checks) Which Federal Reserve Banks Do Not Handle as Cash Items

Items (other than nonpar checks) which the Federal Reserve Banks will not handle as cash items constitute less than three-

tenths of one per cent of all items deposited for collection through check collection channels. The existence of these items in the check collection stream, and the fact that the Federal Reserve Banks will not accept them as cash items, creates an operating problem for banks, notwithstanding the relatively small volume. The problem is further complicated by the fact that in some instances an item which will be handled as a cash item by the Federal Reserve Bank of one district will not be so handled by the Reserve Bank of another district.

1. Recommendations

(i) Except where differences are required by local laws, there should be uniform definitive rules among the Federal Reserve Banks regarding the items which they will, or will not, handle as cash items. The Federal Reserve Banks should try^e to frame these rules so as to permit the handling as cash items of as many categories of instruments as may be practicable.

(ii) The Federal Reserve Banks should handle as cash items instruments "payable at" any bank located outside Arkansas, Georgia, Idaho, Minnesota, Illinois, Kansas, Nebraska, and North Dakota. In those States, the respective State Associations should explore the possibility of having the legislatures adopt Section 87 of the Uniform Negotiable Instruments Law, and should urge banks at which items of this nature purport to be payable to arrange with their depositors for the issuance of conventional bank checks instead of items "payable at" such banks.

(iii) Banks having customers upon whom drafts "payable through" such banks are drawn in substantial numbers should arrange with such customers wherever possible for the use of conventional bank checks instead of such drafts.

(iv) In areas where the handling of State and municipal warrants as cash items is not currently possible, steps should be taken

by the State Associations to make such items eligible for handling in that manner. Where existing State law permits disbursements by political bodies to be made by bank check as well as by warrant, the use of checks wherever possible should be encouraged. Where existing State law requires such disbursements to be made by warrants or other instruments which the depositary banks of such political bodies are not authorized by law to pay upon presentation, appropriate legislation permitting all such instruments to be drawn on banks and payable upon presentation should be sought.

2. Conditions causing current problems

The provisions of the operating circulars of the several Federal Reserve Banks defining the items which they will accept for collection as cash items are relatively uniform. After stating specifically that the Reserve Banks will accept as cash items checks drawn on par remitting banks, Government checks and postal money orders, the circulars generally add that the Reserve Bank will also accept as cash items such other items, collectible at par in acceptable funds, as the Bank "may be willing to accept as cash items". The generality and lack of precision of this catch-all provision, which as a rule is not clarified by any other published instructions of the Reserve Bank, is of no assistance to member banks in determining whether particular items may or may not be collected as cash items.

The fundamental problem arises from the nature of the instruments involved and from differences in local laws and collection practices, rather than from the operating rules of the Federal Reserve Banks. As a general rule, it appears that the test as to whether a given item may or may not be handled by a Federal Reserve Bank as a cash item is whether the item may be presented to a bank and paid by charge to a depositor's account in the same manner as a check. Certain items (e.g., a draft "payable through" a bank) may be sent to a bank for collection but the bank is not

authorized by law to pay the item; the law requires the bank to present the item to the named drawee for payment. The Federal Reserve Banks, therefore, must take the position that as a general principle such instruments may not be handled as cash items. In many instances, however, by agreement between the drawee of such an item and the drawee's bank of account the bank is authorized to charge such items to the drawee's account on the day of receipt in the same manner as a check. Where these arrangements become known to a Federal Reserve Bank, it will usually accept the items affected for collection as cash items notwithstanding the fact that as a general rule items of that class may not be so handled. Since these exceptions are dependent upon numerous individual agreements between many different banks and their depositors, it is neither possible nor feasible for the Federal Reserve Banks to include such exceptions in their instructions to member banks.

The committee has concluded that the best approach to the problem involves two principal steps: (1) the Federal Reserve Banks should endeavor to achieve substantial uniformity in their rules and practices regarding the types of instruments which they will accept for collection as cash items, with the aim of so handling as many categories of instruments as may be practicable; and (2) individual banks and State Associations should use their efforts to bring about a change in the types of items used by depositors so that the items will be in a form which the Reserve Banks can handle as cash items.

3. Specific areas for improvement

The instances in which it appears possible to widen the categories of instruments which may be handled as cash items, and to bring about a situation in which it will be possible to distinguish more clearly between the items which may be so handled and those which may not, are summarized below.

(a) Bankers' acceptances. Six Reserve Banks have published instructions to the effect that they will handle bankers' acceptances as cash items if forwarded in a separate cash letter in sufficient time to reach the place of payment at least one day before maturity. The other six Banks have apparently issued no such instructions.

(b) Items "payable at" a bank. At some Federal Reserve Banks, items "payable at" a bank are handled as cash items while at others they are not. In some cases, this variation is attributable to differences in State laws. Section 87 of the Uniform Negotiable Instruments Law provides that where an instrument is made payable at a bank it is equivalent to an order to the bank to pay the same for the account of the principal debtor thereon, but this section has not been enacted in Arkansas, Georgia, Idaho, Minnesota, Illinois, Kansas, Nebraska, and North Dakota. Accordingly, items "payable at" banks in those States are not orders on the banks named but must be presented to the principal debtors for payment. Since the banks at which the items purport to be payable are not, in the absence of some further agreement, in a position to charge the accounts of the principal debtors and remit the proceeds upon receipt of the items in the same manner in which they charge and remit for checks drawn on them, the Reserve Banks apparently are not able to handle the instruments as cash items. In the remainder of the country where Section 87 is in force, items "payable at" a bank are the equivalent of checks drawn on the bank and there appears to be no reason why they may not be handled by Reserve Banks as cash items. These items would include the many envelope drafts which are "payable at" a bank.

It is recommended, therefore, that Federal Reserve Banks uniformly provide for the handling as cash items of instruments "payable at" any bank located outside Arkansas, Georgia, Idaho, Minnesota, Illinois, Kansas, Nebraska, and North Dakota. It is further recommended that in the States named the respective State Associations (1) explore the possibility of having the legislatures adopt Section 87 of the Uniform Negotiable Instruments Law, and (2) urge the banks at which items of this nature purport to be payable to arrange with their depositors for the issuance of conventional bank checks instead of "payable at" items in order that they may be collected as cash items.

(c) Items "payable through" a bank. A draft on an individual or company is frequently designated as "payable through" a designated bank, usually the bank in which the drawee maintains an account. In the absence of some further agreement, the bank through which the item is designated as pay-

able is not authorized to charge the item to the drawee's account with it but must present the item to the drawee for payment. In such a case, a Federal Reserve Bank is generally not in a position to handle the draft as a cash item, since the bank through which the item purports to be payable has no legal authority to pay and remit for it upon receipt. As a practical matter, many persons upon whom such drafts are regularly drawn have authorized the banks through which they are designated as payable to charge them to the drawees' accounts with such banks. In some instances, the charge is made after inspection of the items by the drawee before the close of business on the date of receipt, but in other cases apparently the items are charged in the same manner as checks. Where a Federal Reserve Bank learns from experience that such an arrangement exists between a particular drawee and a given bank, it frequently handles such drafts as cash items. Because of the number and variety of these exceptions, however, it is neither feasible nor possible for a Federal Reserve Bank to publish definitive instructions as to the items of this nature which it will, or will not, receive for collection as cash items.

There seem to be two principal reasons why some bank depositors use drafts on themselves "payable through" their bank, rather than conventional checks drawn on their bank accounts:

1. During the period when the Federal tax on bank checks was in effect, a number of issuers of substantial numbers of bank checks switched to the use of drafts "payable through" their banks of account in order to avoid the tax. Since from the depositors' standpoint the use of such drafts was equally as satisfactory as the earlier use of checks, inertia as much as anything else has probably been responsible for their failure to switch back to the use of checks following repeal of the tax.

2. Some companies with regional offices have apparently concluded that there are advantages in having the managers of such offices make disbursements by drafts on the head offices, "payable through" their princi-

pal banks of account, rather than by issuing company checks on local bank accounts or on their principal accounts. This device enables the head offices to review disbursements by regional offices before they are actually paid. The companies may also be influenced by the fact that the device delays payment and may give them an additional day's use of the funds. In addition, the device may result in lower analysis charges since in some cases it is unnecessary to maintain numerous local bank accounts for regional offices, and in others the analysis charge of the principal bank of account may be less for handling the drafts than for handling individual checks drawn against the company's account.

It is recognized that in some cases there are sound business reasons why a bank depositor decides to use a draft rather than a check for certain disbursements, but it appears that in many instances drafts are being used unnecessarily and checks could be used for disbursements without any disadvantage to the depositor. It is recommended that banks review the circumstances with customers upon whom drafts "payable through" such banks are drawn in substantial numbers, and arrange wherever possible for the customer to use conventional checks which may be handled as cash items through the Federal Reserve Banks.

(d) State and municipal warrants. Items drawn on the treasurers or other disbursing officers of States, counties, cities and other municipal subdivisions must be presented by a collecting bank to the drawee for payment and, in the absence of some further agreement, the bank in which such disbursing officer carries his account is not authorized to pay the items without such presentation. As a matter of law, therefore, the Federal Reserve Banks are not able generally to handle State and municipal warrants as cash items. As a practical matter, however, there are numerous instances throughout the country in which such a disbursing officer has authorized his bank of account to pay warrants drawn on him in the same manner as if they were checks drawn on his account, and the Federal Reserve Banks, to the extent that they are aware of such arrangements, will handle such warrants

as cash items. Because of the number and variety of such exceptions, however, it is neither feasible nor possible for the Federal Reserve Banks to publish instructions defining the warrants which they will, or will not, handle as cash items.

The operating problems involved in handling State and municipal warrants, and particularly in determining whether particular warrants may or may not be handled as cash items, have been minimized in certain areas. Largely as the result of efforts initiated by the Federal Reserve Bank of Minneapolis, the States of Wisconsin, Minnesota and South Dakota have amended the laws relating to disbursements of public funds (Wisconsin Laws of 1951, ch. 407; Minnesota Laws of 1953, ch. 319; Session Laws of South Dakota 1953, ch. 500), so that in effect all instruments representing such disbursements are drawn on a bank and payable upon presentation. The State of Oregon has recently enacted a law (Oregon Laws of 1953, ch. 664) which, while different in form from the Wisconsin statute and although continuing in effect the authority of a political body to disburse by warrant if it wishes, makes possible the same general result as in Wisconsin.

It is recommended, therefore, that in areas where the handling of State and municipal warrants as cash items is not currently possible one of two steps be taken:

(1) If existing State law permits disbursements by political bodies to be made by bank check as well as by warrant, the State Association should encourage the use of checks rather than warrants wherever possible.

(2) If existing State law requires such disbursements to be made by warrants or other instruments which the depositary banks of such political bodies are not authorized by law to pay upon presentation, the State Association should seek appropriate legislation permitting all such instruments to be drawn on banks and payable on presentation, in order that they may be handled as cash items.

The committee anticipates that the Federal Reserve Banks would cooperate actively with State Associations in such efforts.

CHAPTER V

MISCELLANEOUS SUBJECTS STUDIED

At the time the study was announced to the membership of The American Bankers Association, and again when the survey was undertaken and questionnaires were sent to about 1,300 selected banks throughout the country, bankers were requested to inform the committee of their specific problems involving check collections and to submit their suggestions for improving the check collection system. Many responses were received and a number of the suggestions for improvements in current check collection methods have been incorporated in the recommendations contained in the preceding section of the report. Related problems, concerning matters other than collection methods, and suggestions for dealing with them, are covered in this chapter.

Additional helpful information was obtained in a series of twelve meetings which the committee held during the fall and winter of 1953-54 in each Federal Reserve district. About ten commercial bankers asked to attend each meeting were selected in approximately equal numbers from key operating men in Reserve City banks, large country banks, and small country banks. The committee, aware that its approach to improving the check collection system was national in outlook and that certain regional variations in practices might have been overlooked in its study, arranged these meetings as a final check on its recommended program. The meetings demonstrated that such regional variations as do exist apparently will not invalidate the recommended program in any respect; as a collateral benefit, the meetings provided an additional source of information regarding check collection problems and suggestions for resolving them.

Other collateral information came to the committee from a group of technical representatives of business machine manufacturers who met separately with the committee over a three-day period in the fall of 1952, a group of treasurers of national corporations who met with the committee at about

the same time, representatives of the Post Office Department, individual banks, and various Federal Reserve operating men.

A. Return Items Procedures

Many bankers who communicated with the committee emphasized the need for simplification and expedition in the return of unpaid items. Almost every comment included an example in which a week or ten days elapsed between the date an item was deposited and the date it was returned to the first collecting bank after nonpayment even though the drawee bank was relatively nearby. One banker termed as "the problem of the day" the increase in the number of return items and the slowness of the return process.

These comments have received careful study, and the committee has concluded that it should be possible for banking, by cooperative effort, (1) to bring about a substantial reduction in the number of items returned, and (2) to expedite the receipt by the first collecting bank of items which must be returned.

Transit items returned unpaid amount to about 0.65 per cent of items presented for payment. Although this may appear to be a small proportion of all items handled, 175,000 items are returned unpaid every day (about 50 million items in 1952). The accompanying table shows a breakdown of the number of transit items returned unpaid by (a) reason for return, and (b) amounts of items returned.

Accordingly, it appears that 54 per cent of unpaid items are returned for insufficient funds and another 19 per cent because of missing or irregular endorsements, and that 64 per cent of all items returned unpaid are in amounts less than \$50. Since the expense of handling a return item is high (many times the expense of handling a transit item in the regular course), these returns cost the banking

Table XIX

Transit Items Returned Unpaid
(On an average day in July, 1952)

<u>Reason</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Insufficient funds	54	\$50 or less	64
Endorsement	19	\$50 - \$100	20
Missent	11	\$100 - \$500	12
Signature	3	Over \$500	4
Uncollected funds	3		
Other	<u>10</u>		
Total	100	Total	100

system between 10 and 20 million dollars a year. In the committee's view, a considerable portion of this expense is avoidable.

Three steps may be taken to reduce the number of items returned unpaid:

1. The fact that more than half of unpaid items are returned for insufficient funds and 64 per cent of all items returned are for less than \$50 indicates where the principal source of trouble lies. Banks should refuse to retain accounts of depositors who persist in drawing checks which are not good.
2. The fact that 20 per cent of unpaid items are returned for missing or irregular endorsements indicates that greater care on the part of first collecting banks at the time the items are deposited for collection would eliminate many return items.
3. The number of return items may be reduced substantially if drawee banks will employ all reasonable means at their disposal to "cure" technical defects in items and pay them, rather than to return them arbitrarily to the endorsing banks. In this connection, the committee endorses the "Recommended Procedures and Practices", issued August 6, 1952, by the Illinois Bankers

Association and its Committee on Bank Management. The substance of these recommendations is included in Appendix D.

If banking were to carry out the program suggested above, the number of return items would be reduced substantially and many of the difficulties associated with the return of unpaid items would be minimized. It should also be possible, however, to expedite the return of unpaid items. The committee's general recommendations for expediting the presentation of items should have the effect of expediting the return of items presented and not paid.

In this connection, the committee has considered the proposal of the Bank Management Commission of The American Bankers Association for the direct return of unpaid items to the first endorsing banks. This proposal contemplates that a bank which does not pay an item drawn on it will send the item directly to the first bank endorser without entry, and at the same time will draw on the first bank endorser a so-called unpaid item draft which it will send through regular channels for collection as a cash item. The effect of the proposal is to return an unpaid item to the first endorsing bank and its customer as promptly as possible and to eliminate expense and delays incident to its handling by intermediate endorsers. In order to be fully effective, however, the proposal must be acceptable to, and be adopted by, bankers generally, and they must be willing to assume the obligation to pay unpaid item drafts. The committee understands that The American Bankers Association is ascertaining whether such accept-

ance and adoption may be expected; if a favorable reaction should be obtained, it is understood that the Federal Reserve System will amend its regulations and circulars governing check collections to make the proposal effective. The committee believes that general adoption of the proposal should expedite and simplify the return of unpaid items.

Another suggestion with respect to the handling of return items appears to have merit. A uniform return items slip with standardized wording of the reasons for return would be helpful. The committee understands that The American Bankers Association plans to sponsor general use of a uniform slip.

B. Standardization of Check Sizes and Design

Many bankers suggested the need for further progress toward standardization of check sizes and of check layout or design. The Bank Management Commission of The American Bankers Association has already devoted a considerable amount of study to this problem and has issued several publications setting forth its recommendations. The committee adopts and endorses these recommendations.

Standardization of check sizes and design is desirable because it will facilitate bank operations and enable banking to render better service to the public at lower cost. Standardization within certain reasonable prescribed ranges of sizes and types will be imperative if the check collection operation is to be substantially mechanized.

The principal burden of a program for standardization must be assumed by banks. They are the only ones affected who are in a position to insist upon standardization in their dealings with customers, check manufacturers and business machine manufacturers, and they must be willing to adopt a firm and united position if any real progress is to be made. The program recommended by The American Bankers Association is a good one; it is up to the individual banks of the country to adopt and sell it.

C. Legibility of Endorsements

One of the most troublesome problems of banks in connection with check operations is

the superimposition of bank endorsements and the consequent difficulty of reading them when it becomes necessary to identify several endorsers.

One cause of the trouble is the size of many bank endorsements and the fact that they contain a comparatively large number of words and figures. Another cause lies in the widespread use of various types of endorsing equipment which are so adjusted that they tend to pile one endorsement on top of another. The committee's study of this problem has led it to the conclusion that it should be possible to minimize these difficulties.

Many bank endorsements are more than two inches square. As a rule they contain the name of the bank, its transit number, a date, and a legend such as "Pay to the order of any bank, banker or trust company. Prior endorsements guaranteed".

The use of a restrictive endorsement, including a specific guarantee of prior endorsements, on checks handled by banks for collection is recognized by statute, by existing transit instructions (including the check collection circulars of the Federal Reserve Banks), and by general banking practice. Disregarding legal considerations, there are two important elements of a bank endorsement on an item handled for collection: (1) identification of the endorsing bank, and (2) the date on which the item is handled. In large proof machine installations, there is usually a third element -- the number of the machine on which the item is handled, to facilitate tracing the item if that should become necessary. Accordingly, unless legal considerations would prevent it, it should be possible to reduce substantially the size and content of a bank endorsement by confining it to the transit number and the abbreviated name of the endorsing bank, the date, and (when desired) a proof machine number.

The committee has consulted counsel informally to ascertain whether it would be possible from a legal standpoint to modify a bank collection endorsement in the manner indicated and still retain the rights and liabilities that now grow out of the standard form of restrictive endorsement and the specific guarantee of prior endorsements in-

cluded therein. Counsel has indicated, in substance, that the legal effect of any symbol or device adopted as an endorsement may be prescribed by agreement between the collecting banks. As an illustration of such an agreement, counsel has indicated that a provision in the Federal Reserve Bank check collection circulars that the Federal Reserve Bank guarantees prior endorsements on checks sent by it to drawee banks irrespective of whether its endorsement contains a specific guaranty would be effective. In the case of checks sent to the Federal Reserve Bank, the circular might provide that, irrespective of the form of the endorsement of the sending bank, its liabilities with respect to a check which it forwards to the Federal Reserve Bank shall be the same as though it had endorsed such check with the usual form of restrictive endorsement and with its specific guaranty of prior endorsements. Incorporation of such provisions in the check collection circulars of the Federal Reserve Banks would not affect checks which are not handled by the Reserve Banks, but presumably appropriate amendments of the standard transit instructions prescribed by The American Bankers Association would extend the use of simplified endorsements to all transit items.

Simplification of endorsements will help to minimize the problems. In addition, the committee believes that two other steps to avoid superimposition of endorsements and to facilitate their legibility should be considered. One of these is to assign certain areas of the back of the check for the endorsements of certain classes of banks. For example, in either a vertical or a horizontal plane, one third might be reserved for endorsements of "country" banks, one third for endorsements of Federal Reserve Banks and branches, and the remaining third for endorsements of "correspondent" banks. The other step is for each class of bank to use a different colored ink for endorsements. In order to be effective, this program would involve not only substantial acceptance by banks but also cooperation by manufacturers of mechanical endorsing equipment, since it would require adjustments of endorsing mechanisms and changes in the size and shape of endorsing plates.

The committee concludes from its study that substantial improvements along the lines mentioned above are possible. It has not

been able in the time at its disposal to pursue the matter further, and regards a program for simplifying bank endorsements as a project in itself. The committee recommends that the Federal Reserve System and The American Bankers Association consider undertaking the project on a joint basis, either through special committees or through the Reserve System's Subcommittee on Collections and the Association's Bank Management Commission.

D. Transportation of Checks

Many bankers complained of the deterioration of facilities for transporting out-of-town checks. The substantial advantages derived from the use of air transportation for the collection of checks payable at distant points were recognized, but many emphasized that the collection of items within a radius of 200 or 300 miles by ground transportation had become progressively slower in recent years.

Many complaints regarding mail service were received. These complaints mentioned the slow handling of all mail after it reaches the post office at the point of delivery, and in the case of air mail it was observed that transportation from the airport to the addressee even in the largest cities frequently requires more time than it takes to fly the mail 1,000 miles or more. Bankers also criticized the adoption by post offices of progressively earlier hours for final deposit of outgoing mail.

The Federal Reserve Banks and branches were asked to comment on the effects on Federal Reserve operations of changes in mail and transportation service. Half of the Reserve offices reported no substantial effects on their operations. Ten offices stated that train service had deteriorated and hindered their check operations, but two of these and five others indicated that newly established truck mail service had been beneficial. Two offices reported that truck mail service had not changed the situation appreciably, and one office stated that train service had improved in its area. Three offices complained of earlier closing hours for receipt of outgoing mail at post offices.

In the fall of 1953, the committee consulted with representatives of the Post Office Department regarding the points mentioned above. The Post Office authorities

pointed out that the railroads had reduced sharply the number of nonprofitable passenger trains, which in many communities were the only means by which mail was received. They noted that specially designed highway post office vehicles, star routes and truck routes had been employed to serve these communities and in most instances were doing a good job. They also indicated that continued study and vigorous attention were being given to the elimination of delays in handling mail, including handling at airports, and expected this situation would improve.

One banker suggested that the Post Office establish a special class of mail to receive preferred handling (particularly between airports and addressees' lock boxes) at a premium rate of postage. The committee regards this suggestion with favor and has communicated it to the Post Office Department.

E. Depositors' Practices

There are certain practices of depositors which may affect check operations in the banks in which they carry their accounts. The purpose of this section is to call attention to arrangements which some banks have found helpful. Any modifications of current practices would have to be initiated by individual banks and worked out with their depositors.

1. Staggered Payrolls and Cycle Billing

One of the problems in check handling operations is fluctuating work load. The survey showed that at all banks work load on a peak day in July, 1952, was between 35 and 45 per cent higher than the load on an average day in that month. In general, these peaks were more pronounced in larger banks than they were in smaller banks.

Fluctuations are caused in considerable measure by recurring periodic payments, such as wage payments or payments of obligations falling due at a particular time each month. Banks having depositors who draw large numbers of checks periodically (large employers, for example), or who deposit large numbers of checks for collection periodically (public utilities or department stores, for example), may be able to work out arrangements with such depositors to reduce fluctuations of work load in the check operations of such

banks. Large employers may be willing to adopt staggered payrolls. Depositors such as utilities, department stores and others which send out large numbers of monthly bills may be persuaded to adopt cycle billing practices. Such changes may result in operating economies not only for the bank but for the depositors as well.

2. Checks Deposited in Packages

In the case of a depositor who receives large numbers of checks in the course of business, the depositor and the bank sometimes work out an arrangement under which the depositor packages and lists items which are to be deposited. The depositor endorses the items with its own endorsement and with that of the bank, and separates and lists items as required by the bank. The bank receives the packages intact and forwards them to its correspondent bank or Federal Reserve Bank without rehandling the items.

In any such case, the depositor should not be permitted to include in the package items drawn on local banks or items which the local bank might collect through a regional clearing arrangement or by sending directly to drawee banks.

F. Number of Cash Letters Sent and Received

The committee's survey included data regarding the number of cash letters sent and received daily by country banks. The number of cash letters sent daily -- particularly by the smaller country banks -- is interesting since it gives some indication of the extent to which banks sort checks. The number of cash letters received daily has a bearing on the number of different remittances drawee banks must make.

Table XX shows that less than 20 per cent of country banks sent only one cash letter daily; about half of the country banks sent between two and five, the average being a little more than three; and nearly 20 per cent sent between six and ten letters daily. The pattern for banks with less than \$25 million in deposits was roughly the same. Bearing in mind that only 21 per cent of banks with deposits of less than \$25 million sent items to Federal Reserve offices, the fact that eight out of every ten country banks of that size sent more than one cash letter daily indicates that most of these banks do some sorting of checks.

Table XX

Number of Cash Letters Sent and Received Daily by Country Banks*

Number of Cash Letters	Sendings			Receipts		
	Average Number	Per Cent of all Country Banks	Per Cent of all Country Banks under \$25 Million Deposits**	Average Number	Per Cent of all Country Banks	Per Cent of all Country Banks under \$25 Million Deposits**
1	1.0	15.0%	18.2%	1.0	17.3%	20.6%
2 - 5	3.2	46.5	52.1	3.2	48.2	54.8
6 - 10	7.6	19.6	19.8	7.5	17.2	16.2
11 - 25	14.9	8.3	6.1	15.0	7.6	5.6
More than 25	64.4	<u>10.6</u>	<u>3.8</u>	45.7	<u>9.7</u>	<u>2.8</u>
Total	11.2	100.0%	100.0%	8.6	100.0%	100.0%

* Based on figures for an average day in July, 1952.

** As of June 30, 1952.

The pattern of receipts of cash letters is much the same as the pattern of sendings, and indicates that a substantial proportion of country banks with deposits of less than \$25 million received more than one cash letter daily. The committee was informed that smaller banks prefer to receive a single cash letter in order to simplify handling remittances and return items. To the extent that a country bank receives cash letters from more than one Federal Reserve office, a single remittance may be made for all such letters; if cash letters are received from more than one correspondent bank, separate remittances are required.

G. Lost Items, Microfilming and Insurance

The number of checks lost in the process of collection is almost microscopic in relation to the total number of checks written, and is an even smaller proportion of total check handlings. Between 50,000 and 60,000 checks were lost during the year 1952. Most of these were involved in losses of entire cash letters, which were destroyed by fire, cut up by train wheels, or lost in other accidents. Some individual items were also lost. Reconstructing entire cash letters, or tracing individual lost items, and obtaining checks to replace those lost, is a troublesome and expensive operation for banks.

Most country banks microfilm some of the checks they handle, in order to keep a record for themselves and their depositors. The survey showed that about 9 out of every 10 country banks filmed some checks, in total about 65 per cent of all checks they handled. More than half the country banks filmed items drawn on them, and about the same proportion filmed checks which they cashed. Almost all country banks filmed some transit items; relatively few filmed local items.

The survey showed that about one country bank in five carried insurance protecting it against financial loss arising from the loss of checks in transit. Supplementary information obtained in the study indicates that such insurance generally takes one of two forms.

One type of policy protects against monetary loss resulting from loss, theft, destruction or disappearance of any items enclosed in a cash letter in transit during the course of collection; and also against loss of cancelled checks after being charged to a customer's account and dispatched to the customer. The policy contains a stated limit of coverage in dollar amount, and the premium is based upon the average daily dollar amount of checks sent for collection. A reduction of 50 per cent in the amount of

the premium is allowed if the insured bank agrees to maintain photographic or manual records of transit items; otherwise no record keeping is required and, in fact, the policy is offered on the basis that the cost of the full premium is less than the cost of keeping records. Insurance coverage of this type is apparently carried primarily by smaller banks. Larger banks handling very high daily dollar amounts of transit items regard the premiums as disproportionate to the risk involved.

Another form of insurance against losses arising from the loss of checks and cash letters in transit is confined to losses occurring while the items are in the possession of a specific carrier. At the present time, this form of insurance is used principally to cover checks while in the course of transportation by contract motor carrier. As a rule the insurance covers the sending bank

against loss or destruction of a cash letter and its contents while in the possession of the carrier, and will pay in the event of such a loss --

1. Reasonable costs of reconstructing the letter and its contents;
2. Any loss of interest actually sustained by use of funds to maintain cash position during the period of reconstruction; and
3. The face value of any items which cannot be traced.

Such a policy generally provides for an over-all limit of liability arising out of any one loss.

CHAPTER VI

SUGGESTIONS FOR PUTTING RECOMMENDED PROGRAM INTO EFFECT

The completion of the study and the filing of this report, with its findings and recommendations for changes in current methods considered necessary to improve the speed and efficiency of check collections, represent the beginning, rather than the end, of the principal task. The recommendations if adopted by the sponsoring groups will not be self-executing. If any benefit is to be derived from the work that has been done, bankers generally must be persuaded to adopt the changes in methods which the report recommends. This will involve fundamentally an educational process: a banker, in order to be willing to adopt a change in methods, must be convinced that the change will benefit his bank and its depositors. To secure general adoption of the committee's recommendations, therefore, will require a concerted and continuing organized effort. Following are the committee's views as to how that result may be achieved.

Some of the committee's recommendations are directed to specific organizations or groups. Compliance with those recommendations presents the least problem, since the recommendations may be transmitted directly for consideration by the organizations or groups concerned. Most of the recommendations concerning changes in current check collection methods (Chapter IV), however, are directed to banks generally, and it is the program embodied in these recommendations that will require the most attention.

In view of the nature of the organization and the activities of the National Association of Bank Auditors and Comptrollers, it appears that the support of the Association would be of considerable assistance to the three original sponsoring groups in securing general adoption of the recommendations. As a first step, therefore, an effort should be made by the three sponsoring groups to obtain the cooperation and assistance of the National Association of Bank Auditors and Comptrollers.

As a second step, the sponsoring groups (this and subsequent references to "sponsoring groups" will be understood to include NABAC if it agrees to cooperate) should create a standing joint committee, composed of one or two representatives from each group, which would be charged with the over-all direction and coordination of a national program to secure general adoption of the recommendations. The committee has in mind that representatives on such a standing joint committee might be drawn in the case of the ABA from its Bank Management Commission, in the case of the Reserve City Association from its Committee on Correspondent Bank Relations, in the case of NABAC from its Operations Commission, and in the case of the Federal Reserve from the Subcommittee on Collections of the Conference of Presidents. It is also suggested that staff members of the ABA assigned to the Bank Management Commission and the State Association Section might be affiliated with the committee.

As a third step, the standing joint committee should appoint a committee in each Federal Reserve district. Each district committee would be composed of one representative from each sponsoring group, and its primary function would be to represent the national committee at the district level, and to provide liaison, guidance and coordination to state committees within the district.

As a fourth step, through the State Association Section of the ABA, the Secretary of each State Association should be requested to form a state committee composed of members of the State Association, without any particular regard for affiliation with one of the sponsoring groups. Preferably such men should have had some experience on a committee on bank operations, or the like, within the State Association. Each state committee would receive guidance from the appropriate district committee. The responsibility of the state committee would be to

see that the program and its benefits are presented and discussed at county and group levels, with particular reference to presentations at operations clinics, seminars and panel discussions. To assist the state committees in this respect, the respective district committees should be in a position to furnish speakers or discussion leaders.

The form of pyramidal organization recommended is regarded as very important. The way to obtain adoption of the recommended check collection methods is by direct approach to the individual banker, but proper guidance and coordination from the top are essential.

Having established an organization such as that recommended, there would remain an extensive program of publicity and banker education to be carried out.

The results of the study and the principal recommendations contained in the report should be given the broadest possible publicity in banking and other financial publications. Articles on specific portions of the report--for example, articles on clearing house operations, or on regional clearing arrangements--should be featured.

Finally, at the various graduate banking schools of the country, lectures describing the recommendations offered and the advantages to be obtained by their adoption should be presented. In addition, serious consideration should be given to the inclusion in courses on bank operations of more detailed material regarding methods and patterns of check collections, with particular reference to the recommendations made in this report.

APPENDIX A

Sampling Process and Coverage, Methods of Estimate, and Reconciliation of Commercial Bank and Federal Reserve Data

The basic data on check volume and flow, together with certain collateral information used in the report, was obtained mainly from three major surveys conducted for the committee. Questionnaires were sent to all Federal Reserve Banks and branches, to all banks which had members of the Association of Reserve City Bankers, and to a sample of members of The American Bankers Association. Copies of the three questionnaires will be found at the end of this appendix.

All of the Federal Reserve Banks and branches returned completed questionnaires. Usable returns were received from 172 banks which had members in the Association of Reserve City Bankers and 598 usable returns were received from members of The American Bankers Association. The commercial banks which responded to the survey requests held deposits on June 30, 1952 aggregating to 52 per cent of all commercial bank deposits in the United States.

Selection of the Sample Sent Questionnaires

Since questionnaires were sent to all Federal Reserve Banks and branches and to all banks with members of the Association of Reserve City Bankers, sample selection was confined to banks with membership in The American Bankers Association. For certain purposes of records and administration, the Bank Management Commission of The American Bankers Association divides its member banks into two deposit size classes: banks with less than \$7.5 million in deposits and banks with \$7.5 million or more in deposits. In selecting the sample of A.B.A. member banks to be sent questionnaires, the Bank Management Commission staff, with the advice of the committee, selected a sample of approximately 1,100 banks, distributed in proportion to each state's share of the national total number of banks in the two size classes. Roughly one-fifth of the sample consisted of banks with operating men who make up the "Key Banker" list for testing certain proposals advanced by the Bank Management Commission from time to time. The

balance consisted of a random selection from the strata of states and two size classes.

As noted, 598 usable returns were received, 269 coming from banks with deposits of less than \$7.5 million and 329 from banks with deposits of \$7.5 million or more. This effective sample represented approximately a 55 per cent response to the survey on the part of A.B.A. member banks.

Also as noted, 172 responses were received to the questionnaire sent out to banks with members in the Association of Reserve City Bankers. The total number of banks sent questionnaires was 206 and the return represented 85 per cent of the number sent questionnaires.

Characteristics of the Sample Used

Tables A and B present data showing the number and amount of total deposits of all banks in the United States, all Reserve City banks and all country banks as of June 30, 1952, by size class and by Federal Reserve district. The tables also show similar data for banks included in the effective sample, i.e., those that returned usable completed questionnaires.

As can be seen, the percentage of coverage was very high for the very large banks and diminished as size class of bank declined. Of all Reserve City banks, those returning usable completed questionnaires held total deposits amounting to 83 per cent of all deposits held by banks of this type.¹ Of all country banks with deposits of \$7.5 million or more, banks responding to the survey held 23 per cent of total deposits held by all banks in this size class. Small country banks included in the survey represented those holding 3.4 per cent of the deposits of all such banks.

1. It should be noted that some Reserve City banks which operate branch systems did not report on check volume at all offices. In such cases, however, the deposit figures included in the sample represent only the deposits of the offices covered in the questionnaire.

JOINT STUDY OF CHECK COLLECTION

Table A

Number and Total Deposits of Commercial Banks in the United States
June 30, 1952
By Size Class and Reserve Status
(Deposits in millions)

Deposit Size Class	All Banks						Sample Banks				Sample as % of Total Deposits		
	All Commercial Banks		Reserve City Banks*		Country Banks		Reserve City Banks*		Country Banks		Reserve City		Country
	No.	Deposits	No.	Deposits	No.	Deposits	No.	Deposits	No.	Deposits	City	Country	
\$500 million and over	37	\$ 53,861	37	\$53,861	--	--	36	\$49,711	--	--	92.3%	--	
\$100 - \$499.9 million	170	34,512	116	25,621	54	\$ 8,891	87	20,139	20	\$ 3,269	78.6	36.7%	
\$25 - \$99.9 million	511	23,310	130	6,936	381	16,374	42	2,759	94	4,424	40.4	27.0	
\$7.5 - \$24.9 million	1,802	22,958	72	1,194	1,730	21,764	7	143	215	3,074	12.0	14.1	
Less than \$7.5 million	11,486	27,706	--	--	11,486	27,706	--	--	269	942	--	3.4	
Total	14,006	\$162,347	355	\$87,612	13,651	\$74,735	172	\$72,752	598	\$11,709	(83.2%)#	(15.7%)#	

* Includes Central Reserve City banks.

Average.

Note: The number and deposits of Reserve City and country banks shown here are slightly different from actual figures as of June 30, 1952. The committee's sample of Reserve City banks really was a sample of members of the Association of Reserve City Bankers. Some cities formerly classified as Reserve Cities subsequently were reclassified as non-Reserve Cities, but certain banks in these cities continued to be members of the Association of Reserve City Bankers. Five such banks with deposits of \$419 million were included in the survey. Their figures were added to actual Reserve City universe figures and subtracted from country bank universe figures for the purposes of this study. Thus both universe and sample shown for Reserve City banks contain some banks which formerly had Reserve City status but now are country banks and the universe and sample for country banks as shown are slightly smaller than actual records would indicate.

Table B

Deposits of Commercial Banks in the United States, June 30, 1952
By Federal Reserve District
(In millions of dollars)

Federal Reserve District	Deposits of All Banks				Deposits of Sample Banks as % of All Banks		
	All Commercial Banks	Reserve City Banks	Country Banks with deposits of \$7.5 million or more	Country Banks with deposits of less than \$7.5 million	Reserve City Banks	Country Banks with deposits of \$7.5 million or more	Country Banks with deposits of less than \$7.5 million
1. Boston	\$ 7,642	\$ 2,394	\$ 4,214	\$ 1,034	88.2%	39.3%	4.8%
2. New York	38,840	28,033	8,971	1,836	97.2	16.3	3.2
3. Philadelphia	8,570	2,855	3,768	1,947	63.2	24.1	2.5
4. Cleveland	13,047	6,968	3,638	2,441	90.6	19.4	3.2
5. Richmond	8,775	3,060	3,636	2,079	54.9	30.2	4.1
6. Atlanta	8,948	3,051	3,731	2,166	80.0	26.6	3.1
7. Chicago	26,585	14,241	7,454	4,890	81.0	21.1	3.2
8. St. Louis	7,469	2,668	2,096	2,705	75.4	11.4	3.7
9. Minneapolis	5,179	1,321	1,445	2,413	83.9	17.7	5.1
10. Kansas City	8,391	3,777	1,700	2,914	63.8	24.4	3.6
11. Dallas	8,476	3,599	2,647	2,230	76.0	11.3	1.9
12. San Francisco	20,425	15,645	3,729	1,051	72.6	31.1	2.7
Total	\$162,347	\$87,612	\$47,029	\$27,706	(83.2%)*	(22.9%)*	(3.4%)*

* Average.

As may be observed from examination of Table B, the samples were reasonably consistent among the Federal Reserve districts. Philadelphia, Richmond and Kansas City were somewhat under-represented in the case of the Reserve City banks; St. Louis and Dallas in the case of country banks with deposits of \$7.5 million or more; and Dallas in the case of small country banks. On the whole, however, the response to the survey, both in terms of size class and Federal Reserve district, was extremely good.

Federal Reserve Member and
Nonmember Banks in the Sample

Most of the banks responding to the survey were members of the Federal Reserve System. Of the total of 598 A.B.A. member banks sending in usable completed questionnaires, 532 were members of the Federal Reserve System; 59 were nonmember par banks;

and 5 were nonmember nonpar banks. Deposits of all nonmember banks represent about one-sixth of total commercial bank deposits in the United States and about 30 per cent of all country bank deposits. In the sample, nonmember bank deposits represent 6 to 7 per cent of all country bank deposits. Nonpar bank deposits represent only 1 per cent of total commercial bank deposits in the United States (about 2 per cent of all country bank deposits); in the sample the deposits of such banks were only a fraction of total deposits.

Examination of the patterns of check volume, sources and receipts indicates that additional representation of nonmember banks would have had little effect on the figures used by the committee in its study. The following table shows such patterns for all country member banks and all country nonmember banks (including the nonpar banks) included in the sample.

Table C

Patterns of Check Volume, Sources and Dispositions,
Sample Member and Nonmember Banks (including Nonpar Banks)
(As of an average day in July 1952)

	<u>Member Banks</u>	<u>Nonmember Banks</u>
Total Check Volume	100.0%	100.0%
Items paid	49.9	51.0
Items on other local banks	17.4	17.5
Intradistrict par items	21.8	18.4
Interdistrict par items	8.7	9.8
Nonpar and restricted items	2.2	3.3
Total Sources of Check Volume	100.0%	100.0%
Clearings	16.1	17.7
Federal Reserve	16.7	17.0
Other banks	10.9	11.8
Other deposits	47.6	42.7
Cashed checks	8.7	10.8
Total Disposition of Check Volume	100.0%	100.0%
Debits	49.8	50.2
Clearings (or messenger)	16.9	16.7
Federal Reserve	14.6	1.0
Correspondents	15.8	29.7
Miscellaneous	2.9	2.4

With one significant exception, the patterns are strikingly similar. The similarities are even more striking when it is noted that both samples contain banks of all sizes, but nonmember banks in the sample average just about half the deposit size of member banks in the sample, \$10 million as against \$20 million. Generally nonmember banks are concentrated in the smaller deposit size classes.

The significant exception, of course, is in proportions of items sent directly to Federal Reserve Banks. Since nonmember banks generally are not permitted to send items directly to Federal Reserve Banks, only 1 per cent of their volume was sent there in contrast to 14 per cent for member banks. It is noteworthy, however, that the proportion of total volume going to Federal Reserve and correspondent banks combined was virtually the same for both member and nonmember banks. Equally noteworthy is the fact that nonmember banks actually received a slightly higher proportion of the total number of checks they handled in Federal Reserve cash letters than did member banks. These facts underline important points brought out in the text on findings and on recommendations.

The sample of country banks (member and nonmember banks combined) shows about 14 per cent of total items handled going directly to the Federal Reserve Banks. Assuming that the nonmember banks in the sample are representative of all nonmember banks, representation of nonmember banks in the sample proportionate to their representation in the universe would show only 11 per cent of total handlings of country banks as going directly to Federal Reserve Banks. Therefore, the committee's figures for all country banks, derived from the sample, probably overstate slightly sendings to Federal Reserve Banks. It should be remembered, however, that the bulk of items sent to Federal Reserve Banks come from Reserve City banks so that such overstatement of sendings to Federal Reserve Banks by country banks has little effect on the figures covering all banks. Actually, the committee's estimate of total sendings by commercial banks to Federal Reserve Banks is slightly smaller than the figures reported by all Federal Reserve offices as to number of items received from commercial banks.

The net conclusion, then, is that under-representation of nonmember banks in the sample creates no significant bias, and that the figures derived from the sample are adequately representative of figures for the universe.

No significant comparisons on a similar scale may be made with respect to nonpar, nonmember par, and member banks, because of the small number of nonpar banks in the sample. Since nonpar banks hold only 1 per cent of total deposits and since nonpar items comprise only 1.5 per cent of all items, however, either over- or under-representation of nonpar banks would have virtually no effect on total figures used, or on patterns of volume, sources and disposition.

Method of Estimating Totals for All Banks from Sample Figures

To obtain estimates of total figures on check volume from the sample figures, the sample was blown up on the basis of the proportion of its deposits to total deposits. The relationship between the number of checks handled and the amount of deposits at banks of different sizes probably is not quite as close as the relationship between the dollar amount of checks so handled and the amount of deposits. Nevertheless, tests indicated that the relationship is sufficiently close so that the blow-up of check volume figures using proportions of sample to total deposits produces reliable results.

In blowing up the sample figures, totals were obtained by: (1) blowing up nationally by size class for Reserve City banks and for all country banks (the size classes used were those shown in Table A), and (2) blowing up by Federal Reserve district for all Reserve City banks, for country banks with \$7.5 million or more in deposits and for country banks with less than \$7.5 million in deposits. The totals reached by the two processes were in very close agreement, further indicating close correlation between deposit size and check volume. The totals obtained from the second process differed from those obtained from the first process by about 1 or 2 per cent. The national totals that were used were those obtained from the size class blow-up, and those obtained by the district blow-up were adjusted to conform.

Methods of Estimating Figures on Sources and Disposition by Type of Item

The questionnaires sent out for the committee did not ask for, and consequently the data reported in them did not produce, a complete cross-classification of sources and disposition of items handled.² The Reserve City banks reported check volume by type of item handled ("on us", on local banks, intradistrict and interdistrict par, nonpar and restricted) and by type of disposition (to debits, to Federal Reserve, direct to drawee bank, to correspondents, to clearings, etc.). They gave no detail as to sources. A.B.A. banks reported total volume by (1) type of item, (2) by source, and (3) by disposition. Federal Reserve Banks and branches reported total volume (except items they paid) by type of item and subclassified by source. Consequently, to obtain the figures shown in many of the tables it was necessary to make certain estimates.

Sources of Items at Reserve City Banks

New items entering the check collection network daily come from two primary sources: deposits of customers other than banks and checks cashed at the window. The number of new items entering daily is about equal to the number of old items paid and leaving. (This would be particularly true in the case of the data reported in the surveys which applied to an average day in July, 1952.) Information was available from the surveys on items paid by Reserve City, country and Federal Reserve Banks. Information also was available on volume received by country banks from nonbank deposits and cashed checks. It follows that the combined total of items received from

2. Were the committee to resurvey check volume, sources, and receipts, it would seek a more complete cross-classification and also attempt to get a more detailed breakdown of types of checks (local, out-of-town, etc.). This observation comes with the benefit of hindsight with respect to the committee's recommendations, however; without the data obtained in the surveys which aided the committee in formulating its recommendations, it is at best questionable as to whether the need for the additional detail now thought desirable could be seen.

nonbank deposits and cashed checks at Reserve City banks could be derived. Information was available from the surveys on the proportion of total items received at country banks as cashed checks, on volume received at country banks from Federal Reserve offices, and on volume sent all banks by Federal Reserve Banks. Thus three sources of items for Reserve City banks (nonbank deposits, cashed checks, and Federal Reserve) could be estimated with reasonable certainty. The Reserve City bank data gave information on number of items sent to clearings which should approximate number of items so received. Cash letters from banks as a source therefore could be derived as a residual.

Distribution of Sources of Items by Type of Item for Reserve City and Country Banks

The basic considerations underlying the estimating procedure were these:

1. Items coming from clearings and from Federal Reserve offices were "on us" items.
2. A spot survey of some 200 banks in five Reserve districts (conducted subsequent to the major survey) produced distribution patterns, by type of item received for payment or collection, for cashed checks and cash letters from other banks, for banks of the various size classes. These patterns were used to distribute items coming from these two sources by type of item.
3. Nonbank deposits then were distributed as a residual.

Distribution of Disposition of Items by Type of Item

As noted the Reserve City banks reported this data, and thus the need for estimating was confined to A.B.A. bank data. Actu-

ally the A.B.A. bank data on disposition was reported in such detail that estimates by type of item were obtained fairly easily. For example, checks debited to accounts on own books obviously were "on us" items; checks going to clearings were local items, checks going to Federal Reserve offices outside the district of the collecting bank were interdistrict par items. The A.B.A. banks reported specifically on intradistrict and interdistrict par items going to correspondents, and on nonpar items going to correspondents or direct to drawee banks. They also reported on volume going to country, county or group clearings (intradistrict items). Thus estimating of disposition was confined mainly to distributing items going to local Federal Reserve offices and to miscellaneous channels. The latter were distributed (as accompanying comments indicated they should be) among local items, nonpar items going direct to drawee banks, items payable at Federal Reserve Banks, and to balance minor discrepancies between "items paid" and "items debited". Items going to local Federal Reserve Banks were distributed as residuals to balance the totals shown for intradistrict and interdistrict par items.

All of the above-noted estimating processes were carried on for each size class of bank shown. The resulting figures seemed to be quite consistent internally and checked out with reasonable accuracy in computing "flow" patterns and in comparison with data reported by Federal Reserve Banks and branches.

Reconciliation of Commercial Bank and Federal Reserve Survey Data on Volume Sent to and Received from Federal Reserve Banks

Estimates as to sendings to and receipts from Federal Reserve Banks by com-

mmercial banks on an average day in July, 1952 did not agree completely with data actually reported by the Federal Reserve Banks and branches as of the same time. In large part the discrepancy seemed to reflect two factors: (1) commercial bank reporting which either (a) left out of account postal money orders and Treasury checks in counting items, or (b) included such items in the disposition category "other" or "miscellaneous"; and (2) differences in ways a sending bank and a receiving bank might classify a particular item and its disposition. For example, commercial banks receiving items through the clearings from Federal Reserve Banks would classify such items as coming from clearings and Federal Reserve Banks would classify them as going to clearings. But a bank participating in the package check exchanges operated by the New York and St. Louis Banks might classify such items as going to (a) clearings, (b) Federal Reserve, or (c) miscellaneous, and on the receiving side similar choice might be exercised. Also Federal Reserve Banks would count a package of items, handled as such, as one item; the sending bank would count it as the sum of the items it contained. Finally, while all items payable at or through Federal Reserve Banks should be classed either as local or intradistrict items, a bank sending such items to an interdistrict correspondent probably classed them as interdistrict. These examples are taken from some of the explanations attached to commercial bank completed questionnaires.

Reconciliation of Federal Reserve and commercial bank figures requires, therefore, allowance for such factors as are noted above. It also requires certain subtractions from Federal Reserve figures as shown in Table IV of Chapter III. There, the Reserve Banks are shown as handling 11,552,000 items on an average day in July 1952. From this total must be subtracted (1) items received from other Federal Reserve offices, since they presumably had been counted previously in commercial bank sendings to Federal Reserve Banks, and (2) postal money orders coming to the Reserve Banks from the Post Office rather than from commercial banks. With these adjustments Federal Reserve volume on an average day in July 1952 was:

	<u>Total</u>	<u>From Banks</u>	<u>From Other</u>
Items paid	2,849,000	2,719,000	130,000
Immediate credit	2,702,000	2,461,000	241,000
Intradistrict	5,423,000	5,043,000	380,000
Interdistrict	<u>578,000</u>	<u>578,000</u>	<u>-</u>
Total	11,552,000	10,801,000	751,000

The commercial banks show as going to Federal Reserve Banks:

From Reserve City banks	7,034,000
From Country banks	<u>2,972,000</u>
Total	10,006,000

The discrepancy of 795,000 items probably represents about half and half under-reporting by commercial banks and reporting disposition to "miscellaneous" or "messenger" instead of to Federal Reserve.

On the other side of the picture (Federal Reserve sendings and commercial bank receipts) the discrepancy is much smaller. Here, from total Federal Reserve volume handled must be eliminated items paid, those going to clearings and those going on to other Federal Reserve offices. Thus:

	<u>Total</u>	<u>To Banks</u>	<u>To Other</u>
Items paid	2,849,000	-	2,849,000
Immediate credit	2,702,000	506,000	2,196,000
Intradistrict	5,423,000	5,423,000	-
Interdistrict	<u>578,000</u>	<u>30,000</u>	<u>548,000</u>
Total	11,552,000	5,959,000	5,593,000

Commercial bank figures show as coming from Federal Reserve Banks:

To Country banks	5,363,000
To Reserve City banks	<u>580,000</u> (estimated)
Total	5,943,000

CONFIDENTIAL SURVEY OF THE CHECK COLLECTION SYSTEM

Sponsored jointly by the

AMERICAN BANKERS ASSOCIATION
ASSOCIATION OF RESERVE CITY BANKERS
FEDERAL RESERVE SYSTEM

General Instructions

1. Please read entire questionnaire carefully before answering any questions.
2. In answering questions involving volume of operations, rounded figures will be sufficient.
3. Please assemble the volume information requested on a day in the month of July when your check operation is typical of an average day in that month.
4. In answering any of the questions, and particularly those requesting descriptive or explanatory replies, please feel free to write in detail on separate sheets which you may attach to this questionnaire. We will be grateful for any additional information or suggestions you may care to offer.
5. Please complete the questionnaire as soon as convenient and return in the enclosed envelope to

Bank Management Commission
American Bankers Association
12 East 36 Street
New York 16, N. Y.

Name of Bank _____ Federal Reserve District No. _____
City and State _____ Total Deposits _____
By _____ Date Completed _____
Title

I. CHECK VOLUME (Average number of checks handled daily by your bank)

Number

1. Local checks

- (A) Checks drawn on your bank _____
- (B) Checks drawn on other banks in your city..... _____
- (C) Total *local* checks handled daily (lines A plus B) _____

2. Out-of-Town Checks (Collectible at Par)

- (D) Checks drawn on banks located in territory served by the Federal Reserve Bank or Branch of your district _____
- (E) Checks drawn on banks located in all other Federal Reserve Districts _____
- (F) Total "*out-of-town*" checks handled daily (lines D plus E) _____

3. Nonpar checks and other restricted items handled by you on *cash* basis. (Items not collectible through Federal Reserve Bank.)

- (G) Nonpar checks collected through direct sendings to drawee banks _____
- (H) Nonpar checks collected through correspondent banks _____
- (I) Other restricted items handled (items not collectible through the Federal Reserve Banks other than nonpar checks) _____
- (J) Total nonpar checks and other restricted items handled daily (lines G plus H plus I) _____
- (K) Total number of *all* checks, par and restricted items, handled daily (lines C plus F plus J)..... _____
- (L) How much does your peak day volume exceed this average daily volume (approximate) _____ %

4. Relationship of checks drawn on comparatively nearby points to par out-of-town items handled. (Approximate per cent of par "out-of-town" checks – line F)

Checks drawn on banks located within a radius of

- (M) 25 miles of your bank _____ %
- (N) More than 25 miles and less than 50 miles of your bank _____ %
- (O) More than 50 miles and less than 100 miles of your bank _____ %
- (P) Over 100 miles _____ %
- (Q) Total 100 %

5. Sources of all checks received (total should be equal to line K, above)

- (a) Received through local clearing house _____
- (b) Received from Federal Reserve Bank or Branch _____
- (c) Received from other banks _____
- (d) Received in all other deposits _____
- (e) Cashed checks _____
- (f) Total (equals line K, above) _____

	Number
6. Disposition of all checks received. (Total should be equal to line K, page 2)	
(g) Debited to accounts on your books	_____
(h) Collected through local clearing house	_____
(i) Presented by messenger	_____
(j) Collected through county clearing house	_____
(k) Collected through country or group clearing house	_____
(l) Sent to Federal Reserve Bank or Branch of your district	_____
(m) Sent to all other Federal Reserve Banks and Branches	_____
(n) Checks payable in your Federal Reserve Districts sent to correspondent banks	_____
(o) Checks payable in all other Federal Reserve Districts sent to correspondent banks	_____
(p) Checks collected through all other channels	_____
(q) Total (equals line K, page 2)	=====

II. CASH LETTERS

7. Number of banks from which you receive a daily cash letter of checks	_____
8. Number of banks to which you send a daily cash letter of checks	_____

III. RETURN ITEMS (endorsed or returned by out-of-town banks)

9. Average number of unpaid items returned to you daily
10. Average number of unpaid items returned by you daily
11. Approximate per cent of items returned by you

<u>For the following Reason</u>		<u>For the following Amount</u>	
Endorsement	_____ %	\$ 50 or less	_____ %
Insufficient Funds	_____ %	\$ 50 - \$100	_____ %
Uncollected Funds	_____ %	\$100 - \$500	_____ %
Wrong Bank	_____ %	Over \$500	_____ %
Signature	_____ %		
Other Reasons	_____ %		
Total	100 %	Total	100 %

IV. INTERNAL OPERATING PROCEDURES

12. Do you microfilm checks?Yes No
13. If yes, what percentage do you microfilm? %
14. Check class of items microfilmed
- | | |
|-----------------------|-------|
| Own checks | _____ |
| Cashed checks | _____ |
| Clearing house checks | _____ |
| Transit checks | _____ |
| Special items | _____ |
15. Approximate number of checks lost in transit in 1951

16. Do you carry special insurance for checks lost in transit? Yes No
17. Check method of forwarding checks to your principal correspondent or Federal Reserve Bank or Branch.
- | | |
|--------------------|-----------------------|
| Messenger _____ | Air Express _____ |
| Regular Mail _____ | Railway Express _____ |
| Air Mail _____ | Truck Service _____ |

V. SPECIAL ARRANGEMENTS FOR PROCESSING AND PRESENTMENT OF CHECKS

18. Do you send checks direct to drawee banks for your credit at your Federal Reserve Bank or correspondent bank? Yes No
19. If so, indicate per cent of total checks handled (per cent of line K, page 2)..... _____ %
20. In order to avoid duplicate handling, do any of your bank or nonbank customers bulk list checks to you so that they may be deposited for your credit by your customer or by you in your Federal Reserve Bank or a correspondent bank? Yes No
21. If so, indicate per cent of total checks handled (per cent of line K, page 2)..... _____ %
22. Do you participate in any arrangement for clearing checks drawn on banks in other towns in your immediate trade territory (other than through your correspondent or the Federal Reserve Bank or Branch of your district)? Yes No
23. If so, please describe briefly in separate memorandum and attach to this questionnaire.
24. Please describe in separate memorandum any other special arrangements which you may follow for processing or presenting checks.

VI. PLEASE INDICATE IN SEPARATE MEMORANDUM ANY

25. Specific problems you may have in mind regarding check collections in so far as your particular bank is concerned.
26. Suggestions you may have for improving our check collection system generally.

WE SINCERELY APPRECIATE YOUR COOPERATION.

CONFIDENTIAL SURVEY OF THE CHECK COLLECTION SYSTEM

Sponsored jointly by the

AMERICAN BANKERS ASSOCIATION
 ASSOCIATION OF RESERVE CITY BANKERS
 FEDERAL RESERVE SYSTEM

General Instructions

1. Please read entire questionnaire carefully before answering any questions.
2. In answering questions involving volume of operations, rounded figures will be sufficient.
3. Please assemble the volume information requested on a selected day in the month of July when your check operation is typical of an average day (for the month). Volume in each case refers to the number of items.
4. In answering any of the questions, and particularly those requesting descriptive or explanatory replies, please feel free to write in detail on separate sheets which you may attach to this questionnaire. We will be grateful for any additional information or suggestions you may care to offer.
5. Please complete the questionnaire as soon as convenient and return in the enclosed envelope to the:

Association of Reserve City Bankers
 105 West Adams Street
 Chicago 3, Illinois

Name of Bank _____ Federal Reserve District No. _____
 City and State _____ Total Deposits _____
 (June 30, 1952)
 By _____ Date Completed _____
 Title _____

I. ITEMS DRAWN ON YOUR BANK	<u>Number of Items</u>
1. Items debited to customers' accounts	_____
2. Cashier's checks, bank drafts, bank money orders, etc.	_____
3. Payable through drafts handled as cash items	_____
4. Total items drawn on your bank	=====

II. LOCAL CHECKS

(A) Indicate number of items you handle daily, which are drawn on other banks in your city, collected through	
5. Local clearing arrangements	_____
6. Federal Reserve Bank	_____
7. Other procedures (Attach memo with explanation)	_____
8. Total local checks handled daily	=====

III. OUT-OF-TOWN ITEMS (COLLECTIBLE AT PAR)

(A) Indicate number of items drawn on banks <i>in your Federal Reserve District</i> (excluding local items), collected through	<u>Number Cash Letters</u>
9. Correspondent banks for credit or remittance	_____
10. Direct sendings to drawee banks	_____
11. Parent Federal Reserve Bank	_____
12. Branch Federal Reserve Bank	_____
13. Other procedures (Attach memo with explanation)	_____
14. Total out-of-town items in your District	=====
(B) Indicate number of items drawn on banks located <i>in all other Federal Reserve Districts</i> , collected through	
15. Correspondent banks for credit or remittance	_____
16. Direct sendings to drawee banks	_____
17. Federal Reserve Banks and Branches	_____
18. Other procedures (Attach memo with explanation)	_____
19. Total out-of-town items outside your District	=====
20. Total all out-of-town items (Combine Lines 14 & 19)	=====
21. Grand total all items (Combine Lines 8 & 20)	=====
22. How much does peak day volume in month exceed Line 21 in same month? _____%	
(C) Indicate how you collect items drawn on banks in a city where you have an account with a correspondent bank and where there is also a Federal Reserve Bank or Branch, collected through	
23. Correspondent banks	_____
24. Federal Reserve Bank or Branch	_____
25. Total	=====

IV. NON-PAR AND OTHER RESTRICTED ITEMS HANDLED BY YOU ON CASH BASIS (ITEMS NOT COLLECTIBLE THROUGH FEDERAL RESERVE BANKS)

	<u>Number Cash Letters</u>	<u>Number of Items</u>
(A) Non-par checks, collected through		
26. Direct sendings to drawee banks	_____	_____
27. Correspondent banks	_____	_____
28. Total non-par checks	=====	=====
(B) Other restricted items, collected through		
29. Direct sendings to drawee banks	_____	_____
30. Correspondent banks	_____	_____
31. Total restricted items	=====	=====
32. Grand total (Combine Lines 28 and 31)	=====	=====

V. SUMMARY OF ALL LOCAL AND OUT-OF-TOWN ITEMS

33. Total number of all outgoing items processed (Combine Lines 21 and 32)	_____
34. Number of cash letters dispatched daily to banks (Combine Lines 21 and 32)	_____

VI. RETURN ITEMS (ITEMS INDORSED OR RETURNED BY OUT-OF-TOWN BANKS ONLY)

35. Average number of unpaid items returned <i>to you daily</i>	_____
36. Average number of unpaid items returned <i>by you daily</i>	_____
37. Approximate per cent of items <i>returned by you</i> :	
<i>For the Following Reason</i>	<i>For the Following Amount</i>
Indorsement _____%	\$ 50 or less _____%
Insufficient Funds _____%	\$ 50 to \$100 _____%
Uncollected Funds _____%	\$100 to \$500 _____%
Wrong Bank _____%	Over \$500 _____%
Signature _____%	
Other Reasons _____%	
Total _____%	Total _____%

VII. MISCELLANEOUS

Please attach a separate memorandum indicating:

- 38. Whether you have any specific problems regarding check collections insofar as your particular bank is concerned.
- 39. Whether you have any suggestions for improving the check collection system generally.

WE SINCERELY APPRECIATE YOUR COOPERATION

SURVEY OF FEDERAL RESERVE CHECK OPERATIONS

conducted by

Joint Committee on Check Collection SystemGeneral Instructions

1. In questions involving volume of operations please base your answers on your average daily volume for the month of July, 1952. The month of July is selected because comparable information for the same month is being obtained from commercial banks. All Federal Reserve Banks and branches will have records from which daily averages in volume of city and country items during July may be obtained. It is recognized that some questions call for breakdown of volume which may not be available in records of July operations; in such a case, the breakdown of volume on a selected day in August may be ascertained and the percentages applied to the daily average for July. In any instance where specific information is not obtainable, please give the best approximation available. In all cases, rounded figures will be sufficient.

2. It is recognized that some of the banks or branches may find difficulty in answering categorically some of the questions calling for "yes" or "no" answers. If such difficulty should exist, a qualifying statement may be added in the space below the answer.

3. References to "member banks" should be regarded as including "nonmember clearing banks".

4. In answering any of the questions, and particularly those requesting descriptive or explanatory replies, please feel free to write in detail on separate sheets which you may attach to this questionnaire. Please identify the question to which each such statement relates. The Committee will be grateful for any additional information or suggestions you may care to offer.

5. Disregard numbers appearing in parentheses in right-hand margin. They will be used in tabulating the answers.

6. Please complete the questionnaire and return it before September 1, 1952, to -

Mr. John H. Wurts, Chairman
Joint Committee on Check Collection System
Federal Reserve Bank of New York
Federal Reserve P. O. Station
New York 45, N. Y.

Federal Reserve Bank (or Branch) of _____ (Date)

I. ITEMS FOR WHICH YOU GIVE IMMEDIATE CREDIT (EXCLUDING TREASURY CHECKS, POSTAL MONEY ORDERS AND CHECKS DRAWN ON YOU).

A. Indicate daily average number of such items received by you -

	<u>Number*</u>	
(1) From member banks in your district (including direct sending banks in other territories of your district)	_____	(01)
(2) From other Federal Reserve offices of your district	_____	(02)
(3) From Federal Reserve Banks and Branches of other districts	_____	(03)
(4) From direct sending banks in other districts	_____	(04)

* If you conduct a package exchange of checks, count each package as one item. If you are able to estimate the number of items handled in packages, please add a supplementary note giving your estimate.

B. Indicate your closing hour or hours (Monday through Friday) for receiving such items for immediate credit on the same day -

	<u>Hour</u>	
(1) From member banks in your district	_____	(10)
(2) From other Federal Reserve Banks and Branches	_____	(11)
(3) From direct sending member banks in other districts	_____	(12)

C. Indicate whether you give immediate credit for all such items received up to the hour or hours specified, regardless of your ability or inability to present such items on the day of receipt -

YES NO (13)

D. Indicate whether you have any later closing hours for the receipt of such items for immediate credit from country banks in your district to compensate for inadequate or unsatisfactory transportation facilities; and, if so, the number of banks and approximate daily average number of items involved -

YES NO

Number of banks _____ (14)

Number of items _____ (15)

E. Indicate the different methods by which you present such items to the drawees, and the daily average number handled under each method -

	<u>Number*</u>	
(1) Through City Clearing House Association	_____	(16)
(2) Through special local clearing arrangement (attach brief description of operation)	_____	(17)
(3) Through other procedures (specify)	_____	(18)
_____	_____	(19)
_____	_____	(20)

* If you conduct a package exchange of checks, count each package as one item. If you are able to estimate the number of items handled in packages, please add a supplementary note giving your estimate.

F. Indicate the clearing hours for the City Clearing House and for any special local clearing arrangements -

G. Indicate whether you employ an evening or night force to process such items; and, if so, the hours during which they work -

YES NO

HOURS _____ (21)

H. What sorts do you require of immediate credit items?

II. DEFERRED CREDIT ITEMS DRAWN ON BANKS IN YOUR TERRITORY.

A. Indicate daily average number of such items received by you -

	<u>Number</u>	
(1) From member banks in your city	_____	(30)
(2) From other member banks in your district (including direct sending banks in other territories of your district)	_____	(31)
(3) From other Federal Reserve offices of your district	_____	(32)
(4) From Federal Reserve Banks and Branches of other districts	_____	(33)
(5) From direct sending banks in other districts	_____	(34)

B. Indicate your closing hour or hours (Monday through Friday) for receiving such items in order that deferred availability of credit therefor may be computed from the date of receipt -

	<u>Hour</u>	
(1) From member banks in your district	_____	(40)
(2) From other Federal Reserve Banks and Branches	_____	(41)
(3) From direct sending member banks in other districts	_____	(42)

C. Indicate whether you compute availability of credit from the day of receipt for all such items received up to the hour or hours specified, regardless of your ability or inability to dispatch such items on the day or receipt -

YES NO (43)

- D. Indicate whether you will accept such items in large amounts from banks in your city at later hours; and, if so, the amount above which you will accept items at later hours -

YES NO

Amount \$ _____ (44)

- E. Indicate whether you have any arrangement for accepting such items from banks in your city at later hours when the items have been packaged for presentation to the respective drawee banks; and, if so, give brief description of arrangement and estimate of average number of items so handled daily -

YES NO

Number of items _____ (45)

- F. Indicate whether you employ an evening or night force to process such items; and, if so, the hours during which they work -

YES NO

HOURS _____ (46)

- G. What sorts do you require of intradistrict deferred credit items?

- H. Indicate, if you know, whether apart from special clearing arrangements any commercial banks in your territory regularly send direct to the drawee (or to another commercial bank in the same city or town in which the drawee is situated) items which the Federal Reserve is willing to handle as cash items.

YES NO (47)

I. Indicate whether you will handle items when they are drawn on another office of the depositing bank -

YES NO (48)

If so, describe any conditions you may impose with respect to your handling of the items -

III. CASH ITEMS DRAWN ON BANKS IN OTHER FEDERAL RESERVE DISTRICTS OR ON BANKS IN THE TERRITORIES OF OTHER FEDERAL RESERVE OFFICES OF YOUR DISTRICT.

A. Indicate daily average number of such items received by you -

	<u>Number</u>	
(1) From member banks in your city (not including items received for consolidated shipments)	_____	(50)
(2) From other member banks in your district	_____	(51)

B. Indicate whether member banks of your territory regularly send items payable in the territories of other Federal Reserve offices of your district direct to such other offices; if so, and if you can give any estimate, indicate the approximate number of banks forwarding items in this manner -

YES NO

	<u>Number</u>	
(1) Member banks in your city	_____	(60)
(2) Other member banks in your territory	_____	(61)

C. Indicate number of member banks in your territory which frequently send such items direct to Federal Reserve Banks and Branches of other districts -

	<u>Number</u>	
(1) Member banks in your city	_____	(70)
(2) Other member banks in your territory	_____	(71)

- D. When one of your member banks regularly has more than a certain number of checks payable in the territory of a Federal Reserve Bank or Branch of another district, it is assumed you will request the member bank to send its items direct to such bank or branch; please indicate the number of items upon which you base such a request.

Number _____ (80)

- E. Indicate whether you have arranged to consolidate in daily shipments your items and those of your direct sending member banks; and, if so, to how many Federal Reserve Banks and Branches such shipments are made -

YES NO

Number _____ (81)

- F. If you make such consolidated shipments indicate how many of your member banks regularly participate -

Number _____ (82)

- G. Indicate whether you forward such items direct to the drawee banks in the territories of other Federal Reserve offices of your district; and, if so, the number of banks -

YES NO

Number _____ (83)

- H. Indicate whether you forward such items direct to the drawee banks in other districts; and, if so, attach brief statement of the arrangement including the number of banks involved, the method of remittance, the manner in which unpaid items are returned, etc.

YES NO (84)

IV. CLEARING HOUSES AND REGIONAL CLEARING ARRANGEMENTS.

(NOTE: "Clearing house" refers to a formal organization which provides a mechanism for simultaneous exchange of checks among the members, with settlements made on a net basis. "Regional clearing arrangement" refers to a group of neighboring banks which by agreement send items (usually by mail) directly to one another as drawees and report to the Federal Reserve Bank for settlement on its books the totals of their respective sendings.)

A. Clearing Houses*

1. Indicate how many active clearing houses in your territory and the number of banks which actively participate -
 - a. Number of banks participating in clearing house in your city _____ (85)
 - b. Number of clearing houses in other cities in your territory _____ (86)
 - c. Number of banks participating in clearing houses in other cities _____ (87)
2. Indicate how many clearing houses have arranged to settle on your books balances resulting from such exchanges -

Number _____ (88)
3. Indicate your estimate, if you are able to make one, of the amount of checks cleared daily -

	<u>Amount</u>	
a. In your city clearing house	_____	(90)
b. In clearing houses of other cities in your territory	_____	(91)

* It is recognized that complete information may not be available regarding clearing houses in other cities and volume and amount of items cleared. Please give your best estimate.

B. Regional Clearing Arrangements

1. Do you actively encourage the development of regional clearing arrangements?

YES NO (100)

2. Indicate how many such arrangements are active in your territory and the number of banks which actively participate -

Number of clearing arrangements _____ (101)

Number of participating banks _____ (102)

3. Indicate your estimate, if you are able to make one, of the number of checks handled in such arrangements daily and the amount of total daily sendings -

Number _____ (103)

Amount _____ (104)

4. If there are any practical obstacles to the development of such arrangements in your territory, please describe briefly -

V. GENERAL MATTERS

- A. Please give the number of member banks and their out-of-town branches in your territory, classified as follows:

1. Number that regularly send checks to you for collection -

	<u>No. of Banks</u>		<u>No. of Branches</u>
(a) Only immediate credit items (excluding remittance and transfer drafts)	_____	(110)	_____ (111)
(b) Only deferred credit items	_____	(112)	_____ (113)
(c) Both immediate and deferred credit items	_____	(114)	_____ (115)

2. Number that occasionally send checks to you for collection -

	<u>No. of Banks</u>		<u>No. of Branches</u>
(a) Only immediate credit items	_____	(120)	_____ (121)
(b) Only deferred credit items	_____	(122)	_____ (123)
(c) Both immediate and deferred credit items	_____	(124)	_____ (125)

3. Number that do not send any checks to you for collection -

	<u>No. of Banks</u>		<u>No. of Branches</u>
	_____	(130)	_____ (131)

4. Total number of banks and out-of-town branches in your territory -

<u>No. of Banks</u>	<u>No. of Branches</u>
_____ (132)	_____ (133)

5. Number of nonmember clearing banks and their out-of-town branches in above totals -

<u>No. of Banks</u>	<u>No. of Branches</u>
_____ (134)	_____ (135)

B. Please classify member banks in your territory as to total deposits and their check sendings to you, as follows -

(NOTE: A member bank with branches should be counted as one bank in answering this question. Base your answer on the check sending practice of the head office.)

<u>Total Deposits as of 6-30-52</u>	<u>No. of Banks</u>	<u>That 1(a) or 2(a) (as in A)</u>	<u>That 1(b) or 2(b)</u>	<u>That 1(c) or 2(c)</u>	<u>That 3</u>
Less than \$7.5 million	_____ (136)	_____ (137)	_____ (138)	_____ (139)	_____ (140)
\$7.5 to \$25 million	_____ (141)	_____ (142)	_____ (143)	_____ (144)	_____ (145)
Over \$25 million	_____ (146)	_____ (147)	_____ (148)	_____ (149)	_____ (150)

C. In order to illustrate fluctuations in work load, please indicate when the peaks of work load occur and the percentage volume of checks received during such periods in relation to your average volume based on a year's operations -

Peak months (i.e. January, July)	Volume of checks received as percent of average monthly volume
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
Peak weeks (i.e. 1st week, 3d week)	Volume of checks received as percent of average weekly volume
_____	_____ %
_____	_____ %
Peak days (i.e. Tuesday, Wednesday)	Volume of checks received as percent of average daily volume
_____	_____ %
_____	_____ %

D. If you regularly process checks on Saturdays, please indicate -

(1) Whether Saturdays are bank holidays in your city -

YES NO (151)

(2) Your hours of operation - _____

(3) Whether you regularly process and dispatch deferred credit items -

(a) Payable in your territory

Process - YES NO (152)

Dispatch - YES NO (153)

(b) Payable in other Federal Reserve Districts or in the territories of other offices of your district

Process - YES NO (154)

Dispatch - YES NO (155)

(4) Whether you process and dispatch return items -

Process - YES NO (156)

Dispatch - YES NO (157)

E. Please indicate the number of banking offices to which you regularly send cash letters -

	<u>Number</u>	
Member banks and branch offices	_____	(158)
Nonmember banks and branch offices	_____	(159)

F. Please indicate the approximate number of such banks and branches which customarily use the forms of remittances specified below -

	<u>Number</u>	
1. Member banks and branches which authorize charges to reserve accounts or remit by drafts on such accounts	_____	(160)
2. Banks and branches which remit by drafts on correspondents in your city -		
(a) Member banks and branches	_____	(161)
(b) Nonmember banks and branches	_____	(162)
3. Banks and branches which remit by drafts on correspondents not in your city -		
(a) Member banks and branches	_____	(163)
(b) Nonmember banks and branches	_____	(164)
4. Nonmember banks and branches which remit in whole or in part by shipments of currency or coin	_____	(165)
5. Other forms of remittance (specify)		
_____	_____	
_____	_____	

- G. Please indicate whether currently you will credit the account of one member bank with the proceeds of checks sent by another member bank to you -

YES NO

(166)

If so, explain any limitations which you may impose -

- H. Please indicate whether any recent changes in mail schedules in your territory have improved or hindered check operations for you or for your member banks, and explain briefly their effects -

- I. If you or your member banks make use of any facility other than mail or express for ground transportation of intradistrict items payable outside your city, please give a brief description of mode of transportation utilized, the approximate number of items sent daily by such method or methods and the advantages as compared with mail or express -

- J. If you have observed during the past two years any appreciable change in the form or kinds of items issued (e.g., such as those not drawn on banks), please give a brief statement of your observations and of the reasons for such change -

K. Preliminary information received by the Committee indicates that in certain trade areas and in some suburban sections as many as 25-50 per cent or more of the checks deposited in local banks for collection are drawn on banks within a relatively small adjacent area (25-50 mile radius). At present such checks are often sent to a correspondent bank or Federal Reserve Bank or Branch many miles away to be sorted and presented by mail to the respective drawees. This situation suggests that unnecessary handlings and delays in presentation might be avoided if a mechanism were provided to clear such checks locally. Please indicate -

(1) Whether there are areas in your territory where such a situation may exist and, if so, approximately how many -

YES

NO

Number _____

(167)

(2) Any suggestion which you may have (other than the use of a "regional clearing arrangement" as now utilized in some places) for a practical method of clearing such items locally which should be acceptable to the banks involved. (Please attach statement.)

L. If you have any other suggestions for improvement in check handling methods (particularly in your own district) which would expedite presentation and collection or eliminate unnecessary handlings or otherwise contribute to speed and efficiency, please attach a statement.

APPENDIX B

The Flow of Checks Through the Check Collection System

Below is a schematic outline tracing the flow of checks deposited in or cashed at the nation's banks on an average day in July 1952, through the check collection system until all are paid.

Some items were paid on the day they entered the collection system, some on the next business day, and so on. In the outline, all items entering on the first day, when they were deposited or cashed, were paid by the close of the seventh business day. Since other checks entered the collection system by being deposited or cashed on each day subsequent, the total stock of items in process of collection continued to grow until the seven day cycle was completed. At that time the inflow of new items was roughly balanced by the outflow of paid items so that the total stock of items in the system subsequently remained relatively unchanged from day to day.

The inflow and outflow are actually not as regular as the outline indicates; they are affected by seasonal changes in volume, changes in efficiency of bank work, bad weather, transportation delays, etc. Two other oversimplifications should be noted. First, the diagram assumes that all items handled one day are sent on and reach the next processing point overnight, so that on the following day they will either be paid or presented locally or they will be sent on to reach the next collecting bank. This assumption is not realistic, since many checks dispatched in the evening at one point do not reach the place to which they are sent in time to be presented for payment or processed further on the day following dispatch. Second, no account is taken of return items. Although relatively few in number, return items add to volume outstanding.

The picture therefore tends to overstate the speed of payment and to understate the volume of items in process of collection. The indicated stock of items in process of collection according to this picture is about 30,000,000. The actual figure obtained in the surveys was 38,500,000. The difference represents the influences of slower transportation and of more delays in handling than was assumed for construction of the outline. In other words, the outline shows checks being collected about 25 per cent faster than they actually are collected.

The First Day

- 27,830,000 checks enter the check collection system by being deposited in (22,978,000 checks) or cashed at (4,852,000 checks) commercial banks.
- 5,835,000 of these checks are deposited in or cashed at the banks upon which the checks are drawn. These are paid and debited to accounts on the banks' books.
- 21,995,000 checks must be sent elsewhere for presentation to the drawee banks. Of these:
- 8,455,000 checks are on other local banks (including Federal Reserve offices)
 - 9,063,000 checks are payable at par at banks in the same Federal Reserve district
 - 3,788,000 checks are payable at par at banks in other Federal Reserve districts
 - 689,000 checks are not payable at par or are restricted as to handling

These items received for collection must be sorted and then either be presented locally (usually through clearings) or mailed to (a) drawee banks or (b) the next banks in the collection chain.

The 8,455,000 local checks are held to be presented locally to drawee banks the next day. Most of these go through clearing arrangements, some (including those on the Federal Reserve) are presented directly. (Approximately 1,070,000 of these items are payable at or through Federal Reserve Banks.)

236,000 intra-district checks are held (or mailed) to be presented to drawee banks through regional clearing arrangements.

These are local area items -- drawn on banks near (but not in the same town as) the original collecting bank.

7,054,000 checks are sent to Federal Reserve offices. (This figure does not include the 1,070,000 items presented locally to such offices, included in column 1.) Of these, 1,213,000 are payable at the Federal Reserve Banks, 1,348,000 are payable at commercial banks in the Federal Reserve cities, 4,030,000 are payable at par elsewhere in the same Federal Reserve district as the receiving Reserve Bank, and 463,000 are payable at par in other districts.

5,053,000 checks are sent to correspondent banks. Of these, 1,299,000 are drawn on the correspondents to which they are sent, 1,683,000 are payable at other local banks (including the Federal Reserve in some cases), 1,278,000 are payable at par banks in the same Federal Reserve district as the receiving correspondent bank, 637,000 are payable at par banks in other districts, and 156,000 are nonpar or restricted items.

1,197,000 checks are sent in special cash letters directly to out-of-town drawee banks. (Most cash letters of this type are sent by the larger correspondent banks, and a substantial part of such sendings are nonpar items.)

The Second Day

The 8,455,000 local items are presented to drawee banks.

The 236,000 local area items are presented to drawee banks.

3,709,000 items reach drawee banks by direct mail presentation. Of these, 1,197,000 were those sent in special cash letters, 1,299,000 were drawn on the correspondent banks and were included in general cash letters containing items sent to them for collection, and 1,213,000 were payable by Federal Reserve Banks and were contained in cash letters sent Federal Reserve Banks.

Of items received by them from first collecting banks, Federal Reserve Banks present 1,348,000 to local drawee banks, and correspondent banks present 1,683,000 items to local drawee banks. Most of such items are presented through clearing houses, although some items payable at Federal Reserve Banks are presented to them directly by correspondent banks.

Thus 15,431,000 items are presented to drawee banks for payment on the second day. But 6,564,000 items still must be sent elsewhere for presentation to drawee banks. These are the 4,493,000 out-of-town items received on the second day by the Federal Reserve (of which 4,030,000 items are payable at par at banks in the same district, but not in the Federal Reserve city, and 463,000 items are payable at par in other districts) and the 2,071,000 out-of-town items received on the second day by the correspondent banks (of which 1,278,000 are intradistrict par, 637,000 are interdistrict par, and 156,000 are nonpar or restricted items).

The Federal Reserve Banks send 4,030,000 intradistrict par and 24,000 interdistrict par items in direct cash letters to drawee banks. The remaining 439,000 interdistrict par items are sent directly to the Federal Reserve offices serving the collection zones of the banks on which the items are drawn.

The correspondent banks send 1,329,000 items to Federal Reserve Banks (some of which are payable at the Reserve Banks) and 438,000 items to other correspondents (some of which are payable at these other correspondent banks). 291,000 items (intra and interdistrict par and nonpar) are sent directly in special cash letters to drawee banks; 13,000 items go to drawee banks via regional clearing arrangements.

Thus, as of the close of the second day:

4,358,000 items are mailed direct to drawee banks, 4,054,000 in Federal Reserve cash letters and 304,000 in correspondent bank direct cash letters (including regional clearings).

439,000 items are sent by Federal Reserve offices to other Federal Reserve offices.

Of these, 338,000 are payable at the Federal Reserve Banks; 350,000 are payable locally at commercial banks in the same city as the receiving Reserve Bank, 975,000 are intradistrict par and 105,000 are interdistrict par items.

1,329,000 items are sent by correspondent banks to Federal Reserve offices.

438,000 are sent by correspondents to other correspondents. Of these, 112,000 are payable at the receiving banks; 146,000 are payable at other banks in the same city as the receiving bank; 111,000 are intradistrict par; 55,000 are interdistrict par, and 14,000 are nonpar or restricted items.

The Third Day

4,808,000 items mailed reach drawee banks: 4,358,000 items mailed direct to drawee banks by Federal Reserve and correspondents, plus 450,000 items on Federal Reserve Banks or correspondent banks, reaching them in regular cash letters containing a variety of items.

496,000 items payable locally are presented (mostly through clearings) by Federal Reserve or correspondent banks receiving them in the morning mail. (Some of these items are presented by correspondent banks to Federal Reserve Banks.)

Thus 5,304,000 items are presented to the drawee banks for payment on the third day.

But, as of the third day, 1,260,000 items still remain to be paid and must be sent elsewhere for presentation to drawee banks.

The 1,260,000 unpaid items consist of 1,080,000 items received on the third day by Federal Reserve Banks (of which, 975,000 are intradistrict par and 105,000 interdistrict par) and 180,000 received on the third day by correspondent banks (of which, 111,000 are intradistrict par, 55,000 are interdistrict par, and 14,000 are nonpar or restricted items).

The Federal Reserve Banks mail the 975,000 intradistrict par and 5,000 interdistrict par items in direct cash letters to drawee banks. The remaining 100,000 interdistrict par items are sent directly to the Federal Reserve offices serving the collection zones of the banks on which the items are drawn.

The correspondent banks send 115,000 items to Federal Reserve Banks (some of which are payable at the Reserve Banks) and 38,000 items to other correspondents (some of which are payable at these other correspondent banks). 27,000 items (par and nonpar) are sent directly in special cash letters to drawee banks.

Thus, as of the close of the third day:

1,007,000 items are mailed direct to drawee banks, 980,000 in Federal Reserve cash letters and 27,000 in correspondent bank direct cash letters.

100,000 items are sent by Federal Reserve offices to other Federal Reserve offices.

Of these, 46,000 are payable at the Federal Reserve Banks; 41,000 are payable at commercial banks in the receiving Federal Reserve Bank cities; 116,000 are intradistrict par; and 12,000 are interdistrict par.

115,000 items are sent by correspondent banks to Federal Reserve offices.

38,000 items are sent by correspondents to other correspondents. Of these, 10,000 are payable at the receiving banks; 12,000 are payable at other banks in the same city as the receiving bank; 10,000 are intradistrict par; and 6,000 are interdistrict par.

The Fourth Day

1,063,000 items mailed reach drawee banks: 1,007,000 mailed direct to drawee banks by Federal Reserve and correspondents, plus 56,000 items on Federal Reserve or correspondent banks, reaching them in regular cash letters containing a variety of items.

53,000 items payable locally are presented (mostly through clearings) by Federal Reserve or correspondent banks receiving them in the morning mail.

Thus 1,116,000 items are presented to drawee banks for payment on the fourth day.

But, on the fourth day, 144,000 items still remain to be paid and must be sent elsewhere for presentation to drawee banks.

The 144,000 unpaid items consist of 128,000 items received on the fourth day by Federal Reserve Banks (116,000 intradistrict par and 12,000 interdistrict par) and 16,000 items received on the fourth day by correspondent banks (10,000 intradistrict and 6,000 interdistrict par).

The Federal Reserve Banks mail the 116,000 intradistrict par items in direct cash letters to drawee banks, and mail the 12,000 interdistrict par items to the Reserve offices serving the collection zones of the banks on which these items are drawn. The correspondent banks send 11,000 items to Federal Reserve Banks, 4,000 items to other correspondents, and 1,000 items direct to drawee banks.

Thus, as of the close of the fourth day:

117,000 items are mailed direct to drawee banks, 116,000 in Federal Reserve cash letters and 1,000 in correspondent bank direct cash letters.

12,000 items are sent by Federal Reserve offices to other Reserve offices.

Of these, 5,000 are payable at the Reserve Banks; 4,000 are payable at commercial banks in the receiving Federal Reserve Bank cities; 12,000 are intradistrict par, and 2,000 are interdistrict par.

11,000 items are sent by correspondent banks to Federal Reserve offices.

4,000 items are sent by correspondents to other correspondents. These are divided about equally: 1,000 are on receiving banks; 1,000 are on other local banks in receiving bank cities; 1,000 are intradistrict and 1,000 are interdistrict.

The Fifth Day

123,000 items mailed reach drawee banks: 117,000 mailed direct to drawee banks by Federal Reserve and correspondent banks, plus 6,000 items on Federal Reserve or correspondent banks, reaching them in regular cash letters containing a variety of items.

5,000 items payable locally are presented by Federal Reserve and correspondent banks receiving them in the morning mail.

Thus 128,000 items are presented to drawee banks for payment on the fifth day.

But, as of the fifth day, 16,000 items still remain to be paid.

The Federal Reserve has 14,000 of these items; the correspondent banks 2,000. 12,000 intradistrict par items are mailed by the Reserve Banks direct to drawee banks; 2,000 interdistrict par are sent by the Reserve Banks to other Federal Reserve offices; the 2,000 items in correspondent banks are sent to the Federal Reserve.

The Sixth Day

12,000 items reach drawee banks in Federal Reserve cash letters and are paid.

4,000 items reach Federal Reserve offices. These are sent on to drawee banks.

The Seventh Day

The 4,000 items reach drawee banks and are paid.

APPENDIX C

Following is a description of several arrangements for regional clearing of checks, which are currently in operation.

Rio Grande Valley, Texas

In the extreme southern tip of Texas, there are 15 banks participating in a regional clearing arrangement, the Rio Grande Valley Clearing House Association, which has been functioning successfully for about 15 years.

The participating banks are located in 12 different towns between Brownsville on the east, and Mission and Edinburg about 70 miles to the north and west. Each participant separately sorts and lists items drawn on each of the other participants. The outgoing packages to the clearing house are picked up by a truck at the end of each business day and delivered to the clearing house, which is at the First National Bank of Harlingen, a central point in the area.

When all of the work arrives at the clearing house, the packages are sorted to the various drawee banks and a settlement sheet is prepared. The packages are delivered by truck to the drawee banks early on the following morning.

On the day of delivery of the items to the drawee banks, the net balances resulting from the exchanges as shown on the settlement sheet are mailed by the clearing house to the National Bank of Commerce in San Antonio for settlement. All but two of the participants maintain accounts with that bank; the other two participants have accounts with other banks in San Antonio, which either make payment to, or receive payment from, the National Bank of Commerce in order to settle the balances of their depositors.

Prior to the time when the Rio Grande Valley Clearing House Association was organized, checks received by one of the present members drawn on one or more of the others were as a rule sent to a correspondent bank in San Antonio, nearly 300 miles distant, for collection. By establishing the regional clearing arrangement, the participants gain

at least one business day in presentation and payment of the items, items returned unpaid are received at least two business days earlier, several hundred miles of travel are avoided and at least one unnecessary handling is eliminated.

Worcester County, Massachusetts

Worcester County is in central Massachusetts, surrounding the City of Worcester. Eighteen banks with a total of 28 banking offices situated in 16 different towns participate in a regional clearing arrangement organized about two years ago by the Worcester County Trust Company.

The towns in which the participating banks are situated are within a radius of 42 miles from the Trust Company, which is in the City of Worcester. Each of the participants has an account with the Trust Company.

Each participant sorts into one package all items drawn on other participants in the county. After the close of business on each day, a contract motor carrier picks up from each participant the separate package of Worcester County items as well as any other transit items which it may send to the Trust Company for collection. The packages are all delivered to the Trust Company, where an evening force first sorts the Worcester County items to the various drawee banks. Outgoing packages and listings are prepared for delivery by the carrier to the drawee banks before the opening of business on the following morning. On the day of presentation of the items, the Trust Company settles the balances resulting from the exchanges by entries in the accounts of the participants on its books. The average number of items cleared each night is somewhat in excess of 6,000.

One feature of this arrangement is that the carrier has installed outside each banking office a steel and concrete reinforced vault. The carrier and the banking office each has a key. This permits the carrier to pick up work after the bank has closed in the evening and to deliver in the morning before it opens.

Before Worcester County Trust Company established this clearing arrangement, most checks which one bank in the county had to collect from another were sent to a bank in Boston, about 40 miles east of Worcester. By clearing such items in the county, the banks obtain presentation and payment at least one business day earlier, and return items are received at least two business days sooner, than before.

Rockland County, New York

Rockland County is a small, predominantly rural area with several centers of industrial development, situated about 40 miles north of New York City. The county contains 11 banks located in seven different towns. Each of the towns is within a radius of 35 miles from Passaic, New Jersey.

The Passaic-Clifton National Bank and Trust Company conducts a regional clearing arrangement for 10 of the 11 banks in Rockland County, much in the same manner as the Worcester County Trust Company. Checks to be cleared are picked up from each participant at the close of the day by a contract motor carrier and taken to the Passaic-Clifton National Bank and Trust Company. Many of the participants send other transit work to Passaic as well. The Passaic Bank fine sorts the Rockland County items during evening hours, and the carrier delivers the packages to the various drawee banks before the opening of business on the following morning. All of the participants carry accounts with the Passaic Bank, and balances resulting from the exchanges are settled by entries on its books on the day the items are delivered to the drawee banks. The carrier has installed safes outside each banking office as in Worcester County.

Prior to the establishment of this regional clearing arrangement, Rockland County banks collected items drawn on other banks in the county by sending them to banks in New York City. With the clearing arrangement in effect, checks are presented and paid at least one business day earlier and items returned unpaid are received at least two business days earlier. Check "kiting" operations which formerly occurred in the county with some frequency have been eliminated.

Although no formal clearing arrangement exists, the Passaic-Clifton National Bank and Trust Company also affords local collection facilities to many banks in Passaic and Bergen Counties, New Jersey. A number of such banks send local transit items to the Passaic Bank by contract motor carrier. Items drawn on other banks in the area which maintain accounts with Passaic-Clifton National Bank and Trust Company are sent by it directly to the drawee banks by carrier. In substance, this aspect of the collection facilities afforded by the Passaic Bank is the same as numerous direct sending arrangements made by correspondent banks in other areas of the country.

Suburban Philadelphia

A regional collection arrangement operates among banks in the suburban areas around Philadelphia, Pennsylvania. The banks in counties adjacent to the city are divided into four regional groups. A bank in one group separately lists and packages all items drawn on other banks in its group. If volume warrants, it may also make a separate package of checks drawn on banks in one of the other groups. The items so packaged (along with other transit work in most instances) are sent to the correspondent bank of its choice in the City of Philadelphia, by depositing them in an outside safe at the end of the day from which they are collected later by a contract motor carrier.

The correspondent banks in Philadelphia receive items from participating banks via motor carrier in the early evening hours. The separately packaged work containing items drawn on participating suburban banks is fine sorted by the correspondent banks during the evening and outgoing packages are prepared for each of the drawee banks in each of the groups. The correspondent banks may also include in the packages items drawn on the participating banks which the correspondent banks have received in late deposits of customers or from other sources. By arrangement with the Federal Reserve Bank of Philadelphia, correspondent banks may deposit such packages with the Reserve Bank at any time until 2 a.m. The Reserve Bank consolidates the packages with its outgoing cash letters to the respective

drawee banks and adds the amounts of the packages to the amounts of its cash letters. The cost of transportation to the drawee banks is paid by the Reserve Bank. The contract motor carrier delivers the combined work to the drawee banks by depositing it in the outside safes prior to the opening of business.

This arrangement is essentially a collection arrangement rather than a "clearing" arrangement, and balances are not settled on the basis normally associated with a clearing house operation. The suburban bank receives book credit at its correspondent bank on the day following the day on which it sends the items to the correspondent bank. The Reserve Bank gives credit to the correspondent bank on the second day. Because in this arrangement the correspondent banks provide facilities for sorting the items during evening hours and the Reserve Bank is willing to accept packaged items for consolidation with its cash letters until 2 a.m. and for delivery by motor carrier, items drawn on suburban banks are presented and paid at least one business day earlier than was the case prior to the establishment of this arrangement. Sixty-five suburban banks, operating 72 banking offices in 47 different towns within a radius of 65 miles from Philadelphia, participate in the arrangement. It is estimated that the daily volume of items handled may be as high as 100,000.

Nassau County, New York

Nassau County, which is adjacent to New York City, is a compact area of less than 300 square miles with a population of nearly one million. On July 1, 1953, the Nassau County Clearing House Association, Inc., established a Clearing Bureau for clearing checks between its members, including a few banks in adjacent counties.

Participants in the Clearing Bureau include 40 commercial banks with 76 banking offices located in 53 different communities. No participant is located more than 20 miles from the Clearing Bureau, which is situated at a central point in the county.

Each participant sorts into a single group of items all checks drawn on other

participants, and at the end of each business day these groups of checks are delivered by contract motor carrier to the Clearing Bureau. During evening hours, the staff at the Clearing Bureau sorts the checks according to the various drawee banks and prepares an outgoing package and listing addressed to each participant. The contract motor carrier delivers the packages to the drawee banks prior to the opening of business on the following morning. Outside safes are used as in Worcester and Rockland Counties. The average number of checks cleared daily is in the neighborhood of 50,000.

The final net debit and credit balances resulting from the exchanges are settled by entries in the accounts of the participants on the books of the Federal Reserve Bank of New York, in accordance with a settlement sheet prepared by the manager of the Clearing Bureau. All banks in the county are members of the Federal Reserve System.

The Clearing Bureau was organized and its operations were established with active technical assistance by the Federal Reserve Bank of New York. Following the organization period, the Clearing House Association assumed full responsibility for and control of the operations of the Bureau. The Federal Reserve Bank contributes a share of the operating expenses.

As the result of having organized the Clearing Bureau, the participating banks have expedited by at least one business day the presentation and payment of Nassau County items; they have gained at least two business days in availability of the proceeds; and they receive return items at least two business days earlier than under earlier collection methods.

Vicinity of Denver, Colorado

Three correspondent banks in the City of Denver have cooperated in the establishment of a regional check clearing service for banks located on certain bus routes radiating from Denver. The bus routes run from Denver to Sterling, Fort Collins, Boulder and Pueblo, all in Colorado, and

to Cheyenne in Wyoming. The most distant point is about 125 miles from Denver. Each of the participating banks located along the bus routes maintains a correspondent account with one or another of the three sponsoring banks in Denver; in each case, the Denver bank sends to the participants maintaining accounts with it daily cash letters containing items drawn on them.

Participating banks send cash letters by bus to one or more of the three sponsoring banks in Denver at the close of business on each day. Each Denver bank, after receiving checks addressed to it, clears to each of the other two Denver banks items drawn on the participating banks with which such Denver bank has a direct sending arrangement. After these exchanges have taken place, each of the Denver banks prepares cash letters to the various participating banks which maintain accounts with it. The Denver banks also include in the outgoing cash letters checks drawn on the various

participating banks which the Denver banks have received in deposits of customers. The outgoing cash letters are dispatched by buses leaving Denver starting at 5 a.m., and are received by the respective participants prior to 9 a.m. on the same day.

Receipts are issued for checks exchanged between the Denver banks during the night. On the following morning each bank issues cashiers' checks in exchange for receipts given during the night, and the cashiers' checks are cleared in the regular exchanges through the Denver Clearing House for settlement at 11 a.m.

As the result of establishing this clearing arrangement, a check received by one participant drawn on another is presented for payment on the morning after receipt. Items are thus collected substantially faster than was possible prior to the institution of the regional check clearing service.

APPENDIX D

Summary of Recommendations of Committee on Bank Management (1951-1952),
Illinois Bankers Association, regarding "Check Paying Procedures and Return Check Practices"

Date of Checks

1. Treat as "stale dated" any check dated more than twelve months previously. (To avoid receipt of stop-payment orders on old items, consider notification of business accounts that bank will not pay without question stale dated items.)

2. For efficiency, keep stop-payment orders active for a reasonable* period from date of item and refer older items to a transfer file of stop orders until item would be stale dated.

*(Reasonable period of time can be determined in each bank by study of own situation.)

3. Contact maker, unless out-of-town depositor, before returning checks for reason "stale date".

4. Return post-dated checks without reference to maker, unless you have established practice of contacting on such items.

Altered Checks

1. Contact maker (unless out-of-town depositor) before returning checks for reason "Alteration of _____" or "Guarantee Alteration of _____".

Amount Variation

1. When figure amount differs from amount in words by \$ _____* or less disregard discrepancy and pay figure amount.

*(Bank should set amount, which should be at least \$1.00.)

2. Contact maker (unless out-of-town depositor) when figure amount differs from amount in words by \$ _____* or more.

*(Bank should set amount, which should be at least \$1.00)

Signature Irregularities
(Missing Signature)

1. Contact maker (unless out-of-town depositor) for approval to pay check without missing signature.

2. Return check when unable to make contact or maker so instructs.

NOTE: Consider having maker confirm approval to pay item in writing or supply missing signature.

Signature Irregularities
(Unauthorized Signature)

1. Contact maker (unless out-of-town depositor) for approval to pay check, and return only when unable to make contact or maker so instructs.

NOTE: Consider having maker confirm approval to pay item in writing, or supply authorized signature.

Signature Irregularities (Compares
Unfavorably with One on File)

1. Contact maker (unless out-of-town depositor) for approval to pay check.

2. Return check when unable to make contact or maker so instructs.

NOTE: When great dissimilarity exists, consider having maker confirm approval to pay item in writing.

Indorsements (Of Payee)

1. Disregard inspection of reverse side of check for indorsement of payee when amount of check is \$100.00 or less.

NOTE: Banks having adopted higher amount because risk is commensurate with costs saved should continue present practice.

Indorsements (Of Collecting Banks)

1. Disregard inspection of reverse side of check for clearing house stamp or indorsement of collecting bank when amount of item is \$100.00 or less.

NOTE: Banks having adopted higher amount because risk is commensurate with costs saved should continue present practice.

Indorsements (Requested by Depositor, When Missing)

1. When forwarding items which have already been paid and cancelled, for payee's indorsement, and it can be clearly determined that bank of deposit is situated in Illinois, send item direct to bank of deposit for "Attention of Cashier".
2. When name of bank of deposit cannot be clearly determined, send item to last indorsing bank, without entry.
3. When bank is situated outside Illinois, send item to last indorsing bank, without entry.

NOTE: Regardless of how item is forwarded, bank should retain complete description in writing or on micro-film.