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# FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

## THE COLLECTION SYSTEM

CHICAGO, JUNE 28, 1916.

*TO THE NON-MEMBER BANK ADDRESSED:*

With further reference to the circular letter sent you under date of June 24, 1916, with which was transmitted copy of circular on Check Clearing and Collection, issued May 1, 1916, by the Federal Reserve Board to members of the Federal Reserve System, there is one feature concerning which it is essential that you be fully advised:

While establishing a system through which checks will be collectible at par, the Federal Reserve Banks do not undertake to absorb the necessary expense of operation, nor do they undertake to eliminate the time consumed in the collection of checks on member and non-member banks.

Your attention is directed to the following excerpts from our Bulletin No. 44, issued June 15, 1916, to the member banks of this, the seventh Federal Reserve District:

"SERVICE CHARGE

"As it is optional with each member bank whether it will collect checks through the Federal Reserve Bank or through other channels, the cost of operating the system of check clearing and collection will be borne exclusively by the banks that use it and in exact proportion to the extent of its use by the individual banks.

"The actual cost of operation will be assessed monthly on a per item basis upon the member banks depositing items. The service charge for the present will be  $1\frac{1}{2}$  cents per item. Should the cost per item decrease as the system develops the service charge will be reduced accordingly. No service charge for the present, at least, will be made for collecting items drawn on Chicago banks."

"WHEN PROCEEDS OF ITEMS WILL BE AVAILABLE

"Immediate credit entry at par, subject to final payment, will be made for all checks received by this bank by 2:00 P. M., except Saturday, when the hour will be 12:00 o'clock Noon. The proceeds of such items will not, however, be available for withdrawal nor count as reserve until the lapse of time indicated in the attached schedule.\*

"For the convenience of member banks, the schedule is arranged in four divisions:

- "1. Points on which checks are immediately available for reserve.
- "2. Points on which checks are available in two days.
- "3. Points on which checks are available in four days.
- "4. Points on which checks are available in eight days."

\*(See schedule on third page of this circular.)

CHICAGO FEDERAL RESERVE BANK  
"PENALTY FOR IMPAIRMENT OF RESERVES"

"With the inauguration of the collection system, the penalty for impairment of reserves, provided by the Federal Reserve Act, will be imposed. You will be requested to report monthly the average reserve required to be kept with the Federal Reserve Bank. Impairment of the reserve, if any, will be ascertained by comparing the amount of the average reserve required with the average actual reserve as shown by our books. The penalty for the present, to be figured on the deficiency in reserve, will be an interest charge fixed by the Federal Reserve Board at a per annum rate of 2% above the maximum discount rate in this district, but in no case less than 6%."

From the foregoing, it is clear—first, that a service charge of 1½ cents per item will be assessed against the depositing bank on all checks payable outside of Chicago collected through the Federal Reserve Bank; second, when member banks draw against the proceeds of checks before such proceeds are available in accordance with the time schedule referred to above, a penalty is imposed, to be figured on any deficiency in reserve thereby created.

Please note that the service charge hereinbefore mentioned will be assessed against the depositing banks and no charge whatsoever will be made against banks upon which checks are drawn.

Very respectfully,

JAMES B. MCDUGAL  
Governor.

SCHEDULE SHOWING WHEN THE  
PROCEEDS OF ITEMS WILL BECOME AVAILABLE  
EFFECTIVE JULY 15, 1916

AVAILABLE ON RECEIPT

Chicago

TWO BUSINESS DAYS AFTER RECEIPT

Illinois (except Chicago)	Atlanta, Ga.	Minneapolis, Minn.
Indiana	Boston, Mass.	New York City
Iowa	Cleveland, Ohio	Philadelphia, Pa.
Michigan	Dallas, Texas	Richmond, Va.
Wisconsin	Kansas City, Kan.	Saint Louis, Mo.
	Kansas City, Mo.	Saint Paul, Minn.

FOUR BUSINESS DAYS AFTER RECEIPT

San Francisco, Cal.

Alabama	Nebraska
Arkansas	New Hampshire
Colorado	New Jersey
Connecticut	New York (except New York City)
Delaware	North Carolina
District of Columbia	North Dakota
Florida	Ohio (except Cleveland)
Georgia (except Atlanta)	Oklahoma
Kansas (except Kansas City)	Pennsylvania (except Philadelphia)
Kentucky	Rhode Island
Louisiana	South Carolina
Maine	South Dakota
Maryland	Tennessee
Massachusetts (except Boston)	Texas (except Dallas)
Minnesota (except Minneapolis and Saint Paul)	Vermont
Mississippi	Virginia (except Richmond)
Missouri (except Kansas City and Saint Louis)	West Virginia

EIGHT BUSINESS DAYS AFTER RECEIPT

Arizona	New Mexico
California (except San Francisco)	Oregon
Idaho	Utah
Montana	Washington
Nevada	Wyoming