

FEDERAL RESERVE BANK
OF DALLAS

May 1, 1915.

Number 15-A

TO THE MEMBER BANK ADDRESSED:

Since issuing our circular No. 15, with the accompanying rules and requirements governing the operation of the collection system to be inaugurated by this bank, many inquiries have been received from our member banks, and we feel that it may be advisable to supplement our previous letter with a clearer exposition of the system.

The system outlined was an effort on the part of the management of your Reserve Bank to provide for its members a service, the need of which is not to be doubted. It was intended to bring about a more scientific system of check clearances than at present exists, for the economical benefit of the trade and commerce of the United States, and to encourage and increase the usage of payment by checks, with a corresponding reduction in the use of currency, but certainly not for the profit of this bank, and member banks should, in weighing the advantages of the collection system, consider the facilities they are entitled to under the Federal Reserve Act in its entirety, and that they only obligate themselves to clear for those banks which will clear in return, and that they may withdraw from the system at will.

Some bankers have tried to point out that by attempting to anticipate the sendings of the Federal Reserve Bank under this system, the member banks would be required to keep an account far in excess of their reserve requirements with this bank. Even if this were true, which is doubtful, the reduction in reserve requirements under the Federal Reserve Act as compared to those prior to its application will, under an analysis, in all cases, offset the loss on a non-interest bearing balance of nearly twice the required amount with the Federal Reserve Bank. For example; a bank not in a reserve city with total deposits of \$500,000 was required to maintain before the operation of the Federal Reserve Act a total reserve of \$75,000, on which there was an earning power of \$45,000 (that part permitted to be kept with reserve agents) which would have at the rate of 2% amounted to \$900.00 per annum. Under the present reserve requirements the same bank is required to keep a total reserve of \$60,000.00, assuming that all of its deposits were payable on demand; that part which may be kept with reserve agents, \$25,000, has an earning power of \$500.00 per annum, and the amount released for loaning purposes by the reduced requirements, \$15,000, would if put out at the low rate of 6% earn \$900.00, making total profits under the provisions of the Federal Reserve Act \$1,400.00 as against \$900.00 under the old system, showing an excess of \$500.00 under the present arrangement. In many banks the excess earning power would be greater by reason of the lower reserve requirements on time deposits, and of a higher rate of interest received on loans. From this it will be seen that the balance carried with the Federal Reserve Bank is not a loss.

It is not possible, however, that the member banks shall have the full amount of reserve required on the books of the Federal Reserve Bank at all times. In the event of an unusually large volume of checks being received in one day, it would be the policy of this bank to use its judgment in allowing an overdraft, the same as would obtain in a commercial bank to cover on receipt of the items. The amount of reserves to be carried with the Federal Reserve Bank is determined by the member bank according to its own books and the excess balance to cover transit items would be based on the weekly average shown by experience.

It has been brought out that the checks drawn by a depositor on a bank are payable over the bank's counter and not at the Federal Reserve Bank, and this is theoretically correct, but this theory borne out in practice would necessitate continual shipments of currency and silver to provide for the payment of checks so presented and we are offering a facility that will obviate that necessity. It would also seem to be a bank duty to its customers to provide every convenience consistent with good banking for putting their checks on a parity over the entire district, and has long been accepted as a fact that the old method of establishing arbitrary rates of exchange, and the indirect routing of items has placed the burden of check collection where it did not rightfully belong, and it is the effort of all unselfish interests to see that in the future the expense of transferring funds shall be placed on the depositor, but that this expense shall be more nearly the actual cost.

Another objection that has been voiced is that the banks which are distantly situated will not have the advantages in the clearing system such as will accrue to the nearer ones, but this is a natural disadvantage that it is impossible to overcome under any system, and by referring to our circular, you will note that we make special mention of the fact that the system is not intended at this time to disturb relationships between those banks and their correspondents where it is more economical and expedient on account of the distance to send their items as heretofore.

Having the interests of our entire membership in view, it is not the purpose of this bank to force upon its members an unwelcomed arrangement, and we shall esteem it a courtesy if the officers of those member banks which have objections to our proposal will communicate their views to us.

We earnestly solicit your careful consideration of the plan, also your cooperation in its development, believing that it will result in substantial benefits.

Respectfully,

R. L. VAN ZANDT,

Governor.