



FEDERAL RESERVE BANK  
OF DALLAS

R. L. VAN ZANDT, GOVERNOR  
J. W. HOOPEs, DEPUTY GOVERNOR  
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February 15, 1918.

## Collection of Checks on Non-Member Banks

### TO THE BANK ADDRESSED:

The collection system of the Federal Reserve banks has grown to quite important proportions as to the volume of items handled and the increase in the use of the system by banks over the entire United States. This growth and the expressions of satisfaction received from a great many sources, seem to indicate that an economical facility has been provided for the collection of checks.

Whether or not a bank forwards checks received on deposit directly to the Federal Reserve bank, generally speaking, the checks are finally collected through the medium of the District Clearing House. Further improvements and a further reduction in the matter of float are therefore possible by a still more general use of the collection facilities afforded by the District Clearing House.

Where checks are forwarded for collection through any intermediary channel, the float is necessarily increased by the length of time required for such intermediary to handle the checks.

Non-member banks receive just as much benefit from the collection facilities of the Federal Reserve banks as member banks do, though in an indirect manner, by reason of the large volume of checks received on deposit by non-member banks finally finding their way into member banks of the Federal Reserve system for credit, which checks are collected through the collection system of the Federal Reserve banks.

It is with the thought, therefore, that since the collection facilities of the Federal Reserve bank are open to the non-member banks in this manner, that the non-member banks would, eventually, recognize that it is somewhat incumbent upon them to add to the collection facilities of the Federal Reserve system by handling checks from the Federal Reserve banks for remittance on receipt at par.

It would be quite a complex undertaking for the Federal Reserve bank to endeavor to discriminate between the endorsements of member banks and non-member banks in determining the economic right of the non-member banks to use the Federal Reserve collection system indirectly, or perhaps without knowledge, and that discrimination is not desirable.

Non-member banks might consider that the par facilities of the Federal Reserve bank are accorded to all checks on member banks and, therefore, a check on a member bank has become more desirable to a merchant than a check on a non-member bank. Whatever discrimination exists in the commercial world against the check on the non member bank can be removed more promptly by the non-member banks than any other agency.

A non-member bank may also, if it desires, establish a clearing membership with the Federal Reserve bank by maintaining a compensating balance with the Federal Reserve bank equal to the average amount of checks in the process of collection which it has forwarded to the Federal Reserve bank plus the average amount of checks in the process of collection which the Federal Reserve bank has forwarded to it. In respect to such clearing membership only, its relation with the Federal Reserve bank is the same as that of a member bank.

As a pre-requisite to establishing a clearing membership, the non-member bank must agree to handle checks on itself received from the Federal Reserve bank in the same manner as such checks are handled for the Federal Reserve bank by member banks.

Whether or not it is desirable to the non-member bank in its own interest to establish such clearing membership, it can gain quite a useful advantage by agreeing to receive checks on itself from the Federal Reserve bank and remit for them, on receipt, at par.

The President of the United States on October 13, 1917, issued an appeal to the state banks of the country to join the Federal Reserve system, in order that our banking resources might be unified, and hence increase the usefulness of all banks to the Government in the present emergency, as well as strengthen the Nation economically after the war.

As the Federal Reserve Act stands on the statutes at the present time, all banks, from the standpoint of capital, are not eligible for membership. Therefore, such non-member banks as are not eligible for membership under these conditions may lend their co-operation as far as possible through the Federal Reserve system.

There is enclosed herewith a card which we will be pleased to have you complete and return to indicate that you will receive checks on your bank from the Federal Reserve bank and remit for them at par on the day of receipt to the extent that such checks are good on your books.

Respectfully,

A handwritten signature in cursive script, reading "A. L. Van Zandt". The signature is written in dark ink and is positioned above the printed name "Governor.".

Governor.

(Enclosure)

.....  
(Date)

From

To       The Federal Reserve Bank of Dallas,  
          Dallas, Texas.

In accordance with our desire to co-operate in broadening the scope of the collection system of the Federal Reserve banks, in order that checks on this bank may be as readily acceptable in commercial transactions as checks on member banks of the Federal Reserve system, we hereby agree to remit, at par, on the day of receipt, for all checks received from the Federal Reserve Bank of Dallas, good on our books, without any deduction; but reserve the right to cancel this agreement upon giving sixty (60) days notice to the Federal Reserve Bank of Dallas.

.....  
Cashier.