



FEDERAL RESERVE BANK OF DALLAS

Circular No. 24
Series of 1921

DISCONTINUANCE OF PURCHASES OF MAIL TRANSFERS (Superseding all Previous Circulars on This Subject)

TO THE MEMBER BANK ADDRESSED:

Effective May 1, 1921, exchange on banks in other Federal Reserve or Branch Federal Reserve cities and remittances made by mail as a transfer of funds to other Federal Reserve or Branch Federal Reserve Banks will not be accepted for purchase by the Federal Reserve Bank of Dallas or its Houston and El Paso Branches for immediate credit at a discount. Exchange on banks in other Federal Reserve or Branch Federal Reserve cities will be accepted for COLLECTION ONLY, and credit given upon receipt of wire advice in order that we may determine the actual date of availability. Items of this class if sent to us on and after the date named must be listed in a separate letter.

WIRE TRANSFERS

Immediate credit at par will be given for transfers made by wire, likewise wire transfers will be made by us to banks located in other Federal Reserve or Branch Federal Reserve cities without cost to our member banks. As has been previously advised, telegrams advising wire transfers as well as telegrams requesting wire transfers to be made, may be sent to us charges collect.

WIRE TRANSFERS TO INDIVIDUALS, FIRMS OR CORPORATIONS

Payment of funds will not be made direct to individuals, firms or corporations other than member banks. Instructions to make such payments through a specified member bank, either in this or other districts, will be acted upon when such instructions are received by telegram, coded, and proper test word used in connection, or by letter officially signed. The liability of this bank or its El Paso and Houston Branches, however, is limited solely to the proper transfer of the funds to the receiving bank for credit to the account of or payment to the payee.

SALES

All requests for telegraphic transfer of funds to banks situated in other Federal Reserve Bank and Branch cities will receive attention on day of receipt, providing such instructions are received by us before our closing hour. In this connection, you are advised it is almost impossible to complete telegraphic transfers in less than thirty minutes. In order to expedite the transfer of funds, and to make more certain the completion of the transaction on the same date, instructions should reach us as early in the day as possible.

Our practice of discounting bank exchange and purchasing mail transfers for immediate credit was abolished by our Board of Directors at the meeting held on April 7, to take effect May 1. This action was taken only after full consideration of the many factors involved in this practice.

In the light of long experience, a new method of calculating the reserves of the Federal Reserve Banks was made effective on March 18, 1921. Under this new method a Federal Reserve Bank is no longer permitted to deduct Domestic Transfers Purchased or other uncollected items from the amount of its gross deposits on which it is required to carry a reserve. Furthermore, it is desirable for the maintenance of the maximum strength of the Federal Reserve Banks that their investments should be limited as much as possible to the class which is available as security for the

issue of Federal Reserve notes, and inasmuch as Domestic Transfers Purchased constitutes an investment in float which decreases the loaning power of the Federal Reserve Bank, it is an unavailable asset, and such purchases cannot be used as security for the issue of Federal Reserve notes.

The fact that the practice of discounting exchange has been observed by the banks in this section for many years has not been overlooked. The same conditions, however, do not now exist as did before the establishment of the Federal Reserve Banks, when settlements were made in the cities of the United States that were formerly domestic exchange centers. Practically since the Federal Reserve Banks came into existence they have been the settling points for all banks in their several districts, and realizing this fact, there has been a tendency on the part of a great number of banks to concentrate funds with the Federal Reserve Bank and transfer excess balances to interest-bearing accounts in the same or other cities, which is done by telegraph without any expense whatsoever to the member bank.

An increasing number of member banks are taking advantage of the collection facilities of the Federal Reserve Bank of Dallas and its El Paso and Houston Branches, with the obvious result that the need for selling mail transfers and exchange is becoming less apparent.

It is appreciated, of course, that during certain seasons of the year when the cotton and grain crops are being moved, the member banks will receive bills which in the majority of cases are sold in eastern cities, and the member banks have been under the necessity of sending us exchange in order to supply themselves with currency. In this connection, you are advised that the Federal Reserve Act gives the Federal Reserve Banks authority to buy bills of exchange. Accordingly, reimbursement drafts drawn on northern and eastern foreign exchange buyers by shippers for the proceeds of sales of exchange, when made to read "4 days after date" and "3 days after date," according to the respective cities upon which the drafts are drawn, and sent to the Federal Reserve Bank of Dallas or Branch thereof by member banks, with all securing documents attached, will be eligible for purchase or discount, under the terms of our Bill of Lading Draft Circular No. 20, Series of 1918.

We would suggest that those member banks which have been selling us domestic exchange for immediate credit and who do not at this time use our collection facilities refer to our Circular No. 3, Series of 1921—Transit Operations—and to our Circular No. 11, Series of 1921—Time Schedule of Deferred Availability—and fully consider the facilities as outlined with the view of concentrating their funds with the Federal Reserve Bank or Branch, taking into consideration the free telegraphic transfer facilities extended them for moving balances in excess of reserve requirements and daily settling needs to interest-bearing accounts with correspondents. Funds may be moved in the opposite direction with equal facility.

Very truly yours,


H. M. Odum
Acting Governor.