

Pursuant to the terms of adjournment this morning, a special meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Friday, August 1, 1924, at 3:40 p.m.

PRESENT: Governor Crissinger
 Mr. Miller
 Mr. James
 Mr. Cunningham
 Mr. Eddy, Secretary.

PRESENT ALSO: Mr. Wyatt, General Counsel

Mr. Wyatt presented to the Board the following draft of a reply to telegram dated July 31st from the Chairman of the Federal Reserve Bank of Atlanta, with regard to the action of the Pascagoula National Bank of Mosspoint, Mississippi, in deducting exchange from a remittance to the Federal reserve bank in payment of checks sent to it, and in forwarding to the New Orleans branch, with the request for immediate credit, items payable outside of the Sixth Federal Reserve District:

"McCord,
 Atlanta

August 1, 1924.

Your wire July 31 re Pascagoula National Bank. Board is advised that at Mississippi Bankers' Convention May 6-7, Alexander Smith offered to bring suit on behalf of national bank against Federal reserve bank to restrain Federal reserve bank from handling checks payable outside of its own district, to establish right of national banks to charge one-tenth of one per cent exchange and to recover damages from Federal reserve bank for amount of exchange lost by national bank as result of par collections. Pascagoula National Bank evidently laying basis for such a suit, and as this is of fundamental importance to entire Federal Reserve System, the situation should be handled with utmost care and diplomacy. Section 16 requires Federal reserve banks to receive on deposit at par all checks drawn on their member banks and Section 13 forbids Federal reserve banks to pay exchange. These are the interpretations placed on these sections by United States Supreme Court. Therefore, you cannot lawfully refuse to handle checks on Pascagoula National Bank nor can you permit that bank to deduct exchange. If it refuses to remit at par it would seem that your best course is to collect through another bank or through an agent, though under your collection circular you could forward such checks to drawee bank and debit its reserve balance. Board's Regulations forbid you to give immediate credit for checks sent to you except where permitted under time schedule. Pascagoula Bank bound by Regulation J and your check collection circular. It is suggested that you write a reply as follows:

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"(1) That Federal Reserve Bank is forbidden by law to pay exchange and cannot accept remittance draft for amount of checks minus exchange. It is therefore returning remittance draft and requests bank either to remit in full at par or to return checks drawn on it.

(2) That Federal Reserve Bank is forbidden by Board's Regulations to give immediate credit for checks received for collection except as permitted under time schedule. Federal reserve bank therefore has given Pascagoula National Bank deferred credit for checks enclosed in its letter in accordance with time schedule.

This letter should be couched in the most careful and diplomatic language and should contain no threats whatever. It is suggested further that it be delivered personally by your most reliable and tactful representative and that it contain a request that if the bank will not remit at par it deliver to him the checks drawn on it. If checks are returned to your representative he should present them over the counter and if not paid at par should have them protested in order to protect you against liability to owners and endorsers of such checks. If no State officer will make such protest because of chapter 183 Mississippi laws, 1920, have it made by some respectable resident in presence of two or more creditable witnesses as provided in Section 154 Negotiable Instruments Law as enacted in Mississippi. Failure of collecting agent to protest is negligence. Letter, however, should contain no threat of counter collection and protest but should be silent on this point, and your representative should be very careful of his demeanor in order not to give any grounds for claims of duress or oppressive methods. In view of importance to all Federal reserve banks Board considers this to be a System matter and requests that you confer with Board and comply with its suggestions in all important steps. Also submit all details to Board as promptly as possible. Immediate notice of this situation should also be given to Federal reserve banks from which you received checks on Pascagoula bank and should be transmitted by it to banks from which it received them.

Crissinger"

After full discussion, Mr. Miller moved approval of the proposed telegram.
Carried.

Mr. Miller then moved that the following supplementary telegram be sent to the Chairman of the Federal Reserve Bank of Atlanta:

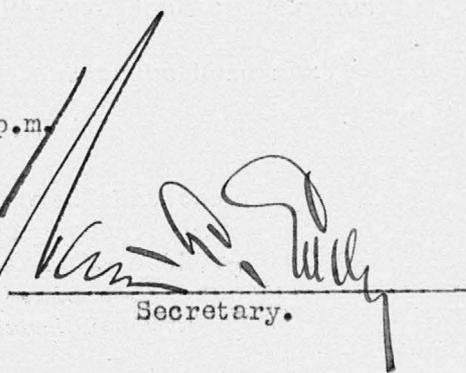
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 "Referring further your wire July 31 re Pascagoula National Bank. In view of fact that issues involved in this matter are of great concern to every Federal reserve bank the Board has in mind employing special counsel if suit is brought to defend the case on behalf of the twelve Federal reserve banks. The Board therefore desires you to take no steps for the defence of any action that may be brought in the present premises without first securing its approval."

Mr. Miller's motion being put by the chair was carried.

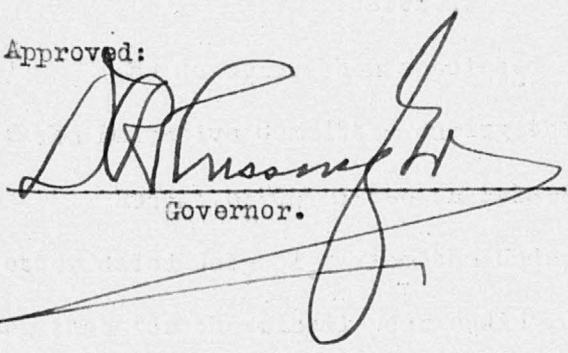
Mr. Miller then moved that the Governor be instructed to take any necessary or proper steps in order to protect the interests of the Federal Reserve System in connection with any action which might arise out of the Pascagoula matter, to provide any assistance that Counsel may need in connection with preliminary proceedings and to fix a reasonable compensation therefor.

Carried.

The meeting adjourned at 4:40 p.m.


 Secretary.

Approved:


 Governor.