

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Saturday, May 14, 1927, at 11:15 a.m.

PRESENT: Governor Crissinger  
Mr. Hamlin  
Mr. Miller  
Mr. Cunningham  
Mr. Eddy, Secretary  
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Mr. Wyatt, General Counsel  
Mr. Gilbert, Supervisor of Examinations

The Governor stated that the meeting was called primarily for the purpose of considering the matter which was ordered circulated at the meeting yesterday, namely, application of the Bank of Darlington, Inc., Darlington, South Carolina, for membership in the Federal Reserve System and for 66 shares of stock in the Federal Reserve Bank of Richmond.

Mr. Gilbert discussed with the Board the condition of the closed Bank of Darlington, a former member of the System, the assets of which are to be taken over by the new Bank of Darlington, Inc., the steps in the reorganization of the bank, the condition of the surrounding territory, and the character of management and prospects of success of the new institution.

During the discussion, Mr. James entered the meeting.

It was the consensus of opinion that in view of the fact that the Bank of Darlington, Inc., will purchase the assets of the old Bank of Darlington, most of which are of an unliquid character, and the further fact that the new bank will be under practically the same management as the old institution, prospects of its successful operation as a member of the System are not good.

Following the discussion, Mr. Hamlin moved that the application of the Bank of Darlington, Inc., for membership in the System and for stock

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in the Federal Reserve Bank of Richmond, be denied, without prejudice to the bank's right to make a new application following an examination to be made after the bank has been in operation for a sufficient length of time to demonstrate the capacity of its management and its ability to maintain its solvency.

Mr. Hamlin's motion, being put by the Chair, was carried.

Mr. Gilbert then left the meeting.

Mr. Wyatt then stated that in accordance with the understanding arrived at with the Board by the recent Conference of Governors, a meeting was held yesterday in Cleveland, with reference to the practice recently adopted by certain national banks in Alabama of stamping on the face of their cashiers' checks the phrase "not payable through Federal Reserve Bank, Atlanta, Ga." or some similar legend. He stated that the meeting was attended by himself, Mr. Baker, special counsel, Mr. Parker, member of the firm of Randolph and Parker, Counsel for the Federal Reserve Bank of Atlanta, Mr. Strater, Secretary of the Federal Reserve Bank of Cleveland, who is Chairman of the Standing Committee on Collections of the Governors' Conference, and Mr. Bell, Cashier of the Federal Reserve Bank of Atlanta. He then read and submitted for the Board's approval two letters prepared at the meeting, one, a letter addressed to the Governor of the Federal Reserve Bank of Atlanta stating the Board's position on the matter and requesting him to arrange a conference with the member banks involved and endeavor to persuade them to discontinue the practice of stamping on their checks the legend "not payable through Federal Reserve Bank" or any similar legend, and the other, a proposed circular letter to be sent to all Federal reserve banks outlining a uniform procedure to be followed

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by the Federal reserve banks for handling such items. He also presented and read to the Board proposed draft of a letter prepared by Mr. Parker, to be sent by the Federal Reserve Bank of Atlanta to the member banks in question, calling attention to the Board's position with reference to their practice and requesting a conference on the subject. He stated that Mr. Bell, Mr. Strater and he had approved this last letter while in Cleveland, and that he had this morning received a telegram from Mr. Baker, advising of his approval.

After discussion, upon motion by Mr. Hamlin, the three letters submitted by Counsel were approved as follows:

Proposed letter to be sent to the Governor of the Federal Reserve Bank of Atlanta:

"The attention of the Federal Reserve Board has been called to the fact that a few member banks in the Sixth Federal Reserve District have recently adopted the practice of stamping on their cashier's checks the words, "Not payable through Federal Reserve Bank, Atlanta, Ga."

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notations is contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

In view of the fact that the banks of the country generally are cooperating heartily with the Federal Reserve Banks in this matter, it seems likely that the banks which have been placing such restrictions upon their checks, have not appreciated fully the significance of their action. No doubt they desire to be in full cooperation in the policy established by Congress and to render their share of the public service involved in this matter, in return for the benefits which they and the country generally enjoy from the service rendered by the Federal Reserve System to them and their customers. With this thought in mind, the Federal Reserve Board asks that you secure a conference with



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the executive officers of these banks; draw their attention to the view which this Board, under legal advice, has of their procedure; and ask its discontinuance."

Proposed circular letter to be sent to all Federal reserve banks :

"It has been brought to the attention of the Federal Reserve Board that several member banks in the Sixth Federal Reserve District have initiated the practice of stamping upon their cashier's checks, and in some instances upon customer's checks, the notation "Not payable through Federal Reserve Bank, Atlanta, Ga.", or some variant of these words.

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notations is contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

An effort will be made by the officers of the Federal Reserve Bank of Atlanta to secure the cooperation of the member banks in question by a careful and conciliatory explanation of the possible harmful effect of the practice. In the meantime, it seems wise that all Federal reserve banks should be informed of this situation, and that a uniform course of procedure should be adopted.

The recent Governors' conference considered the situation with the general counsel of the Board and Mr. Newton D. Baker, who has been asked by the Board to represent the System in the matter. As a result of this conference and of the consideration which the Board has given the subject, the following practice was agreed upon and approved.

1. All Federal reserve banks should continue to receive checks from member banks and from non-member clearing banks in accordance with the provisions of Regulation J, even though they bear notations similar to the above.
2. If payable in another district such checks should be forwarded in the usual course to the Federal reserve bank or branch of the district in which they are payable.
3. When received by the Federal reserve bank of the district in which they are payable, such checks should be forwarded in the regular course to the member bank on which they are drawn in the usual cash letter.
4. In all cases where the member bank returns such checks

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and gives no other reason for failure to pay except the restriction attempted to be imposed by the legend stamped on the checks, the Federal reserve bank should charge the amount of the checks to the reserve account of the member bank in question, return the checks to the member bank, and notify it that it has been so charged. (This course can be taken only in those Federal reserve districts where the check collection circular reserves the right to charge checks to members' reserve accounts.)

5. If member banks, so notified that such checks have been charged to their reserve account, again return them to the Federal reserve bank and protest against the action of the Federal reserve bank in charging them to the member's reserve account, the Federal reserve bank will notify the member bank that it holds the checks in question subject to its orders, and that the charge so made will stand.

All Federal reserve banks will keep the Federal Reserve Board full informed of the situation created in this regard in order that the Board may call to the attention of the Comptroller of the Currency, or otherwise deal with, the situation of any member bank whose reserve is seriously affected by the charges so made as to which exceptions are pending.

Federal reserve banks in dealing with member banks upon this subject will realize that the whole object of the Federal Reserve Board and of the Federal reserve banks is to carry out the purpose of Congress by maintaining the efficiency of the check collection and clearing functions entrusted to them by the Act, and that no disciplinary purpose or hostility is involved, but that the action of the Federal reserve bank in each case is in the due course of business, and in pursuance of the plain duty of the bank under the law and regulations of the Board.

For your information there is enclosed a copy of a letter this day sent to Governor Wellborn of the Federal Reserve Bank of Atlanta, and should any instance of this practice arise in any other district it is recommended that a similar conciliatory effort be made with the member bank at once."

Proposed letter to be sent by the Federal Reserve Bank of Atlanta to member banks stamping on their cashiers' checks "Not payable through Federal Reserve Banks:

"In re National Banks stamping on checks "Not payable through Federal Reserve Banks."

Bank of \_\_\_\_\_  
Alabama.

Gentlemen:



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"The Federal Reserve Board has written us a letter on the above subject, a copy of which we enclose herewith for your information, since it has come to our notice that some checks recently issued by or drawn on you have borne a notation similar to that referred to in the Board's letter.

In view of the instructions of the Board we shall, of course, continue to accept for collection checks drawn on your bank, even though such checks may show a notation of the above mentioned tenor. We trust that you will discontinue the practice of so stamping your checks and that any checks now outstanding will be paid if presented by this bank to you.

We shall be very glad to discuss this matter with you at an early date as suggested by the Board, and now invite you to come to Atlanta for such purpose at our expense. If it is not convenient for one of your officers to come here, one of our officers will be glad to visit you.

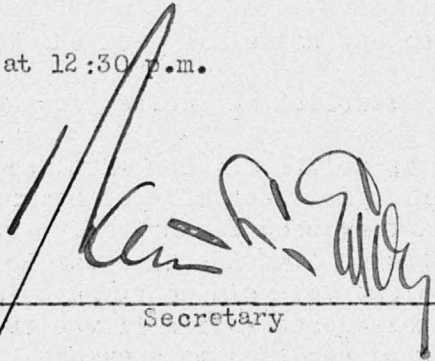
Awaiting your advice in due course and anticipating that, at least until we have had our discussion of the matter, you will see fit to comply with the request herein contained, I am,

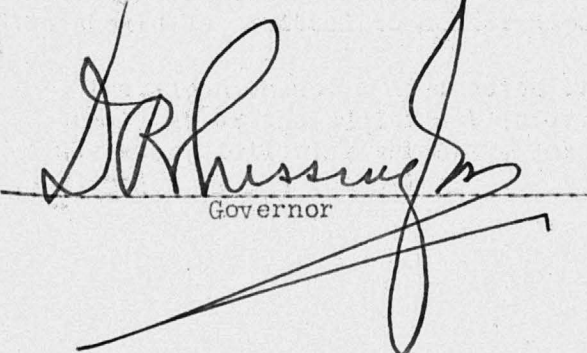
Yours very truly,"

REPORTS OF STANDING COMMITTEE:

Dated, May 14th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.  
Recommendations approved.

The meeting adjourned at 12:30 p.m.

  
Secretary

Approved:   
Governor