FEDERAL RESERVE BANK
OF NEW YORK

NEW YORK, June 1, 1918.

CHECK COLLECTION SYSTEM

To the Cashier,

SIR:

SUSPENSION OF SERVICE CHARGES.

Under the plan of operation of the check collection system originally outlined in our circular No. 43 dated June 6, 1916, a service charge of 1 cent per item, applying on all out of town checks, has been made.

At a recent meeting of the representatives of the Federal Reserve Banks it was recommended that the service charges be suspended, which recommendation was approved by the Federal Reserve Board.

You are, therefore, advised that on and after June 15, 1918, and until further notice, the Federal Reserve Bank of New York will receive from member banks for collection, without any charge whatsoever, all checks drawn on banking institutions in the United States which can be handled at par. (See Par List).

DIRECT ROUTING.

The requirement that the Federal Reserve Banks should collect checks, etc. was incorporated in the Act not only to provide an economical and direct method of collecting checks but for the more important purpose of reducing the "float" caused by indirect routing of checks as well as the so-called "reserves" created thereby.

We anticipate that the suspension of service charges as planned will remove one of the principal causes of the indirect routing of out-of-town checks. We beg to express the hope that the member banks will co-operate with us in the effort to bring about direct routing. Balances built up in one Federal Reserve district can be made immediately available, through the Federal Reserve Bank, without cost, in any other such district and all checks should be routed direct to the Federal Reserve Bank of the district in which the first indorsing bank is situated, thus materially reducing the float and the attendant cost and labor of the several banks which handle the checks.

REVISED TIME SCHEDULE.

Through the eleven branches of Federal Reserve Banks which are now in operation, it has become possible to reduce the time of collecting checks drawn on these branches and on banks situated in their district. A revised time schedule is enclosed herewith, additional copies of which will be provided on application.
REVISED PAR LIST.

A par list showing the banking institutions checks upon which can be collected by the Federal reserve banks at par, is published and distributed by the Federal Reserve Board from time to time. A corrected par list will be issued as of June 1, 1918. In September, 1916, there were 14,656 banks on the par list; on April 15, 1918, there were 17,584, and the number is steadily increasing. It is believed that the banks on the par list will include over 95 per cent. of the volume of checks in circulation and a still larger percentage of the volume of checks which member banks in this district are called upon to collect.

FREE TELEGRAPHIC TRANSFERS.

Recognizing the value to member banks of having their funds on deposit with us immediately available in any other Federal reserve district, we have arranged to make telegraphic transfers of funds to banks in other Districts absolutely at par, no charge even being made for the cost of the telegram. In order that there may be no delay in making these telegraphic transfers and in transacting other business between Federal Reserve Banks, private telegraph lines between all the reserve banks and their branches as well as with the Federal Reserve Board in Washington will soon be in operation.

RULES AND REGULATIONS.

The rules and regulations contained in circular No. 43 which will remain in force after June 15, 1918 are reprinted as follows:

USE OF THE CHECK COLLECTION SYSTEM IS VOLUNTARY.

No member bank is required to use the check collection system, nor are any formalities or resolutions required before it may be used. A member bank may send checks for collection through the Federal reserve bank regularly, occasionally or not at all; or may collect them through present correspondents or in any other manner considered advantageous.

ITEMS WHICH WILL BE RECEIVED.

We will receive from member banks checks and drafts drawn on banks as per par list published by Federal Reserve Board.

WHEN PROCEEDS OF ITEMS WILL BE AVAILABLE.

All checks drawn on banks situated in New York City (Borough of Manhattan), received by 9 A. M. will be immediately credited at par and will thereupon become available as reserve or to pay checks drawn. Checks drawn on members of the New York Clearing House Association, however, will not be received from members of the New York Clearing House Association.

For all other checks immediate credit entry at par will be made, but such credit will not be available as reserve or to pay checks drawn, until the appropriate period indicated on the time schedule has elapsed. These periods are based on the mail time required for items to reach the paying bank plus the mail time required for the paying bank to remit to the Federal reserve bank of its district. By averaging the mail time it has been possible to include all points in the country in four divisions, namely, 1, 2, 4 and 8 days. The schedule is subject to change, and for convenience it has been arranged by States rather than by Federal reserve districts.

HOW ITEMS WILL BE HANDLED.

Checks drawn on member banks in this Federal reserve district will be forwarded directly to such banks and charged to their accounts after sufficient time has elapsed for us to have received advice of payment. The form for such advice will be attached to our letter and must be signed and returned to us on the day of receipt.
Checks drawn on non-member banks in this district will be sent to member banks wherever satisfactory arrangements are made, or may, in our discretion, be sent direct for remittance. Checks drawn on member or non-member banks in any other district will be sent to the Federal Reserve Bank of such district for collection and settlement. Unpaid checks not subject to protest must be returned on the day of receipt. Protested checks must be returned not later than the day after receipt. Unpaid checks must not be held for any purpose whatsoever except for immediate protest.

SPECIAL ROUTING ARRANGEMENTS.

If a member bank has a sufficient volume of checks on certain points or districts to warrant more direct routing, special arrangements can be made to send such checks direct to other Federal reserve banks.

HOW MEMBER BANKS MAY MAINTAIN BALANCES.

Member banks may maintain their balances with us (a) by shipping to us at our expense properly sorted lawful money or Federal reserve notes, (b) by depositing New York exchange, or (c) by the proceeds, when available, of out-of-town items deposited for collection. Non-member banks may make remittances in the manner described in (a) and (b) in settlement of items sent direct.

This arrangement has been made in order to comply with the mandatory terms of the Federal Reserve Act to the effect that all settlements of items, whether by charge against the member bank’s account or by remittance of currency or exchange must be made at full face value without deduction, without, however, conflicting with the assumption that items are payable only at the counter of the bank on which they are drawn.

RESTRICTIONS AS TO INDORSEMENTS.

To insure direct routing this bank will not accept checks drawn on a bank located outside this district, when such item bears the indorsement of a bank located outside of this district. The other Federal reserve banks will adopt similar rules.

SORTING ITEMS.

In order to expedite the forwarding of items, member banks are requested to sort their items into the following classes and list each class on a separate sheet:

(a) Items drawn on members of the New York Clearing House,
(b) Items drawn on other banks in Borough of Manhattan,
(c) Items drawn on one day points,
(d) Items drawn on two day points,
(e) Items drawn on four day points,
(f) Items drawn on eight day points.

They are also requested to print on their own checks and the checks used by their depositors the figure “2” (signifying Federal Reserve District No. 2), preferably in a large skeleton figure in the center of the check.

“COLLECTIBLE AT PAR THROUGH THE FEDERAL RESERVE BANK OF NEW YORK.”

Member banks are entitled to place the words, “Collectible at par through the Federal Reserve Bank of New York,” on their own checks and the checks used by their depositors. Your attention is called to the desirability of availing of this privilege.
PENALTY FOR IMPAIRMENT OF RESERVES.

The penalty for impairment of reserve provided by the Federal Reserve Act has been imposed since July 15, 1916. Member banks are requested to report monthly the average reserve required to be kept with the Federal Reserve Bank. The impairment of their reserve, if any, is ascertained by comparing this figure with the average actual reserve shown by our books. Should a deficiency appear, a memorandum showing the daily balance according to our books is forwarded to the member bank for verification. Penalties are only imposed after proper reconciliation of the two accounts and after determination that the deficiency has not been caused by matters beyond the control of the member bank.

This penalty has been fixed by the Federal Reserve Board, for the present, at a rate of interest on the average impairment equal to 2 per cent above the discount rate for ninety-day paper.

CONDITIONS UPON WHICH MEMBER BANKS MAY USE SYSTEM.

Every member bank sending items to us after the inauguration of this system will be understood to have agreed to the terms and conditions set forth in this circular and to have thereby specifically agreed that in receiving such items the Federal Reserve Bank of New York will act only as the collection agent of the sending bank, will assume no responsibility other than due diligence and care in forwarding such items promptly, and will be authorized to send such items for payment direct to the bank on which they are drawn or to another agent for collection, at its discretion.

Respectfully,

Benj. Strong,

Governor.