

The following suggestions relating to check clearances are submitted to the Board for its consideration:

While high sounding phrases can be framed about the avoidance of favoritism and the according of uniform treatment to all customers of a bank, there is in reality no such uniformity nor would there be any justice in seeking to apply what might appear to be superficially the same rule to all. Banks do a vast amount of unprofitable business, and nearly all of them carry many accounts as a matter of courtesy and convenience to the depositors which result in actual loss.

Few, if any, practical bankers would concede that there is any injustice in allowing interest on some accounts and refusing it on others, or in furnishing free exchange facilities to some customers and declining to do so in other cases. These matters are usually regulated by mutual agreement and are based upon the general value of an account to the bank, the balance and character of the items received on deposit being taken into consideration. Some dealers prefer to receive interest on their current balances and are willing to pay exchange; others do not care to receive interest but prefer to have their exchanges handled without charge. While from the view point of the bank it might feel justified in allowing interest on accounts showing constant and uniform balances, it would not consider paying anything on spasmodic accounts; then again a bank might very well afford to give free exchange facilities to a customer depositing checks in large amounts on New York and other financial centers while it could not afford to do so in the case of a customer who deposits only checks on small towns.

It is not believed that a Federal reserve bank could legally charge to a bank's reserve account, over its protest, checks drawn upon the member bank which it had never seen or heard of, nor has a bank, in fact, the right to authorize the payment of a check drawn upon it at a place other than at its own counter, as it might thereby deprive the drawer of his right to stop payment on the check.

It seems, therefore, that the system of clearances authorized by the Act must be developed in an orderly and gradual manner and through the cooperation of the member banks. The problems involved in the clearance of intra-district checks are not very different from those which must be solved in inter-district clearings.

No check coming from either within or outside of a district should be charged to the account of a member bank except by its consent, and no Federal reserve bank should credit a member bank at par on receipt with any check imposing upon it the burden of the time in transit. It is clear that a Federal reserve bank can credit at par on receipt checks drawn on member banks in its Federal reserve city and that common business rivalry will, no doubt, induce member banks in other cities of a reserve district to arrange with the Federal reserve bank, by carrying a deposit in excess of the reserve deposit required, to charge their accounts with checks drawn upon themselves, thereby eliminating the factor of time in transit so far as the Federal reserve bank is concerned. It is not believed, however, that the member banks would care to provide for an immediate debit at the reserve bank of any and all checks that their customers might draw and which might come into the hands of the reserve bank. The Federal Reserve Act expressly recognizes the principle of compensation for a member bank in paying customers' checks that have been sent to a distant city by providing that the Federal Reserve Board may fix a charge that may be imposed by a member bank upon its customers for such service. All banking experience, however, goes to show that such a direct charge, at least at the outset,