

A GENERAL SCHEME OF CHECK COLLECTION AND CLEARING

UNDER THE FEDERAL RESERVE ACT.

Washington, February 24, 1916.

1. The Federal Reserve Board may designate every Federal Reserve Bank to act as a Clearing House for the checks of its District.
2. A member bank may send to its own Federal Reserve Bank for deposit checks drawn on or collectible through other member banks of the same District, but not checks drawn on banks of other Districts.
3. Every member bank may send to the Federal Reserve Bank of any District for collection and for the credit of its own Federal Reserve Bank checks drawn on or through member banks of that District. This means that a member bank receiving on deposit checks drawn on banks all over the country, will send to its own Federal Reserve Bank the checks drawn on banks of that District, claiming immediate credit therefor and it will send to other Federal Reserve Banks, for collection and credit to the account of the Federal Reserve Bank of its own District, checks drawn on banks of the District of which such Reserve Bank is the head. In other words every Member Bank will make up its checks into twelve envelopes or packages, one for its own, and one for each of the other eleven Reserve Banks. It will send to its own Reserve Bank carbon duplicates of letters transmitting remittances of checks sent for collection and to the credit of its Reserve Bank. It can claim immediate credit for items sent to its own Reserve Bank, but only deferred credit for items sent for collection to other Reserve Banks.

4. Under the above arrangement every Federal Reserve Bank will thus be receiving direct from, say 7600 banks - bundles of checks drawn against its members. Those deposited by its own members are credited at once to the account of the depositing banks and debited against the payer bank, while those sent from banks in other Districts are credited to the exchange account of the Federal Reserve Bank of the District represented by the sending bank and debited simultaneously against the payer bank.
5. A Federal Reserve Bank each night will have on its books amounts representing the aggregate of the above credited items; all of which have been charged against its own member banks; it will wire the amounts of these credits to the various Federal Reserve Banks and receive from these same eleven banks advice of the credits they have to its account. If it is assumed that each Federal Reserve Bank keeps with every other Federal Reserve Bank an account for exchange purposes which may run a reasonable credit or debit either way, it may be assumed that in most cases the resulting debits and credits by these daily balances will only have to be settled once or twice a week through the Gold Settlement Fund.
6. It is suggested that while/^a Federal Reserve Bank might properly charge nothing to its own member banks for items sent to it and drawn against its own members, it should charge member banks of other Districts a service charge for the expenses of collection and remitting balances to the Federal Reserve Bank of the District to which the sending bank belongs, and this service charge on a reasonable cost basis may be charged by the member bank against its customer.

7. The above plan gives immediate credit to the bank for all checks upon banks of its own District, but deferred credit with a service charge for all checks drawn against banks of other Districts. The time of transit however is greatly shortened for the reason that the forwarding bank sends checks for collection direct to each Federal Reserve Bank and should get credit as soon as the Federal Reserve Bank has received the items, charged them against the payer bank and credited them to the Reserve Bank of the District represented by the sending bank. Thus, the First National Bank of Columbus, Ohio, sends Cleveland District checks to Cleveland for deposit and claims immediate credit, at the same time it sends Chicago District checks to Chicago, St. Louis District checks to St. Louis, etc. These checks reaching these Federal Reserve Banks the next day are charged against the accounts of payer banks and credited to the exchange account of the Federal Reserve Bank of Cleveland. Thus the First of Columbus should be able to claim immediate credit for Cleveland items and, say one day deferred credit for items drawn on the Chicago and St. Louis District Banks; the same for items on Atlanta and Richmond Districts, and proportionately later dating for more distant Districts.
8. The greatest advantage of this method is the direct and simple routing of all items and the consequent reduction of float. Large city banks are now required to send checks for collection to some 500 points whereas, under this plan, they would be enabled to send checks to twelve centers (except of course, local Clearing House items) and the clearing and collecting would be focussed and concentrated at those points with a minimum of delay.