

Washington, D. C. April 22, 1916.

OUTLINE OF THE PLAN OF CLEARING AND CHECK
COLLECTION ADOPTED BY THE FEDERAL RESERVE BOARD .

The Plan proceeds upon the following assumptions and principles:

First:

A Federal Reserve Bank can not compel an unwilling member bank to send the checks of its patrons to it for collection or clearing;

Second:

It would be inexpedient at the present time even if legal, upon which no opinion is expressed to compel an unwilling member bank to pay at the counter of the Federal Reserve Bank, a check drawn against it (i.e., the member bank) before it has even seen it. The member bank may, of course, authorize the Federal Reserve Bank to redeem at par checks drawn against it and forward them to it for final settlement; or, it may authorize the Federal Reserve Bank to charge the checks against its account;

Third:

In view of the conditions hereinabove stated, and because your Committee believes that the best results will be secured by a complete co-operation of the member banks with the Reserve Bank, it is proposed that the plan to be followed shall be sufficiently attractive to member banks to appear to them as desirable. Hence, in carrying out this idea, it is proposed to follow the lines of development which long experience by member banks in their relations with city correspondents has established. This, in effect, means that Federal Reserve Banks shall receive from their member banks, checks, whether drawn against members or non-members, or private bankers, and give immediate credit for them;

Fourth:

Your Committee regards it important that the Federal Reserve Banks shall strictly guard their reserves and that member banks which do not maintain the reserves required by law shall be penalized for deficiencies. In this connection, the Federal Reserve Bank will not class as reserve

any checks which it has received from its members and credited to them but which have not been collected.

Fifth:

While it is proposed that every Federal Reserve Bank shall render this service of collection for all those member banks who choose to avail themselves of it, it is not contemplated that the service shall be rendered gratis, or without expense to the depositing bank, which is the beneficiary. Therefore, as explained in Mr. Harding's memorandum, every Federal Reserve Bank shall keep adequate analyses of its clearing and collection expense and charge the depositing bank for the service rendered, the actual cost of that service, as nearly as it may be determined, including interest at a rate to be determined upon and approved by the Federal Reserve Board, upon all cash advances. On the face of it, this means that a member bank might deposit checks on far distant banks and secure immediate credit at par for these items, and at the same time draw against them before the Federal Reserve Bank has been able to collect the funds, but, as a practical matter, a member bank could not afford to do this for the reason that it is proposed to charge the member bank, as a part of the expense of handling its checks, the cost of advancing funds; the rate to be charged to be slightly higher than the lowest discount rate established;

Sixth:

Every Federal Reserve Bank is authorized to receive checks from other Federal Reserve Banks, or under such rules as may be prescribed, from member banks in other Districts, where such routing will save time, but in all cases only for the credit of the Reserve District represented by the sending bank and upon terms similar to those upon which it receives checks from its own member banks.

Seventh:

It is proposed, under this plan, that every Federal Reserve Bank shall be authorized to pay its own member banks a fee for acting as its agent in the collection of checks drawn against non-member banks.

Eighth:

It is quite likely that it will be found necessary to create collection agencies at various points, especially in Districts of large area. The working out of this system of collection agencies and their establishment is a matter of detail which will follow in due course and will undoubtedly greatly reduce the so-called "float".