

SUGGESTED FORM OF REPLY TO INQUIRIES RELATIVE
TO THE NEW CLEARING AND COLLECTION PLAN

(Prepared by Mr. Harding)

The check clearing and collection plan which has been formulated by the Federal Reserve Board is not compulsory upon any bank as far as the use of facilities to be provided is concerned. Member banks, as long as they comply with the statutory requirements, may continue to carry accounts with their approved reserve agents and with other national banks to whom they may send items for collection and from whom they may receive, for similar purposes, checks drawn upon themselves or upon other banks. They will, however, be required to pay without deduction, checks drawn upon themselves and presented at their own counters for payment. Remittance of such checks by the Federal Reserve Bank of their district through the mail will be construed as presentation at their own counters and they must settle with the Federal Reserve Bank for such checks, either by checks upon other banks or by remittance of lawful

money or Federal Reserve notes at the expense of the Federal Reserve Bank. Checks drawn upon a member bank which have been received by the Federal Reserve Bank will not be charged against its reserve account until sufficient time has elapsed for the checks to have reached the member bank and for returns to have been received in due course by the Federal Reserve Bank.

The Federal Reserve Board's clearing system provides that a small service charge, based upon the number of items handled, will be made at stated intervals against such banks as send to the Federal Reserve Bank checks on other banks for collection and credit; but it follows that no portion of this charge can be assessed against any bank unless it should elect to avail itself of the facilities offered. Federal Reserve Banks will handle, besides checks drawn on member banks, checks on such state banks as can be collected at par, and national banks desiring to handle for a Federal Reserve Bank checks drawn on state banks, will be given the preference. During crop moving periods it is

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thought that this will be a distinct advantage to member banks.

The Board has no disposition to deprive member banks of any income that they may have been in the habit of receiving from the collection of drafts or from the purchase or discount of bills of exchange, and so there should be no diminution in the customary profits of member banks from such sources.

The Federal Reserve Board has received many letters in regard to the plan, a great number of which are commendatory, and it appears from those of opposite tenor that the objections raised are based upon an apprehension that profits will be decreased and upon the feeling that the plan will prove to be effective. It is estimated that as soon as the new clearing system is put into operation checks upon about 15,000 national banks, state banks and trust companies throughout the United States can be handled by the Federal Reserve Banks at par, subject to the small service charge above referred to; and as a minority of the

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banks will find it difficult to retain much of their good business when checks drawn upon them are at a discount while checks drawn upon the majority of banks can circulate at par, it is thought that in the near future checks upon practically all banks throughout the United States can be handled at par by Federal Reserve Banks. Many banks have found it advisable hitherto to concentrate their available funds by maintaining balances with a number of correspondents for exchange purposes, or in order to control checks drawn upon themselves. After November 16, 1917, no bank balances will be available as reserve for national banks except balances in Federal Reserve Banks, and therefore after that time any necessity to maintain non-reserve balances with correspondents, either for exchange purposes or in order to obtain collection facilities, would be deemed in many cases a great hardship. It is thought that in numerous instances banks will find it expedient to concentrate their balances and to close many of the accounts which they now carry with other banks, and that a system which will enable them to send all of their checks on other banks

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to Federal Reserve Banks for exchange purposes or as an offset against checks on themselves forwarded by the Federal Reserve Bank, will, in course of time, come to be appreciated as a convenience and the release of funds heretofore tied up in accounts carried with other banks and their employment at higher rates of interest in commercial loans, should offset to a great degree the prospective loss of exchange profits which is at the present time looked upon with apprehension by some of the banks.

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