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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

May 24, 1916.

Mr. J. Z. Miller, jr.,
Governor, Federal Reserve Bank,
Kansas City, Mo.

My dear Mr. Miller:

In answer to your letter of May 19th it is not the thought of the Committee on Clearing of the Board to take up at this time the question of charges which member banks are to make against their patrons and, therefore, the matter has not been discussed by the Board. Our thought was that we should first get the matter of par collections working, and then we could see what farther it was necessary to do.

It is conceivable, for example, that a member bank might pay only 1 1/2¢ per item to get its checks collected and be obliged in addition to allow enough time for the collection to be effected before it could draw on the fund, and then turn around and charge its patrons an exorbitant charge, but I think this is rather unlikely. As you very well know, the high exchange charges in the past by country banks have been made by country banks against the large city banks, who sent them the items, and this system would never have been effective if there had not been an arrangement, or community of interest, between the country bank and its city bank correspondent.

In the big cities it is true that the city banks have followed the custom of charging exchange on out of town items, but we believe that competition is pretty likely to rub this out. At any rate, it seems to Mr. Harding and myself that we had better do one thing at a time and see what happens to collection charges. So far as the service charge to be made by the Federal Reserve Bank is concerned, we are perfectly willing that it should be $1\frac{1}{2}\%$ per item, and we do not object to 2% per item to start with in Districts like San Francisco and Dallas. Perhaps after a few months' trial a different basis will be found desirable, one possibly based on gross amount as well as on items.

Yours very truly,

F. DELANEY,

Vice Governor.