

M E M O R A N D U M .

WHY MEMBER BANK DRAFTS ON FEDERAL RESERVE BANKS SHOULD BE  
ACCEPTED BY ALL FEDERAL RESERVE BANKS FOR  
IMMEDIATE CREDIT AT PAR.

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1. Through the establishment of the Federal Reserve System, ( membership compulsory ) National banks are obliged to carry their reserves in Federal Reserve Banks. Drafts against that account should possess all the circulating value their drafts had heretofore on any or all of their former reserve correspondents.

2. In the operation of the collection system an incentive to use for over-the-counter drawings, drafts on ~~Federal Reserve~~ Banks should be offered. These drafts, credited on member bank books when drawn will float for at least one day and offset through the clearing of float their equivalent in items charged.

3. In the operation of the collection system the balances between the Federal Reserve Banks are created by check transactions that are equivalent of gold through the Gold Settlement Fund. The exceptions to this are some payments received through local clearing houses, deposits of lawful money or rediscounts.

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4. Checking in anticipation or kiting can be controlled by reason of the supervisory relationship of Federal Reserve Banks to their member banks.

5. Through making a low open discount rate on dollar exchange, very much lower than open rates prevailing for sterling drafts on London, the Federal Reserve Banks are seeking to popularize acceptances of American banks in world centers. It is just as important to stimulate the use of drafts on Federal Reserve Banks in this country, even to the point of concession or some expense in the beginning.

6. Drafts on Federal Reserve Banks will be collected only through other Federal Reserve Banks for immediate credit. It amounts to the same proposition as draft on a branch presented through the parent bank or vice versa.

7. A settlement fund consisting of lawful money can be constituted in Washington if experience in immediate payments make it necessary or desirable. Details, such as charging the member banks reserve account with the draft on the day it reaches any Federal Reserve Bank, and bank transfers upon request only can be made part of the plan.

Postscript.

To the above might be added the following, as a supplemental reason :

The public generally have been educated by experience to the fact that a draft on a New York bank is given immediate credit and is available for funds at any town in the United States or for that matter in North America. So true is this that a careful study of bank statistics shows that there are very few banks in the United States, National or State, that do not keep accounts in New York, the reason being that in no other way can they meet the wants of their customers in making payments at distant points. The question is whether this requirement will still be made, or whether a draft drawn by a member bank on its own Federal Reserve Bank can be made ( by reason of the Gold Settlement Fund and telegraphic transfer ) immediately available.

Many member banks maintain that reserves in Federal Reserve Banks will be worth little if this is not done. Furthermore, if it is not done, it is argued with some force that the Federal Reserve System, instead of decentralizing reserves, will tend to centralize them more than ever in New York City.

Is it not desirable that a draft on a Federal Reserve Bank should be popularized in every possible way, and that a member bank be justified in charging a moderate fee to its customer for such a draft ?

So far as safeguards are concerned, there is no objection to surrounding them with all possible safeguards. For example, a member bank might be required to send, at the end of each day, by mail, to its Federal Reserve Bank a list of all drafts drawn against it, showing to what points they have been sent, if it is known. This would do away with "check kiting".

6/27/16

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ADDRESS REPLY TO  
 FEDERAL RESERVE BOARD

June 29, 1916.

Dear Sir:

In response to my telegram of June 21, to each Federal Reserve Bank asking for views in respect to giving immediate credit at par for drafts drawn against Federal Reserve Banks, we have received replies from each bank, five of which are favorable, namely: Cleveland, Richmond, Minneapolis, Dallas and San Francisco; and seven are opposed, namely: Boston, New York, Philadelphia, Atlanta, Chicago, St. Louis and Kansas City. In view of this marked difference of opinion, the Board is undisposed to press the matter unduly at this time, but proposes to let the matter run along for further consideration.

The suggestion has been made by one of the Reserve Banks that this privilege should not be granted unless each Federal reserve bank maintains a substantial balance with every other Reserve Bank whereon its members may desire funds; the supposition being, however, that the balances would be maintained largely in New York. The Federal Reserve Board will, of course, have no objection to this, because the law permits the various Federal Reserve Banks to keep balances with each other for exchange purposes, but it may be pointed out at this time that the object of the Gold Settlement Fund was to keep a joint fund in Washington which could be classed as reserve

and which would operate with greater smoothness and facility than for each bank to keep balances with eleven other banks. It has been stated that there is no necessity for haste in this matter, but it would appear that this is one of the problems which should have thoughtful consideration of the Executive officers and the Reserve Agents of each bank and be settled in the near future.

An important feature of the problem, is that after November, 1917, deposits in banks other than a Federal Reserve Bank are not reserves. These deposits, while drawing interest, must be continued if at all, as excess deposits.

The suggestion has been made by Mr. Harding, of the Board's Committee, that instead of insisting on any general ruling, each Federal Reserve Bank make its own arrangements so that drafts drawn against them would be given immediate credit at such Reserve Banks as they thought desirable. If, for example, the San Francisco Bank desired to have its drafts immediately available at par in Chicago and New York, it could make arrangements with the Chicago and New York Reserve Banks to effect this. This would be a partial if not complete solution of the problem which would perhaps answer the purpose for the present and till a more comprehensive plan is devised.

A fact not to be overlooked is that the public generally have been educated by experience to the fact that a draft on a New York Bank is given immediate credit and is available for funds

at any town in the United States or for that matter in North America. So true is this that a careful study of bank statistics shows that there are very few banks in the United States, National or State, that do not keep accounts in New York, the reason being that in no other way can they meet the wants of their customers in making payments at distant points. The question is whether this requirement will still be made, or whether a draft drawn by a member bank on its own Federal Reserve Bank can be made (by reason of the Gold Settlement Fund and telegraphic transfer) immediately available.

Many member banks maintain that reserves in Federal Reserve Banks will be worth little if this is not done. Furthermore, if it is not done, it is argued with some force that the Federal Reserve System, instead of decentralizing reserves, will tend to centralize them more than ever in New York City.

It is not desirable that a draft on a Federal Reserve Bank should be popularized in every possible way, and that a member bank be justified in charging a moderate fee to its customer for such a draft?

So far as safeguards are concerned, there is no objection to surrounding these operations with all possible safeguards. For example, a member bank might be required to send, at the end of each day, by mail, to its Federal Reserve Bank a list of all drafts drawn against it, showing to what points they have been sent, or made payable, - which would be a safeguard against "check

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kiting". Furthermore, special safeguards might be required on transfers of funds or the making of drafts for large amounts say over ten thousand or twenty-five thousand dollars.

Yours truly,

Chairman, Committee on Clearing.

Statement enclosed.



S T A T E	National Banks		:State Banks and Trust Cos. :not including Savings :Banks and Private Banks.	
	Total Number	:Number : listing New : York corre- : spondent.	Total Number	:Number : listing New : York corre- : spondent
Oklahoma	351	251	556	134
Oregon	89	86	154	111
Pennsylvania	837	750	449	397
Rhode Island	18	17	28	28
South Carolina	71	71	319	283
South Dakota	112	74	494	77
Tennessee	117	116	396	245
Texas	536	518	890	621
Utah	23	23	87	74
Vermont	48	41	35	28
Virginia	137	125	282	179
Washington	80	78	282	227
West Virginia	117	113	190	171
Wisconsin	138	112	680	213
Wyoming	33	30	72	38
<b>T O T A L</b>	<b>7,627</b>	<b>6,690</b>	<b>16,955</b>	<b>9,799</b>

6/29/16

NUMBER OF BANKS LISTING CORRESPONDENT IN NEW YORK CITYAS SHOWN BY BANKERS' DIRECTORY.

S T A T E	National Banks		:State Banks and Trust Cos. :not including Savings :Banks and Private Banks.	
	Total Number	: Number : listing New : York corre- : spondent.	Total Number.	: Number : listing New : York corre- : spondent.
Alabama	92	92	258	254
Alaska	3	3	12	11
Arizona	13	13	66	62
Arkansas	67	51	395	121
California	261	252	354	304
Colorado	120	115	179	101
Connecticut	72	72	68	66
Delaware	24	11	24	12
District of Columbia	14	14	12	12
Florida	55	54	198	186
Georgia	112	111	654	639
Hawaiian Islands	5	5	17	8
Idaho	58	53	121	64
Illinois	472	351	807	320
Indiana	257	226	575	285
Iowa	348	248	456	201
Kansas	219	213	959	556
Kentucky	140	133	439	197
Louisiana	38	38	232	175
Maine	68	36	67	40
Maryland	97	79	108	60
Massachusetts	169	122	85	75
Michigan	106	101	319	259
Minnesota	280	223	993	449
Mississippi	36	36	268	226
Missouri	133	96	1,293	295
Montana	69	61	217	109
Nebraska	197	169	815	506
Nevada	11	11	18	17
New Hampshire	56	30	13	2
New Jersey	204	195	137	123
New Mexico	37	34	44	31
New York	479	478	325	323
North Carolina	80	79	402	299
North Dakota	152	115	641	199
Ohio	377	366	480	417