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ADDRESS REPLY TO  
 994 FEDERAL RESERVE BOARD

January 26, 1917.

Dear Sir:

On behalf of the Committee on Clearing of the Federal Reserve Board I beg to state that it is the belief of the Committee that it is important that we should make ready and have our plans formulated as to the next step that should be taken in advancing the operations of the clearing and collection system. Congress will adjourn on March 4th and we will then know what, if any, steps have been taken in respect to the Kitchin amendment. At the present time it does not look as if there were much likelihood of the Kitchin amendment being adopted. If it is not, it will become the duty of the Board and the Federal reserve banks to go ahead energetically and perfect the system, the most serious objection to which at the present time is the fact that there are still some 7,000 banks who do not remit at par. In laying our plans for the future I desire to ask for comments from you upon the following suggestions and statements:

(1) It would appear that one of the greatest obstacles to progress is the attitude of many of the local clearing houses; for instance, we have a recent case where under the clearing house rules of Macon, Georgia, the banks impose a charge of one-eighth of one per cent for a check which would be given immediate credit at par at Atlanta, only eighty-eight miles away; whereas they accept at par checks drawn on Philadelphia or New York. How shall we meet this situation, and has the time come for the Board to promulgate rules, as contemplated in Section 16, which will specify the maximum charges which a member bank may make against its customers?

(2) As indicating the sort of adjustment which should be made with clearing houses if they are willing to meet the views of the Federal Reserve Board and the Federal reserve banks, I would point out that in quite a number of important clearing houses a differential in favor of checks of banks that can be collected through the Federal reserve bank at par is made, as compared with checks which cannot be so collected. Such a differential operates to assist the Federal reserve bank in extending its par list. In quite a number of cases, however, all checks of certain areas are taken on the same

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basis regardless of how collected. This means that the checks collectable through the Federal reserve bank have no advantage over those not so collectable. This method, while not ideal, is, obviously, more advantageous to the Federal reserve bank than that described in No. 1, where checks collectable through the Federal reserve bank are actually discriminated against.

(3) We are getting ready to offer country banks the privilege of issuing drafts against Federal reserve banks, which will be given immediate credit and availability not only at the bank upon which drawn, but at one other designated Federal reserve bank. This will be a privilege of considerable value to member banks, but it is assumed that it will be accompanied, or followed soon after, by the granting of the privilege of collecting for country banks time items, on terms at least as favorable as the terms heretofore afforded by city banks to their country correspondents.

(4) The officers of several of the Federal reserve banks have expressed themselves as believing that not much more progress can be made in enlarging the volume of transactions offered for clearing and collection until Federal reserve banks express themselves as willing to collect items on nonassenting State banks and trust companies. In a number of the Districts arrangements are being perfected for the collection of items of this character through express companies, but in some Districts it is impossible to reach all of the banks, even through express companies, and it may in those cases be necessary to adopt the Post Office method. Collection through express companies will, however, enable the collection of a great many nonassenting member bank items and it would appear as though in the more thickly settled Districts, such as New York, Pennsylvania, and Cleveland this matter should be immediately taken in hand.

(5) At the last meeting of Governors a plan was submitted by the writer under which a scale of charges as between Federal reserve banks and member banks, and as between member banks and their customers was proposed. It was the opinion of the Governors that the time was not opportune for putting out this schedule of charges; also that the rates suggested were too high. Is this still your view, and if you believe that the scale of charges is too high, have you any counter suggestions to make?

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(6) To what extent can the clearing system be made more popular with bankers in reserve cities - or in other large cities with similar banking facilities - by the adoption of a plan similar to that adopted in Dallas and about to be adopted in the Kansas City district? This plan provides for the direct interchange of items between cities, and drawing on the Federal reserve bank for items sent direct. This plan has the merit of cutting down float, of relieving the Federal reserve bank of cost of handling a good many items, and, lastly, of putting the banks in cities thus inter-connected on a parity.

Yours very truly,

Chairman,  
Committee on Clearing.