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# FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

August 3, 1917.

My dear Mr. Troman:

Referring to your letters of July 31st and August 1st addressed to Governor Harding in regard to the matter of clearing. Governor Harding wrote to you concerning one of these on August 1, but when he went to New York last evening he passed the file to me.

It may be of some interest to you to know that I had a three hour conference with five members of the Committee of Twenty-five, including the Secretary of that Committee, on Wednesday last. In that debate the consensus of opinion expressed by the Committee was that one of two things must be done to popularize the Federal Reserve Collection System and bring in the non-member non-assenting banks; either that they must be allowed a per thousand or per item charge which would cover their actual out-of-pocket expense for making remittances, or that the Federal Reserve Bank must accept offsetting items without charge if it expects the member bank to remit without charge. At the same time, the Committee took the position that banks in reserve and central reserve cities did not need this help because they had other means of protecting themselves; yet they also admitted in the discussion that it was difficult for the Board to make a rule which would not apply equally to the big bank in the large city and to the little bank in the small town.

While I listened attentatively to all the Committee had to say and asked a good many questions to develop their position, I did not tell them what the Board had promulgated on this subject; but it is interesting to note that two ideas which the Board suggested to the Federal Reserve Banks would go a long way toward accomplishing the very purpose which this Committee considered essential, to wit: The paying of postage to the member bank and the exemption of charges on a sufficient number of items per day to enable the country bank, without expense to itself, to offset completely, or to a large extent at least, items sent to it for collection. You are familiar with the objections which have been raised by officers of the Federal Reserve Banks to these suggestions of the Board. The principal argument in each case has been that it

would be too expensive; that it would be unusual and contrary to general practice; and yet it requires no argument to point out that the partial exemption of service charges, which admittedly would redound to the benefit chiefly of the country bank, would be far less expensive than the complete exemption of such charges; and I think I could contend with considerable force that we might begin with an exemption of ten items per day for each of the banks and gradually work up to twenty-five, fifty or even one hundred items per day, and perhaps finally agree to absorb the charges for all collections.

I agree with you, and also with Mr. Jay and others that the desirable, indeed, the essential, thing to accomplish is to get non-member banks to clear their items through the Federal Reserve Bank, or at least at par. The best way to do this is to get them in as clearing members, but in some districts it will take not only moral suasion, but an appeal to their self-interest to accomplish this. That it is important to make progress in the matter, however, I entirely agree with you, because if substantial progress has not been made and if the System has not made more friends before next December an effort will be made in the next Congress to get an amendment which will be more effective in accomplishing its purpose than the Hardwick amendment.

Despite possible opinions to the contrary, I have tried to keep an open mind on the entire subject, and have viewed it, not only from the standpoint of the general public, but also from the standpoint of the banker in the small town and in the big city. I cordially invite criticism and suggestions as to how to meet the situation. I believe that the scheme of offering exemption of charges on a given number of checks daily (which originated with Governor Harding) is a good suggestion and should be given an honest and thorough trial. I believe that the self-addressed, stamped envelope, which is a scheme in common use in many large collecting banks, and which is being employed by several of our Federal Reserve Banks, is a reasonable and not improper concession to be made to the country banks; but if any of our Federal Reserve Bank officers have better suggestions, I shall be pleased to receive them.

Yours very truly,

(Signed) F. A. Dolano.

Chairman of  
Committee on Clearing.

Mr. R. H. Troman,  
Deputy Governor, Federal Reserve Bank,  
New York City.