

To the Federal Reserve Board:

Mr. Jerome Thralls of the Committee of Twenty-five, has forwarded to me at my request some information in regard to the daily sendings of checks for collection by typical banks, varying in capital and located in towns with population ranging from 700 to 134,900. This data, furnished by Mr. Thralls is, as I understand it, based upon the information gathered by the Committee of Twenty-five in support of its argument before Congress in favor of an exchange charge.

You will note from this report that the proposed exemption of service charges on twenty checks per day, or five hundred per month, as suggested by the Federal Reserve Board's Committee on Clearing, would operate to give free service to banks having a capital of \$25,000 or thereabouts; would, in general, cut in two the service charge for banks of double that capital, and would make a substantial reduction say 25% in the service charges of banks with capital as high as \$100,000. With banks having a larger capital than this, however, (and they are chiefly banks in reserve cities) the exemption of charges for twenty checks per day or five hundred per month, amounting to an exemption in service charge of say, \$7.50 per month in the aggregate, would of course, result in a diminishing proportion of reduction amounting to a negligible sum in the case of very large city banks.

It appears that at the present time, under the operation of the clearing system as it exists, there are, even in the largest districts, only relatively small numbers of banks availing themselves of the privilege of sending their checks to the Federal Reserve Banks direct for collection. Most of the checks reaching the Federal Reserve Banks come through not to exceed fifty banks, even in districts with many member banks; and the overwhelming proportion of these are received from, say twenty banks.

It is a source of satisfaction to find that the further investigation and study of the subject seems fully to justify the Board in urging the Federal Reserve Banks to adopt the recommendations of the Board's Committee, the objects of which were:

First. To make a reduction in the service charge against member banks.

Second. To make that reduction in such a way as to cause it to appeal particularly to the small banks, because they have, thus far, profited least from membership in the Federal Reserve System and have lost most by reason of the loss of exchange.

Third: To bring about, if possible, or at least to encourage direct relations between the member banks and the Federal Reserve Banks.

As has already been pointed out, the principle of exemption for a small volume of business is recognized in the income tax laws of our own and all other countries, and seems to be justified in this case, not only in principle, but because it accomplishes the object which we wish to accomplish, as above explained.

Furthermore, the sending of a self-addressed, stamped envelope with all items sent for collection would seem not only justified by common banking usage, but is also consistent with the theory that we are asking the banks to remit at par, just as if the checks were presented by a messenger. (in this case the letter carrier) at their own counters.

This subject was first taken up with the Federal Reserve Banks on June 28, 1917, and again on July 19 and July 25, 1917, and the Board has since received circulars covering the subject from the following banks:

- " St. Louis Federal Reserve Bank, dated July 25:
- Kansas City " " " " August 10:
- Atlanta " " " " Sept. 1:

Providing for the exemption of charges on 500 checks monthly.

Respectfully submitted,

9/10/17