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AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

X-867

April 2nd, 1918.

My dear Mr. Elliott:-

I wish you would kindly read this opinion carefully and make such suggestions as to interpretation of it as you think proper. From a cursory reading once, I judge that state banks are not required to remit at par to Federal Reserve Banks, but that if they do remit to Federal Reserve Banks, the Reserve Banks are not permitted to pay them any exchange.

It perhaps is also a fair interpretation or corollary of the opinion that Federal Reserve Banks are not justified in charging for the collection of checks. If so, it is important to know it, because at the present moment the Board is debating the suspension of all service charges by Federal Reserve Banks upon checks collected by them for their customers.

Yours very truly,

(Signed) F. A. Delano.

Mr. M. C. Elliott,

Counsel.

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FEDERAL RESERVE BOARD

April 3, 1918.

My dear Mr. Delano:

I have read the opinion of the Attorney General dated March 21, which relates to those provisions of the Federal Reserve Act which impose limitations on charges made by banks for collecting and clearing checks.

As I interpret the opinion, the Attorney General holds

First- That Congress has recognized the right of all banks to make reasonable charges for the collection or payment of checks and drafts and remission therefor by exchange or otherwise.

Second- In so far as member banks and banks which voluntarily clear through Federal reserve banks are concerned, these charges are to be determined and regulated by the Federal Reserve Board, and in no case are to exceed ten cents per one hundred dollars.

Third- That no member bank or bank which voluntarily clears through the Federal reserve bank, can make any charge against a Federal reserve bank.

Fourth- That no Federal reserve bank can pay any charge. As a consequence if it receives a check drawn on a bank which is not a member, and which does not clear through the Federal Reserve Bank, it cannot undertake to make the collection if the drawee bank demands any charge.

Fifth- None of the provisions of the Federal Reserve Act have any application to banks which are not members of the Federal Reserve system and which do not voluntarily clear through the Federal reserve bank.

Under this opinion it would seem that if the member bank or a bank which carries a deposit with the Federal reserve bank,

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receives items for collection from other such banks, it may, subject to regulations by the Federal Reserve Board, charge a reasonable fee not to exceed ten cents per one hundred dollars for making the collection and remitting the proceeds. If, however, such a bank receives an item for collection from a Federal Reserve bank, it can make no charge against the Federal Reserve bank. The opinion does not decide the following question which has been raised by the Committee of Five of the American Bankers' Association:

Where member bank "A" sends an item for collection to its Federal Reserve bank drawn on member bank "B" and the Federal Reserve bank forwards it to bank "B" with instructions to remit, granting that no charge can be made against the Federal Reserve bank, may bank "B" charge bank "A" for the service of collection, on the ground that the Federal Reserve bank acts merely as the agent for bank "B" in forwarding the item?

In other words, it has been suggested that the statute intended to prohibit a member bank from charging a Federal Reserve bank for the service of collecting items belonging to the Federal Reserve bank, but was not intended to prohibit member banks from making a charge for the service of collecting items sent to such member bank by the Federal Reserve bank acting as agent for another member bank.

If we assume that no charge can be made in any case in which an item is received by a member bank from its Federal Reserve bank, it necessarily follows that all items cleared through a Federal Reserve bank must be settled for at par by the drawee bank and all items cleared through any other source than the Federal Reserve bank are subject to a reasonable charge for collection under regulations of the Board.

Respectfully,

(Signed) M. C. Elliott

Counsel.

Mr. F. A. Delano,
Federal Reserve Board.