

EX-OFFICIO MEMBERS

WILLIAM G. MCADOO
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

W. P. G. HARDING, GOVERNOR
PAUL M. WARBURG, VICE GOVERNOR
FREDERIC A. DELANO
ADOLPH C. MILLER
CHARLES S. HAMLIN

H. PARKER WILLIS, SECRETARY
SHERMAN P. ALLEN, ASST. SECRETARY
AND FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

April 17, 1918.

X885

Dear Sir:

The attention of the Federal Reserve Board has been called to the fact that several of the Federal reserve banks have sent circulars to their member banks announcing that they are prepared to receive on deposit for immediate credit, subject to final payment, bill of lading drafts drawn on demand, or at sight, or upon arrival of car. The custom appears to be to charge the current rate of interest for the period between the date upon which credit is given and the date upon which advice is received that the draft has been paid. In case it is not paid the amount of the draft is charged back to the member bank's account and the draft is returned to the member bank or is entered for collection on the books of the Federal reserve bank.

There is grave doubt as to the legality of this practice. Bill of lading drafts of this character are obviously not eligible for rediscount by a Federal reserve bank under the provisions of Section 13 of the Federal Reserve Act since they are not necessarily payable within ninety days as required by that Section.

While these drafts may be received by a Federal reserve bank for collection, and credit when payment is received, the Federal Reserve Board is of the opinion that the law does not authorize any Federal reserve bank to receive such drafts on deposit for collection and immediate credit even though they may be charged back to the account of the depositing bank if returned unpaid.

It is true that Section 13 permits Federal reserve banks to receive on deposit "checks and drafts payable upon presentation" but this language is not construed by the Board as including bill of lading drafts payable upon demand, or at sight, when drawn against individuals, firms, or corporations other than banks.

This question was discussed in circular letter to all Federal reserve banks dated August 11, 1917.

While the Board desires the Federal reserve banks to extend every reasonable accommodation to the member banks, and to encourage in every way the use by member banks of Federal reserve banks as collecting agents, it is necessary, nevertheless, that the operations of the Federal reserve banks shall be conducted in accordance with the restrictions imposed by the Federal Reserve Act. Federal reserve banks which have issued circulars contrary to the principles discussed in this letter are, therefore, requested to withdraw or to amend such circulars in accordance with the suggestions herein contained.

Respectfully,

Governor.