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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

69

August 12, 1918.

X-1118

Dear Sir:

Recently the Federal Reserve Bank of Chicago raised its rate on transfer drafts sold from 10 cents to 15 cents per day per one thousand dollars. This was equivalent to an increase in rates from 3.65% to approximately $5\frac{1}{2}$ % per annum.

Believing that you will be interested, I am inclosing herewith copy of the letter received from Deputy Governor McKay of the Federal Reserve Bank of Chicago, showing the effect of the change.

Very truly yours,

Governor.

Federal Reserve Agent,

Inclosure.

C O P Y

X-1118-a

FEDERAL RESERVE BANK OF CHICAGO
79 West Monroe Street.

August 7, 1918.

Hon. W. P. G. Harding, Governor
Federal Reserve Board,
Washington,
District of Columbia.

My dear Governor Harding:

Mr. McDougal, before leaving on his vacation a few days ago, requested me to advise you regarding our operations in the purchase of domestic exchange. You will recall that when Mr. McDougal was in Washington recently, he made the suggestion that the rates for the purchase of New York exchange be increased from 3.65 per cent to approximately $5\frac{1}{2}$ per cent.

Following your suggestion that instead of all the Federal Reserve Banks raising the rates, that the Federal Reserve Bank of Chicago, might raise its rate in order to determine what the results would be, beginning August 1st we raised the rates of exchange purchased on all of the Federal Reserve cities from 10 cents per thousand dollars per day to 15 cents per thousand dollars per day, the latter rate being approximately at the rate of $5\frac{1}{2}$ per cent per annum.

During the month of July, when the old rates were in effect, we purchased exchange in the form of drafts amounting to \$208,150,000. being an average of \$8,005,000. per day. Since August 1st, we have purchased \$14,452,000. in drafts, the daily average being \$2,890,000.

The daily outstanding drafts purchased, or in other words, the amount of float we carried on these drafts during July averaged \$12,364,000. Since August 1st, the amount of float has averaged \$3,897,000. daily. The telegraphic transfers purchased during the month of July amounted to \$88,475,000. the daily average being \$3,403,000. Since August 1st, the telegraphic transfers purchased have amounted to \$33,925,000., daily average of \$6,785,000.

Our action in increasing the rate of purchase of transfer drafts from 3.65 per cent to $5\frac{1}{2}$ per cent has resulted in reducing the amount of float carried on transfer drafts \$8,467,000. and has more than doubled the daily average amount of transfers purchased by telegraph.

We are of course accepting transfer drafts from member banks on other Federal Reserve cities for deferred availability at par, in accordance with our time schedule. The reduction in the float has correspondingly increased our reserve position and we feel that the results obtained are quite satisfactory.

The above is submitted for your information.

Respectfully submitted,

C. R. MCKAY.

Deputy Governor.