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FEDERAL RESERVE BOARD

WASHINGTON

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ADDRESS REPLY TO  
FEDERAL RESERVE BOARD

July 29, 1919.

X-1630

( NOT FOR PUBLICATION)

SUBJECT: Charges by Member Banks on Checks deposited with them, and correction of present discrimination against Member Bank Checks.

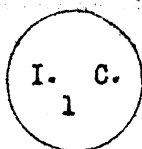
Dear Sir:

There are now nearly twenty-one thousand banks on the par lists of the Federal Reserve Banks, and the number is gradually growing. Frequent complaints, however, have been made to the Board that drawers of checks on member banks and on non-member banks which are on the par list are being advised by those to whom they remit checks that charges are being imposed by banks with which these checks are deposited considerably in excess of a reasonable allowance for interest for time in transit, and that checks on banks which are not on the par list, collection of which involves a substantial charge, - in some cases as high as one-quarter of one per cent. - are received on deposit on exactly the same terms as checks on member banks. This is in effect a discrimination against checks drawn upon member banks and upon other banks on the par list.

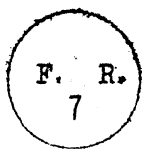
At some of the Federal Reserve Banks arrangements have been made with certain member banks by which checks on those banks are taken for immediate credit, being charged directly to the account of the member bank on receipt at the Federal Reserve Bank, and credited subject to final payment. Member banks making this arrangement carry an excess balance over reserve requirements with the Federal Reserve Bank. The Board feels that this privilege should be extended to all member banks desiring to make such an arrangement.

It is suggested that the Transit Managers of all Federal Reserve Banks meet with the Board at Washington on Monday, August 18th, for the purpose of working out a practical method of according these facilities and of determining the charges that may be made by member banks against out-of-town checks deposited with them which are in turn collected through the Federal Reserve Bank. Section 16 of the Federal Reserve Act provides that "the Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its (sic) patrons whose checks are cleared through the Federal Reserve Bank." The Board construes this clause as above indicated. Realizing that cooperation on the part of member banks and their

depositors is necessary to enable the Federal Reserve Banks to forward transit items expeditiously, the Board has decided that any rule made by it will apply only to such checks as have stamped or printed plainly upon their face a symbol indicating, (1) that the check will be given immediate credit subject to payment on its receipt at the Federal Reserve Bank or proper branch bank of the district in which the drawee bank is located, or (2) that the check is collectible at par through the Federal Reserve Bank. The Board has determined upon a system of transit numbers for use in this connection, and in the case of a member bank located elsewhere than in a Federal Reserve or branch bank city wishing to arrange for immediate credit on receipt at the Federal Reserve Bank of checks drawn upon it, subject to payment, the symbol shall be:



This would indicate to all transit clerks that the check is drawn on some bank in the Boston district, and that it is subject to immediate credit on receipt at the Federal Reserve Bank of Boston. In the case of member banks and banks whose names appear on the par list, the symbol will be



which would indicate that it is drawn on a bank in the Chicago district, and that it is collectible at par, subject to the proper time allowance, through the Federal Reserve Bank of Chicago. In the case of branches, the letters A, B, C, etc., will be added to the district number.

It is the purpose of the Board to have these symbols copyrighted and to arrange with each Federal Reserve Bank to allow the use of either or both of these symbols to such member banks as may desire to make the necessary arrangements, and to permit the use of the second symbol by all banks on the par list, whether members or non-members.

When the Board rules on the charges that member banks may impose on checks deposited with them, a schedule will be furnished applicable in all districts alike, and interest for time in transit will be computed as far as possible at not exceeding 6% per annum, although the rates must, of course, be in round percentages to admit of ready computation.

It is proposed that member banks be notified that upon the date the plan becomes effective the Federal Reserve Banks will receive from them free of service charge only such checks as have the second symbol imprinted or stamped upon them, the right being reserved to impose a service charge upon all other checks. Member banks can in turn notify their depositors

that the minimum rates will apply only to checks so imprinted or stamped, and that all other checks even though drawn upon member banks are subject to a higher charge at the discretion of the member bank with which the checks are deposited. It is to be expected that banks will charge at least cost on checks subject to a so-called exchange charge, and which cannot be collected through a Federal Reserve Bank.

The Board believes that it will be practicable to work out a schedule of charges which may be imposed by banks on checks deposited with them bearing the Federal Reserve collection symbol, with one-tenth of one per cent. as a maximum, and in case of checks involving a shorter time in transit that the charge may be fixed at one-twentieth, and in some cases one-fortieth, of one per cent. Ample notice, of course, will be given of these proposed changes after they have been definitely determined upon, in order that the banks and the public may thoroughly understand them and may have ample time to prepare for them.

It is believed that the effect of this plan when put into operation will be to create a demand on the part of depositors for checks bearing the symbol



(or the transit number of any other Federal Reserve

Bank or branch) and that many banks which are not now on the par list will feel obliged to meet the wishes of their customers to have this facility extended, the result being constant and substantial additions to the par lists.

An acknowledgement of this letter is requested.

Very truly yours,

Governor.

Letter to all Governors - copy to each F.R. Agent.