

FEDERAL RESERVE BOARD X-1813

Memorandum for the Board

January 27, 1920,

Subject: Protest of Fort Worth Banks
against discontinuance of Dallas
District Clearing House plan.

As directed by the Federal Reserve Board on January 17, I have conferred with Mr. Paddock relative to the District Clearing House plan which has been for some time in operation at the Dallas Bank, and which is soon to be discontinued, in accordance with the recommendation of the Federal Reserve Board on December 9, 1919, and in accordance with the action of the Board of Directors of the Dallas Bank shortly thereafter. The delay in this report has been caused first by Mr. Paddock's absence from the city and then by my own.

Investigation shows that the Dallas Bank is the only Federal Reserve Bank using the District Clearing House and that the plan has been criticized repeatedly by Mr. Broderick and by Mr. Will, as well as by certain officers of the Dallas Federal Reserve Bank itself.

Briefly, the District Clearing House provides that items received by the Reserve Bank from a member bank for the latter's credit shall offset items which the Reserve Bank receives from all sources that are drawn upon the said member bank. For instance, a bank at Fort Worth sends to the Federal Reserve Bank checks drawn upon banks on the par list aggregating \$1,000. Let us assume that upon the day these checks are received by the Federal Reserve Bank it also receives from other member banks checks aggregating \$1,000 drawn upon the said member bank at Fort Worth. In this case, no balance results. The inequality lies in the fact that the Fort Worth Bank may use a check which it actually takes the Federal Reserve Bank three days to collect to offset a check for a like amount, drawn upon itself, which it can, by charge to its customer's account, realize upon in two days.

It might appear upon first thought that the principles governing the clearance of local checks in a city clearing house can be applied satisfactorily in the clearance of checks for a larger territory such as a whole Federal Reserve District. However, experience has demonstrated that any plan for the intra-district clearance (immediate debit or credit) of items from a large Federal Reserve District operates inequitably, owing to the element of time required for the collection of the items, and generally results favorably for banks near Federal Reserve cities and to the detriment of more remote banks of the district.

A local or city clearing house is composed of banks within a certain limited territory, and checks cleared in the morning will be collected (charged to the depositor's account upon which they are drawn) on the same day. The items cleared are of similar character, all having the quality of immediate availability.

However, the Dallas District Clearing House has member banks in different cities in the territory covered by the Eleventh Federal Reserve District, and these member banks include in their cash letters sent to the District Clearing House, checks upon banks in their own district and upon banks in other sections of the United States.

The clearance (offsetting) of a member bank's cash letters, sent to Dallas, containing items which will require an average of three days for collection, against the cash letters sent from the District Clearing House to the member bank, made up of items which may become available to the member bank in from two to six days, according to the distance of the member bank from Dallas, is manifestly unfair, and bound to result in injustice to individual remote banks and advantage to the banks within a two day radius of Dallas. It seems clear that it is a practical impossibility to offset in a clearance time items which have different maturities and still deal justly with all concerned. This injustice is clearly shown to be the case by Examiner Will's analysis of incoming and outgoing cash letters in his report of examination of the Federal Reserve Bank of Dallas, as of the close of business November 15, 1919, and Fort Worth is one of the points shown by Mr. Will to be a beneficiary under the District Clearing House plan.

W.W. HOXTON