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FEDERAL RESERVE BOARD

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

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January 31, 1920.

X-1818

Subject: Regulation of Exchange Charges on Out-of-Town Checks.

Dear Sir:-

The Federal Reserve Banks now have on their par lists about 26,000 banks, and it had been expected that by February 1st the Board would be able to announce the establishment of a universal par system. Strong opposition, however, has developed in certain sections of the country and it is evident that a last but determined effort will be made to induce Congress to amend the Act so as to allow exchange charges. Members of Congress are being bombarded with letters complaining of alleged "coercive methods" employed by Federal Reserve Banks in making collections on banks which will not remit at par, and many banks which are remitting at par are writing that they had been compelled to do so in order to avoid paying out cash to express agents or other representatives of the Federal Reserve Banks. But the argument which is being used more frequently than any other and which seems to have more effect is that while the country banks have been deprived of their exchange profits the city banks are allowed to charge their usual rates of exchange on out-of-town checks deposited with them and that therefore the benefits of the par collection system, instead of accruing to the public, are reaped by the banks in the larger cities.

The Board has no reason to believe that the larger banks seek to profit in this way and appreciates the fact that because of the routine methods employed in the conduct of transit departments, it is difficult to devise any practical means of discriminating between checks drawn on banks within a given state or area. It seems necessary, therefore, that a state be taken as the unit and that the clearing house banks in any center adopt a uniform charge for all checks drawn on banks in a given state. In view of the fact, however, that a large number of states are now entirely on the par list and that in many other states only a comparatively small number of banks are holding out (the total for the entire country being about 4,000) it is believed that the time is now opportune for a general revision of exchange schedules. The Board is of the opinion that these rates should be readjusted as early as possible upon the approximate basis of interest for time in transit and that the new schedules be made effective on an agreed date in all the

districts. When this is done the arguments now being made that city banks are profiteering, and that the par collection system is of no benefit to the public will lose their force.

Under Section 16 of the Federal Reserve Act the Board is empowered to fix the charges which may be collected by member banks on out-of-town checks deposited with them which are cleared through the Federal Reserve Bank, and the Board does not feel that it can postpone very much longer the exercise of this power. It has been the view of the Board that it would be better for the banks in clearing centers to make voluntary adjustments, but having been informed that the clearing house banks in one of the Federal Reserve cities have been notified by a committee of country bankers, who are so adverse to "coercive measures", that the clearing house banks must not take any steps whatever to aid the Federal Reserve Bank against the country banks in their fight to maintain their exchange charges, upon pain of the withdrawal of the country banks' deposits, the Board is now inclined to the opinion that it would be better for it to formulate a rule and to put it into effect.

You are requested to bring this matter to the attention of the banks in the leading centers in your district in such a way as, in your opinion, will be least likely to invite publicity, and report to the Board their views on the subject.

Very truly yours,

Governor.

Letter to Chairmen of all F.R. Banks.