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FEDERAL RESERVE BOARD

WASHINGTON

CONFIDENTIAL.

X-3196
September 8, 1921.

SUBJECT: Regulation of charges by member banks against customers on checks cleared through Federal Reserve Banks.

Dear Sir:

Section 16 of the Federal Reserve Act provides in part that "The Federal Reserve Board shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve Bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve Bank".

Pursuant to the authority of this provision, the Federal Reserve Board has already ruled that no charges will be made by Federal Reserve Banks for the service of clearing or collection. The Board now has under consideration the fixing of charges to be collected by member banks from their customers on checks deposited by the customers and cleared through the Federal Reserve Banks.

The charges which the Board proposes to fix will be optional, that is, they may or may not be imposed, at the discretion of each member bank, but no member bank will be permitted to impose a charge higher than that fixed by the Board. The Board proposes that the maximum charges allowed shall not be in excess of a reasonable interest charge upon the amount of each check for the period required for collection. This period will be the period for which credit is deferred according to the time schedule of the Federal Reserve Bank of the district in which the member bank is located, plus the period required for transit from the member bank to the Federal Reserve Bank. In no event are charges to exceed ten cents per \$100, or fraction thereof, of the total amount of checks deposited at any one time.

It is not the Board's intention at the present time to prepare a schedule of the maximum charges allowed. Each member bank now has the time schedule of its Federal Reserve Bank and by adding to the period during which credit is deferred according to this schedule the period required for items to travel from the member bank to the Federal Reserve Bank, it should be easy to determine the period upon which a member bank may base its charge in each case.

The regulation referred to in this letter has not yet been issued by the Federal Reserve Board. This letter is intended merely to advise the Federal Reserve Banks of the terms of the regu-

lation which the Board contemplates issuing in the near future. Before issuing the regulation, however, the Board wishes to give the officers of the Federal Reserve Banks an opportunity to make such comments and suggestions as they desire. The Board also wishes to receive from each Federal Reserve Bank a statement of any charges which clearing houses in its district require their members to make, together with copies of the clearing house circulars setting forth such charges and analyses showing, as far as possible, at what rate of interest the charges are equivalent to interest charges for the periods required for collection of items through the Federal Reserve Bank. For the Board's convenience, each Federal Reserve Bank is also requested to send a copy of its effective time schedule.

The Board desires, as far as possible, to avoid conflicts between its regulation and the rules prescribed by various clearing houses, and there will be no such conflicts unless it appears that some clearing houses prescribe charges which are excessive as interest charges for the periods required for collection of items through Federal Reserve Banks. Where the minimum charges prescribed by a clearing house are less than the maximum charges permitted by the Board's regulation there will be no conflict, of course, and no occasion for any change in the clearing house rules. The Board proposes to make its regulation as elastic as possible, consistent with the general principles upon which it believes the amount of the charges should be fixed, so that the established practices of clearing houses and other local conditions may be given due consideration in determining what is fair to all parties interested.

Please acknowledge receipt of this letter.

Very truly yours,

G o v e r n o r .

To Governors and Chairmen of all F.R.Banks.