

Check Clearing and Collection Plan
Submitted to the Federal Reserve Board
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CHECK CLEARING AND COLLECTION

Section I. Statutory Provisions.

Section 16 of the Federal Reserve Act authorizes the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks, and section 13 of the Federal Reserve Act, as amended by the act approved June 21, 1917, authorizes each Federal Reserve Bank to receive from any non-member bank or trust company, solely for the purposes of exchange or of collection, deposits of current funds in lawful money, national-bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills, provided such non-member bank or trust company maintains with its Federal Reserve Bank a balance sufficient to offset the items in transit held for its account by the Federal Reserve Bank.

Section II. General Requirements.

In pursuance of the authority vested in it under these provisions of law, the Federal Reserve Board, desiring to afford both to the public and to the various banks of the country a direct, expeditious, and economical system of check collection and settlement of balances, has arranged to have each Federal Reserve Bank exercise the functions of a clearing house for such of its member banks as desire to avail themselves of its privileges and for such non-member State banks and trust companies as may maintain with the Federal Reserve Bank balances sufficient to qualify them under the provisions of section 13 to send items to Federal Reserve Banks for purposes of exchange or of collection. Such non-member State banks and

trust companies will hereinafter be referred to as non-member clearing banks.

Each Federal Reserve Bank shall exercise the functions of a clearing house under the general terms and conditions hereinafter set forth.

Section III. Eligibility of Checks to be Handled by Federal Reserve Banks.

(a) Each Federal Reserve Bank will receive from its member banks and from non-member clearing banks in its district on deposit at par for immediate credit and availability checks payable within its district drawn on all member and non-member clearing banks and on all other banks within its district that agree to remit at par in acceptable funds to the Federal Reserve Bank.

(b) For all such checks so deposited, the depositing bank shall be given immediate credit and availability by the Federal Reserve Bank.

(c) No Federal Reserve Bank shall receive on deposit for immediate credit and availability any check drawn on any bank not within its district, ^{on} nor any bank within or without its district that refuses to remit at par in acceptable funds: Provided, however, that all Federal Reserve Banks will receive from their members and clearing members within their respective districts as forwarding agents only and for deferred credit only checks on member banks of other Federal Reserve Banks, and checks on non-member banks within or without their districts to be forwarded direct to the banks on which drawn if within their district, or through the Federal Reserve Bank of the district in which the drawee bank is located, for remittance by said drawee bank, and any such drawee bank may deduct from the face value of the checks so forwarded to it for remittance an exchange charge against the bank for which said checks are being handled of not exceeding ten cents (10¢) per One Hundred Dollars (\$100.00) of the face

amount of such check or checks, and in no case less than ten cents for any one remittance, and the net proceeds of such check or checks shall be covered by exchange drafts available at par, drawn to the order of the Federal Reserve Bank from which such checks were received by the drawee bank. When the net proceeds of any such check or checks are available to any Federal Reserve Bank, either direct or through the gold settlement fund, or under its established average time schedule, the same shall be credited by it to the reserve or deposit account of the bank from which such checks were originally received.

(d) Every Federal Reserve Bank will receive from other Federal Reserve Banks checks drawn upon all banks of its district as forwarding agent only, and as such agent receive the proceeds of all such checks direct from the drawee bank, less such charges against the bank for which said checks are being handled for payment and remittance as may be made by the drawee bank, but in no case to exceed ten cents (10¢) per One Hundred Dollars (\$100.00) of the face amount of such check or checks, and a minimum charge of ten cents (10¢).

(e) No such charge for payment and remittance shall be made by any member or clearing member bank against the Federal Reserve Bank upon any check drawn payable to such Federal Reserve Bank without prior endorsement.

(f) No exchange charge shall be made by any bank upon any check which is the property of the United States.

Section IV. Manner of Collection.

The Federal Reserve Board hereby authorizes, and each member and non-member clearing bank will be required to authorize the Federal Reserve Banks to handle checks received on deposit, or as forwarding agent, as follows:

(1) A Federal Reserve Bank will act as agent only, and will assume no liability except for its own negligence and its guaranty of prior endorsements.

(2) A Federal Reserve Bank is authorized to send checks for payment in exchange draft direct to the bank on which they are drawn, or to which they are payable.

(3) Checks received on deposit for immediate credit and availability, as provided in paragraph (a) of Section III of these regulations, by a Federal Reserve Bank on its member or non-member clearing banks will be forwarded direct to such banks, and such banks will be required to remit therefor at par in funds acceptable to the Federal Reserve Bank, or to authorize the said Reserve Bank to charge their respective account or clearing accounts.

(4) Checks received by a Federal Reserve Bank as forwarding agent payable in other districts will be forwarded to the Federal Reserve Bank of the district in which such items are payable, in accordance with paragraph (c) of Section III of these regulations.

(5) A Federal Reserve Bank will charge back the amount of any check for which payment has not actually been received, regardless of whether or not the check itself can be returned.

Section V. Penalties for Deficiencies in Reserves.

(a) Statutory provisions:-- Section 19 of the Federal Reserve Act provides that --

The required balance carried by a member bank with a Federal Reserve Bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: Provided, however, That no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

(b) Basic Penalty:-- Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes a basic penalty for deficiencies in reserves according to the following rules:

1. Deficiencies in reserve balances of member banks in central reserve and reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances covering a semi-monthly period.

2. Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

3. A basic rate of 2 per cent per annum above the Federal Reserve Bank discount rate on 90-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

(c) Progressive Penalty:-- The Federal Reserve Board will also prescribe for any Federal Reserve District, upon the application of the Federal Reserve Bank of that district, an additional progressive penalty for continued deficiencies in reserves, in accordance with the following rules:

1. When a member bank in a central reserve or reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of one-fourth of 1 per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve

has been restored and maintained for four consecutive weekly periods, provided that the maximum penalty charged will not exceed 10 per cent.

2. When a member bank outside of a central reserve or reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of one-half of 1 per cent for each half month thereafter during which the average reserve balance is deficient, will be assessed on semi-monthly deficiencies until the required reserve has been restored and maintained for two consecutive semi-monthly periods, provided that the maximum penalty charged will not exceed 10 per cent.

Section VI. Other Rules and Regulations.

Any further requirements that the Board may deem necessary will be set forth by the Federal Reserve Banks in their letters of instruction to their member and non-member clearing banks. Each Federal Reserve Bank will also promulgate rules and regulations governing the details of its operations as a clearing house not inconsistent herewith, such rules and regulations to be binding upon all member and non-member banks which are clearing through the Federal Reserve Bank.