

may receive on their stock in the Federal Reserve Banks are limited, and

WHEREAS, The Federal Reserve Banks and their branches in handling "Collection Items" without making the usual collection charge and at a pecuniary loss to themselves, are giving unfair and unjust competition to the member banks of the system and are thereby curtailing their rightful and just profits without benefit to the Federal Reserve Banks or the System, now, therefore, be it

RESOLVED, That the Illinois Bankers Association is unalterably opposed to the Federal Reserve Banks doing a collection business as set forth and urges the Federal Reserve Board to give to the members of the System the relief that is justly due them in prohibiting the Federal Reserve Banks and their branches from handling what are generally known as "Collection Items".

(3) The Committee finds a wide divergence of opinion not only among the officers of the Federal reserve banks but among bankers generally on this subject, and has reviewed many letters both for and against the proposal to eliminate non-cash collection service from the System, with the result that the Committee feels that the time has come when definite action on the part of the Board regarding this question should be taken.

(4) The Committee submits as its solution for the problem the following resolution or regulation:

"Effective July 1, 1925, only such non-cash collection items as are payable by or at member banks, or banks that are on the par remitting lists of the Federal Reserve Banks, or that are collectible through clearing house associations, shall be handled by the Federal Reserve System".

(5) The Committee recommends that before finally adopting this resolution, or promulgating the regulation, the matter be submitted to the Committee on Voluntary Services, namely, Governors Harding, Strong, Fancher, McDougal and McKinney, with instructions that if this Committee on Voluntary Services does not agree with the recommendation of your Special Committee, then they shall at the coming Governors' conference present to the conference a definite and conclusive recommendation on this subject that will effectively and satisfactorily meet the objections and protests of the American Bankers' Association and sundry Clearing House Associations, and provide for a system of charges to be made for non-cash collection services in the Federal Reserve Banks.

George R. James.

To Mr. James

February 21, 1925.

From Mr. Van Fossen

Subject: Volume of Non-cash Collections

With reference to your memorandum requesting that if possible an estimate be made of the revenue available to the Federal Reserve System if a charge of 50 cts. per \$1,000 and a minimum of 25 cts. per item were made on non-cash collections, I may say that we do not have separate data as to the number and aggregate amount of such items handled which would be subject to the 25 cent minimum charge, i.e. of items under \$500. It is believed, however, that a fairly satisfactory estimate may be made on the basis of the available data.

The number and amount of non-cash items handled and the expense incurred in the performance of this work by the Federal reserve banks in 1924 were as follows:

	Items handled		Cost	Unit cost cents
	Number	Amount		
Administration	-	-	\$68,647	
City collections	1,188,938	\$ 2,060,268,225	223,858	18.8
Country collections	2,963,596	2,909,079,792	442,091	14.9
Coupon collections:				
Other than Government	*1,950,499	539,453,757	153,523	7.9
Government	50,483,405	720,074,065	163,573	0.32

* Represents number of separate collections not number of individual coupons.

The revenue that would be received on the volume of non-cash collections handled in 1924, if a flat charge of; (A) 50 cts. per \$1,000 or, (B), 25 cts. per item were made therefor would be as follows:

	<u>A</u> Revenue at 50 cts. per \$1,000	<u>B</u> Revenue at 25 cts. per item
City collections	\$1,030,134	\$297,234
Country collections	1,454,540	740,899
Coupon collections (except Government)	269,727	*487,625

* Calculated on basis of 25 cts. per separate collection.

Assuming an average size of \$250 for items under \$500 it is evident that the minimum charge of 25 cents per item on this class of items would represent a charge of double the amount that would be called for on

the basis of 50 cents per \$1,000. Accordingly we may approximate the charge on the basis of 50 cents per \$1,000 with a minimum of 25 cents per item, by adding to the amount calculated on the basis of 50 cents per \$1,000 the proportionate part of one-half of the amount calculated on the basis of 25 cents per item for such part of the items as may be estimated to be under \$500. For example, if it is assumed that 40 per cent of the city collections are under \$500, 20 per cent of the estimated revenue from this source as shown in column B should be added to the amount in column A, making a total of \$1,089,581.

It will be noted that the above estimates are based upon the volume of non-cash items actually handled in 1924 and do not of course purport to be based upon the probable amount of items that would be handled by the Reserve banks if the suggested charges were imposed.

With reference to Government coupons, I may say that inasmuch as the Federal reserve banks pay these coupons as fiscal agents of the Treasury, the Reserve banks could not, of course, impose a collection charge therefor upon depositors of such coupons. Accordingly no account has been taken of Government coupons in the estimates of the returns from the imposition of a collection charge on non-cash items.