

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4527

June 29, 1926.

SUBJECT: Right of Federal Reserve Bank to remove non-member bank from par list.

Dear Sir:

The Federal Reserve Board has been requested to rule upon the question whether a Federal reserve bank may, of its own volition, strike from the par list the name of a nonmember State bank which has agreed to remit at par, but repeatedly fails to comply with special instructions to telegraph nonpayment of checks drawn on such bank and forwarded direct to it for payment, and which in some instances returns checks drawn upon it unpaid without protesting such checks.

Under the terms of the Federal Reserve Act Federal reserve banks must receive on deposit at par and proceed to collect all checks on member banks which are presented to them by member banks; but they are not required to handle checks on nonmember banks.

Section III of the Board's Regulation J provides that:

"Each Federal reserve bank will receive at par from its member banks and from nonmember clearing banks in its district, checks drawn on all member and nonmember clearing banks, and checks drawn on all other nonmember banks which are collectable at par in funds acceptable to the Federal reserve bank of the district in which such nonmember banks are located."

It is the general policy of this provision of the regulation to require all Federal reserve banks to handle all checks drawn on nonmember banks which can in fact be collected at par in acceptable funds without employing a special agent other than a bank to present such checks for collection across the counter; and construed strictly according to its letter the regulation might be

considered by implication to forbid a Federal reserve bank to strike from the par list any nonmember bank on which checks can in fact be collected at par. A reasonable construction of this regulation, however, does not require a Federal reserve bank to handle checks drawn on a nonmember bank when such checks cannot be collected without undue risk to the Federal reserve bank.

After a careful consideration of the question presented, the Board has ruled that Federal reserve banks may, of their own volition, remove from the par list the name of any nonmember bank which repeatedly fails to remit promptly for cash letters sent to it, to protest unpaid cash items sent to it, to comply with instructions to wire advice of nonpayment, to comply with any other provisions of Regulation J of the Federal Reserve Board, or of the Federal reserve bank's check collection circular, or which for any other reasonable cause may be deemed by the Federal reserve bank to be an unfit or unsafe agent for collection; unless checks on such bank can safely be collected at par in acceptable funds through another bank in the same city or town.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

TO GOVERNORS AND FEDERAL RESERVE AGENTS OF ALL F. R. BANKS.