

FEDERAL RESERVE BOARD

WASHINGTON

October 27, 1926.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Deductions in computing reserves of member banks.

Dear Sir:

One of the Federal reserve banks recently addressed an inquiry to the Board raising the question whether a forwarding member bank in computing its reserves may properly treat as amounts due from banks credits actually entered by correspondent banks, representing such items as coupons, checks drawn on themselves by corporations other than banks, bill of lading drafts, etc., which items have not yet actually been collected by the correspondent banks. It appears that it is not an uncommon practice for a correspondent bank to give credit to a forwarding bank immediately upon receipt of items of this kind, adjusting the difference between the date of credit and date of collection by interest charges or by analysis deductions for float.

The Board has heretofore ruled that bonds, coupons and bill of lading drafts forwarded for collection may not be deducted as items due from banks until such items have actually been collected and the proceeds have been credited to the account of the forwarding bank. In these rulings, however, the Board was considering the case where items are forwarded for collection, and credit is not given by the correspondent bank until the items have been collected. Under the facts of the instant case, the correspondent bank gives credit to the forwarding bank immediately upon receipt of the items, regardless of the fact that these items have not yet been collected. The two cases are thus fundamentally different. If immediate credit is given by a correspondent bank, reserving only the right to charge back the items in case of nonpayment, the correspondent bank at once becomes indebted to the forwarding bank in the amount of the items and the forwarding bank is entitled to draw against the credit so made as soon as the items are received by the correspondent bank.

In the Board's opinion when credit has actually been entered by a correspondent bank on an item forwarded to it by a member bank and the member bank is immediately entitled to draw against the credit so entered, the amount of this credit may properly be considered an amount due from banks and deducted by the member bank in computing its reserve from its balances due to banks, notwithstanding the fact that the correspondent bank has not yet actually collected the item.

By order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

To Governors of all F.R.Banks.