

FEDERAL RESERVE BOARD

310
X-4852

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

May 14, 1927.

CONFIDENTIAL

SUBJECT: Member banks stamping checks "Not payable through Federal Reserve Bank."

Dear Sir:

It has been brought to the attention of the Federal Reserve Board that several member banks in the Sixth Federal Reserve District have initiated the practice of stamping upon their cashier's checks, and in some instances upon customer's checks, the notation, "Not payable through Federal Reserve Bank, Atlanta, Ga.", or some variant of these words.

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notations is contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

An effort will be made by the officers of the Federal Reserve Bank of Atlanta to secure the cooperation of the member banks in question by a careful and conciliatory explanation of the possible harmful effect of the practice. In the meantime, it seems wise that all federal reserve banks should be informed of this situation, and that a uniform course of procedure should be adopted.

The recent Governors' conference considered the situation with the general counsel of the Board and Mr. Newton D. Baker, who has been asked by the Board to represent the System in the matter. As a result of this conference and of the consideration which the Board has given the subject, the following practice was agreed upon and approved.

1- All federal reserve banks should continue to receive checks from member banks and from non-member clearing banks in accordance with the provisions of Regulation J, even though they bear notations similar to the above.

2- If payable in another district such checks should be forwarded in the usual course to the federal reserve bank or branch of the district in which they are payable.

3- When received by the federal reserve bank of the district in which they are payable, such checks should be forwarded in the regular course to the member bank on which they are drawn in the usual cash letter.

4- In all cases where the member bank returns such checks and gives no other reason for failure to pay except the restriction attempted to be imposed by the legend stamped on the checks, the federal reserve bank should charge the amount of the checks to the reserve account of the member bank in question, return the checks to the member bank, and notify it that it has been so charged. (This course can be taken only in those federal reserve districts where the check collection circular reserves the right to charge checks to members' reserve accounts.)

5- If member banks so notified that such checks have been charged to their reserve account again return them to the federal reserve bank and protest against the action of the federal reserve bank in charging them to the member's reserve account, the federal reserve bank will notify the member bank that it holds the checks in question subject to its orders, and that the charge so made will stand.

All federal reserve banks will keep the Federal Reserve Board fully informed of the situation created in this regard in order that the Board may call to the attention of the Comptroller of the Currency, or otherwise deal with, the situation of any member bank whose reserve is seriously affected by the charges so made as to which exceptions are pending.

Federal reserve banks in dealing with member banks upon this subject will realize that the whole object of the Federal Reserve Board and of the federal reserve banks is to carry out the purpose of Congress by maintaining the efficiency of the check collection and clearing functions entrusted to them by the Act, and that no disciplinary purpose or hostility is involved, but that the action of the federal reserve bank in each case is in the due course of business, and in pursuance of the plain duty of the bank under the law and regulations of the Board.

For your information there is enclosed a copy of a letter this day sent to Governor Wellborn of the Federal Reserve Bank of Atlanta, and should any instance of this practice arise in any other district it is recommended that a similar conciliatory effort be made with the member bank at once.

Very truly yours,

D. R. Crissinger.
Governor.

Enclosure.

TO GOVERNORS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS

May 14, 1927

Hon. M. B. Wellborn, Governor,
Federal Reserve Bank,
Atlanta, Georgia.

Dear Governor Wellborn:

The attention of the Federal Reserve Board has been called to the fact that a few member banks in the Sixth Federal Reserve District have recently adopted the practice of stamping on their cashier's checks the words, "Not payable through Federal Reserve Bank, Atlanta, Ga."

The Federal Reserve Board has submitted the questions raised by this practice to its own general and special counsel and is advised that the use of such notations is contrary to, and in violation of, the provisions of the Federal Reserve Act and the Regulations of the Federal Reserve Board. It seems entirely clear that the purposes of the Federal Reserve Act, with regard to check collections through the Federal Reserve Banks, are a part of the general public policy embodied in the Act, and that the duty of this Board and of the Federal Reserve Banks is to carry out that policy and not acquiesce in the growth of any practice which would tend to render it ineffective.

In view of the fact that the banks of the country generally are cooperating heartily with the Federal Reserve Banks in this matter, it seems likely that the banks which have been placing such restrictions upon their checks, have not appreciated fully the significance of their action. No doubt they desire to be in full cooperation in the policy established by Congress and to render their share of the public service involved in this matter, in return for the benefits which they and the country generally enjoy from the service rendered by the Federal Reserve System to them and their customers. With this thought in mind, the Federal Reserve Board asks that you secure a conference with the executive officers of these banks; draw their attention to the view which this Board, under legal advice, has of their procedure; and ask its discontinuance.

Very truly yours,

D. R. Crissinger.
Governor.