

FEDERAL RESERVE BANK
OF ATLANTA

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October 15, 1927.

Mr. Walter Wyatt, General Counsel,
Federal Reserve Board,
Washington, D. C.

Dear Walter:

I have your letter of October 12th in which you state that Mr. Baker has requested you to obtain for him any additional information that may be available regarding the practice of certain member banks in the Sixth District of stamping their checks "Payable in New York exchange." I note that Mr. Baker especially desires to know if there seems to be any tendency for this practice to spread.

The Federal Reserve Bank of Atlanta advises me that there seems to be no tendency toward a spread of this practice. It is still confined to a small number of country banks in Alabama. Three or four of the banks in question have requested the Reserve Bank to desist from handling such checks. The remainder of the relatively few banks upon whom checks bearing this notation are sometimes drawn pay the same when presented through the Reserve Bank despite the notation.

The one time practice of some of these banks to stamp on checks "Not payable through Federal Reserve Bank" has, apparently, almost ceased. It is only occasionally that the Reserve Bank sees a check bearing this last mentioned notation.

Several days since it came to the attention of the Reserve Bank that a customer of a bank in Greenville, Alabama, is issuing "checks" in the form of a draft, drawn by the customer on himself and payable at the Greenville bank. When interrogated as to why this was being done, the Greenville bank stated frankly that the object was to obtain exchange. There would seem to be no likelihood, however, that drafts will take the place of bank checks.

Trusting that the above gives the information which you desire, and with best personal regards, I am,

Cordially yours,

(signed) Rbt. S. Parker

Robt. S. Parker

August 26, 1927.

Federal Reserve Board

Mr. Vest - Assistant Counsel.

Collection of checks bearing notation "Payable in New York exchange at current rates".

It will be recalled that a few months ago checks drawn on some banks in the Atlanta district bore the notation "Not payable through the Federal Reserve Bank of Atlanta". According to the latest information, however, the banks which were formerly using such checks have discontinued this practice, or are paying such checks when presented by the Federal Reserve Bank. I wish to call attention to a different phase of this matter which is mentioned in the attached letter from Mr. Parker, Counsel for the Federal Reserve Bank of Atlanta, to Mr. Wyatt. This involves checks upon which there is a notation "Payable in New York exchange at current rates".

It appears from information submitted to this office that for a period of a year or two it was not the practice of the Federal Reserve Bank of Atlanta to handle checks bearing a notation of this kind. Finally, however, the practice of handling such checks was resumed. In May of this year there were nine banks in the Atlanta district using checks bearing the notation "Payable in New York exchange at current rates". All these banks except the First National Bank of Samson, Alabama, and the Slocumb National Bank of Slocumb, Alabama, have been paying such checks at par and without question. Recently, however, the Farmers & Merchants Bank of Samson, Alabama, a State member bank, has refused to pay at par all checks bearing this restrictive notation. Some of these checks were returned by the Farmers & Merchants Bank with a memorandum written in pen and ink on the checks reading substantially as follows: "Drawn with restrictions. Return through channels other than Federal Reserve Bank and same will be paid immediately". The Federal Reserve Bank of Atlanta, in accordance with the opinion of its counsel, Mr. Parker, has adopted the practice of returning to its indorsers checks drawn on the said Farmers & Merchants Bank and restricted to payment in New York exchange. This is the same procedure which has been followed in the case of checks drawn on the two national banks mentioned above which for some time have been refusing to pay checks bearing this notation. Not all of the checks drawn on the Farmers & Merchants Bank contain a restrictive statement; those which are unrestricted the Federal Reserve Bank handles in the usual way.

Checks bearing the notation "Payable in New York exchange at current rates" are believed to be non-negotiable and have been so held in a ruling of the Federal Reserve Board. 1916 Bulletin, page 459. This fact in itself should tend to discourage a general or widespread adoption of the use of such checks. At present there are only three banks in the Atlanta district which are refusing to pay checks of this kind. The Federal Reserve Bank is declining to handle such checks and is returning them to their indorsers, just as it has done in previous cases of this kind. Under these circumstances it is my opinion that the course of action which is now

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being allowed by the Federal Reserve Bank of Atlanta in this matter and which is approved by its Counsel, is the wise and proper one at this time.

Information as to this development in the Atlanta situation has been submitted to Mr. Newton D. Baker and he has addressed a letter to Mr. Wyatt stating that for the time being and until there is some evidence of a tendency in this practice to spread he considers the course now followed by the Federal Reserve Bank of Atlanta to be the wise one. A copy of Mr. Baker's letter on this subject is attached hereto.

This matter is submitted to the Board for its information. No action appears to be necessary in this connection, at least for the present.

Respectfully,

George B. Vest,
Assistant Counsel.

Letters attached.