

FEDERAL RESERVE BOARD

WASHINGTON

X-6706

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 13, 1930.

SUBJECT: U. S. Casualty Company v. Nashville Branch of Federal Reserve Bank of Atlanta, et al.

Dear Sir:

I enclose for your information a copy of a Bill in Chancery filed in the above entitled case. You will note that it alleges that the check in question was deposited in a New York bank, forwarded to the Federal Reserve Bank of New York, and then to the Nashville Branch of the Federal Reserve Bank of Atlanta. A decree against the Federal Reserve Bank of Atlanta is sought on the ground that it was negligent in sending the check direct to the drawee bank.

I am calling this to your attention because Mr. Edward J. Smith, Counsel for the Nashville Branch of the Federal Reserve Bank of Atlanta, with the acquiescence of Mr. Robert S. Parker and the undersigned, has decided to file a demurrer in this case; and I do not know of any case in which a bill of this kind has been demurred to. Mr. Smith's theory is that the bill shows on its face that the New York rule is applicable; and there is no privity of contract between the complainant and the Federal Reserve Bank of Atlanta; and that, therefore, the bill should be dismissed on demurrer. As an alternative, he also contends that the Court should take judicial notice of Regulation J; that the regulation has the force and effect of law; that, under the regulation, there is no privity of contract; and that the bill should be dismissed.

While we are not entirely sure that the Court will sustain such a demurrer, Mr. Parker and I feel that it can do no harm to try it and that the filing of a demurrer in this case suggests interesting possibilities. If it is successful it will establish an easy and expeditious means of disposing of many of these check collection cases.

This is merely for your information, but I shall be interested in any views which you may care to express on this subject.

With all best regards, I am

Cordially yours,

Walter Wyatt,
General Counsel.

Enclosure.

COPY

NO. 42315

O.B

Filed June 23, 1930

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TO THE HONORABLE JAMES B. NEWMAN, CHANCELLOR, ETC
HOLDING THE CHANCERY COURT OF DAVIDSON COUNTY
TENNESSEE :

UNITED STATES CASUALTY COMPANY,
a non-resident corporation resident
of the state of New York, being
qualified and doing business in the
state of Tennessee

Complainant

VS;

FOURTH & FIRST NATIONAL BANK
a national banking institution of
Davidson County, Tennessee,
NASHVILLE BRANCH FEDERAL RESERVE
BANK, a branch of the Atlanta Federal
Reserve Bank, a national banking
institution, with its office in
Davidson County, Tennessee,
COLUMBIA BANK & TRUST COMPANY, a state
banking institution resident of Maury
County, Tennessee, and D. D. ROBERTSON,
an adult resident of Davidson County,
Columbia, Tennessee, Receiver for the
Bank & Trust Company,

Defendants

Complainant would respectfully show to the Court:

That on July 15, 1929, the Columbia Insurance
Agency, a duly licensed insurance agency representing the
complainant at Columbia, Tennessee, drew its check on the
Columbia Bank & Trust Company for \$277.83, payable to the
complainant for the amount of the agency's account due
complainant. The check was in due season forwarded to the
complainant's home office in New York and was then endorsed
by it and deposited in the Continental Bank of New York for

collection. That Bank forwarded the check for collection through the Federal Reserve Bank of New York. On July 20, 1929 the Federal Reserve Bank of New York forwarded its cash letter to the Nashville Branch Federal Reserve Bank in the sum of \$21,503.48, which included the check above mentioned. This letter was received by the Nashville Branch Federal Reserve Bank, July 22, 1929, and on the same day, the said Nashville Branch Federal Reserve Bank sent to the Columbia Bank & Trust Company its cash letter in the sum of \$4,376.62, which included the above mentioned check and which check was therefore sent by the Nashville Branch Federal Reserve Bank direct to the bank on which drawn for presentment and payment. At the time there were two other regular banking institutions, including a national bank, doing business in Columbia, Tennessee, which was known to the Nashville Branch Federal Reserve Bank.

On July 24th, the Nashville Branch Federal Reserve Bank received from the Columbia Bank & Trust Company a check drawn on the defendant Fourth & First National Bank of Nashville, for \$4,362.52, being in payment of said cash letter of the Nashville Branch Federal Reserve Bank sent to the Columbia Bank & Trust Company, less returned items, and on said day, July 24th, 1929, the Nashville Branch Federal Reserve Bank presented said check drawn by the Columbia Bank & Trust Company to the Fourth & First National Bank for payment which was refused. In the meantime the said check of \$277.83 was marked paid by the Columbia Bank & Trust Company and placed with its

paid cancelled checks and was returned to the Columbia Insurance Agency marked "paid" along with its other cancelled checks and in balancing its account. 155

The check drawn on the Fourth & First National Bank was passed through the clearing house of Nashville and payment was not refused when it was first presented to the Fourth & First National Bank coming through clearings, but during the day, and probably before any entry thereof against the account of the Columbia Bank & Trust Company, this bank closed its doors and the defendant Fourth & First National Bank was apprised thereof. At the time the Columbia Bank & Trust Company was indebted for borrowed money or rediscounts to the Fourth & First National Bank and that bank then returned said check for \$4,362.52 to the Nashville Branch Federal Reserve Bank, refusing payment, and applied the deposit with the Columbia Bank & Trust Company in said Fourth & First National Bank to the amount due the latter by the former.

II

Wherefore, complainant is advised and charges that it is entitled to recover said amount of \$277.83 from the Nashville Branch Federal Reserve Bank for the reason that said bank was negligent in the collection of said check in sending it direct to the Columbia Bank & Trust Company on whom it was drawn, knowing that there were other banks in the same city.

That likewise, or if taken in this view, in either event, the defendant Fourth & First National Bank of Nashville is liable to complainant for the reason that it had no right or authority to apply the deposit of the Columbia Bank & Trust Company as above.

stated without paying said check sent to the Nashville Branch Federal Reserve Bank and by it cleared to the Fourth & First National Bank, the payment on the check not being refused when it was presented.

That satisfaction from either of said defendants would of course satisfy the complainant's demand against all, leaving the other defendants to litigate and adjust the matter among themselves.

That if mistaken in the foregoing views, complainant is at least entitled to have and set up said check as a claim against the assets of the defunct Columbia Bank & Trust Company in the hands of its receiver and receive its dividend thereon.

III

The parties reside as stated in the caption and are sui juris

PREMISES CONSIDERED, COMPLAINANT PRAYS:

1. That those named as defendants in the caption hereof be made such by the issuance and service of process upon them requiring them to appear and answer this bill at the earliest practical rule day of the Court; but their oaths to their answers are waived.

2. That the complainant be granted a decree against the Nashville Branch Federal Reserve Bank and/or Fourth & First National Bank of Nashville for the amount of said check, interest and costs.

3. If denied the relief sought in the foregoing prayer,

then that said check be set up and established as a valid claim and demand against the assets of the Columbia Bank & Trust Company in the hands of the receiver and that he be ordered to pay pro rata dividend thereon.

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4. That complainant have all such further and general relief as it may be entitled to at the hearing.

We are surety for the costs of this cause.

McGugin & Evans
Solicitors for Complainant.

McGugin & Evans.