

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7601

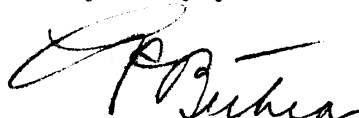
September 22, 1933.

SUBJECT: Absorption of Exchange Charges
by Member Banks.

Dear Sir:

There is inclosed herewith for your information a copy of a letter which the Federal Reserve Board is addressing to the Federal Reserve Agent at Atlanta with respect to the absorption of exchange or collection charges by member banks. It is requested that you take this matter up with any of the clearing house associations located in your district which are following practices in conflict with the spirit or the letter of the law on this subject, and that you endeavor to have any such associations cooperate voluntarily in a modification or adjustment of these practices which will bring them into conformity with the statute.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ATLANTA.

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September 21, 1933.

Mr. Oscar Newton,
Federal Reserve Agent,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Newton:

Receipt is acknowledged of your letter of September 15, 1933, in response to the Board's letter of August 28, 1933, with regard to the absorption of exchange or collection charges by Atlanta banks in connection with items received by them on deposit from correspondent banks.

It appears that it has heretofore been the practice of the clearing house banks in Atlanta, in connection with deposits received from correspondents and payable on demand, to absorb exchange or collection charges in an amount equivalent to 2 per cent of the amount of the collected balance of a correspondent bank. The Federal Reserve Board is of the opinion that the absorption of such charges is clearly in violation of the provisions of Section 19 of the Federal Reserve Act which prohibit the payment of interest on deposits payable on demand either directly or indirectly by any device whatsoever. The Board is, therefore, gratified to note that the clearing house banks of Atlanta are advising their correspondent banks that it is necessary to discontinue the practice of absorbing such charges and that the clearing house banks will not hereafter absorb charges on items received on deposit but will charge them against the depositing bank.

The prohibition contained in the statute upon the payment of interest on deposits payable on demand was enacted in order to assist

Mr. Oscar Newton

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member banks by eliminating some of the expense in connection with deposit balances; and it would, therefore, seem especially incumbent upon the banks to take such action as may be necessary to comply with both the spirit and the letter of the law on this subject. In the circumstances, the Board will expect clearing house associations voluntarily to prescribe rules forbidding the absorption of exchange or collection charges which may be in conflict either with the spirit and purpose or with the letter of the statute and that such rules will be applicable to all members of such clearing house associations whether or not members of the Federal Reserve System.

It is noted that the bankers of Atlanta contemplate calling a conference of bankers from a number of other southern cities in an endeavor to have action taken in such other cities similar to that taken by the clearing house banks of Atlanta; and, in this connection, the Board requests that you cooperate in this matter with a view to having any clearing house practices which do not conform to the spirit or the letter of the law modified or adjusted by voluntary action of the clearing house associations so as to comply with the statute.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.