

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7632

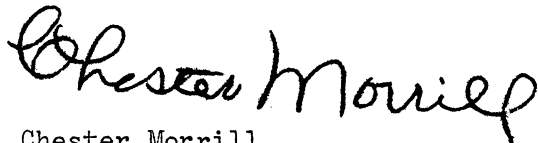
October 9, 1933.

SUBJECT: Absorption by Member Banks of
Collection or Exchange Charges.

Dear Sir:

There is inclosed, for your information,
a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Atlanta under date of October 7, 1933, with regard to the absorption by member banks of exchange or collection charges.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Chester Morrill". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT ATLANTA.

C O P Y

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October 7, 1933.

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

Dear Mr. Newton:

Reference is made to your letter of September 29, 1933, in which you advise that, on September 27, 1933, you attended a conference of bankers from a number of cities in the southeastern section of the country at which one of the matters discussed was the practice of member banks with respect to the absorption of collection or exchange charges in connection with items received by them on deposit. It is noted that the conference, by a majority vote, adopted a resolution on this subject, a copy of which you inclosed with your letter. It is also noted that Mr. _____, Chairman of the meeting, in a letter, a copy of which you inclosed, requests that the Federal Reserve Board issue a definite ruling as to the interpretation of the law with respect to this matter.

The Federal Reserve Board has given careful consideration to this matter but does not feel that it is possible to issue a general ruling by reference to which it could be determined definitely under the circumstances of all cases whether the absorption of exchange or collection charges by member banks is lawful or unlawful. Questions as to whether such an absorption of charges does or does not constitute a payment of interest within the meaning of Section 19 of the Federal Reserve Act, forbidding member banks to pay interest on deposits payable

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on demand either directly or indirectly by any device whatsoever, must be determined as and when they arise in particular cases and in the light of the special facts of each such case. As pointed out to you in the Board's letter of September 21, 1933, the absorption of exchange or collection charges in an amount equivalent to a certain percentage of the amount of the balance of the depositor, in the Board's opinion, is clearly in violation of the law on this subject, and no member bank wherever located may lawfully absorb exchange or collection charges on such a basis.

The Board feels that the banks and the clearing house associations should themselves consider whether, in the light of the spirit and purpose of the prohibition of the statute upon the payment of interest, the practice which they wish to follow with respect to the absorption of exchange or collection charges is lawful. If in any case it appears questionable whether the practice proposed conforms to the requirements of the law on this subject, the question may be submitted, if desired, to the Federal Reserve Bank of the district for consideration; and, of course, the Federal Reserve Bank, in cases where it appears necessary, may present the matter to the Federal Reserve Board with a request for a ruling. Such a request should be accompanied by an opinion of the Bank's counsel.

Referring to your suggestion that the substance of the Board's letter to you of September 21, 1933, be communicated to member banks, you are advised that the Board has sent a copy of that letter to each

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Federal Reserve Agent, with the request that the matter be taken up with any of the clearing house associations located in his district which are following practices in conflict with the spirit or the letter of the law on this subject and that he endeavor to have any such associations cooperate voluntarily in a modification or adjustment of this practice which will bring them into conformity with the statute. The Board has no objection, however, to your communicating the substance of its letter of September 21 to such member banks as you may deem desirable.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.