



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 17, 1941

Dear Sir:

At the request of Mr. William A. Day, Vice
Chairman of the Presidents' Conference, I am sending
you herewith a copy of the Second Report of the Committee
on Handling U. S. Postal Money Orders, in order that you
may have an opportunity to review the report before the
next Presidents' Conference.

Very truly yours,

E. L. Smead, Chief,
Division of Bank Operations.

Enclosure



TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS
EXCEPT SAN FRANCISCO
(Enclosure with addressed copies only)

SECOND REPORT OF THE
COMMITTEE ON HANDLING OF U. S. POSTAL MONEY ORDERS
TO
THE CONFERENCE OF PRESIDENTS
OF THE FEDERAL RESERVE BANKS
September 17, 1941

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To the Conference of Presidents:

In its report dated July 10-11, 1940, the Standing Committee on Collections recommended that a committee be appointed by the Conference of Presidents to discuss with the Post Office Department the possibility of the Reserve Banks' handling United States postal money orders under the practice existing prior to August 1, 1934, whereby money orders for the first 30 days after issue could be presented to any postmaster for payment without fee. Under the practice existing since that date, the Reserve Banks can not collect out-of-town money orders at local post offices without payment of fees equal to those charged for issuing the orders. This recommendation was approved at a meeting of the Conference of Presidents held on September 27-28, 1940, and the Committee appointed discussed the matter with the Post Office and Treasury Departments on February 11, 1941.

The following recommendations are contained in the report, dated March 11, 1941, of the Committee on Handling of U. S. Postal Money Orders:

"The Committee RECOMMENDS that all Federal Reserve Banks advise their member and nonmember clearing banks that after _____ (a date to be fixed by the Conference of Presidents) the Reserve Banks will not accept for collection and credit, either as cash items or as noncash items, any United States postal money orders except those that are drawn on or issued by a post office in a Federal Reserve Bank or Branch city or Washington,

D.C., including those drawn on or issued by a post office in a city adjacent to a Federal Reserve Bank or Branch city that can be collected locally by the Reserve Bank or Branch without the payment of a fee. Since the purpose of money orders is to transmit small sums of money to payees in designated places, your Committee believes that the orders should be collected from the designated post offices by the payees directly or through their local banks.

"The Committee also RECOMMENDS that all Federal Reserve Banks send their member and nonmember clearing banks a circular letter advising them of the change in practice, the date of issue and the effective date of the circular to be the same for all Federal Reserve Banks. A suggested uniform circular is attached. The circular indicates that all Federal Reserve Banks are taking the same action regarding the collection of postal money orders and also indicates rather fully the reasons why the Federal Reserve Banks are discontinuing the handling of certain money orders."

The above-mentioned report was submitted at the meeting of the Conference of Presidents held on March 17, 1941. After consideration and discussion, the Conference of Presidents

"VOTED that the report on 'Handling of U. S. Postal Money Orders' be referred to the Presidents for study, after which the Presidents are to send their views to the Chairman of the Conference, and that if such views are in agreement the recommendations of the report be made effective, but if such views show substantial difference action on the report be taken at the next Conference of Presidents."

The minutes of the next following meeting of the Conference of Presidents held on June 11, 1941, contain the following:

"Inasmuch as no uniform agreement was obtained by correspondence on the report of the Committee on Handling of U. S. Postal Money Orders, the subject was reviewed in accordance with the resolution adopted by the Conference on March 17, 1941. After consideration it was

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VOTED that the substance of the report be accepted and that the subject matter, together with the comments, criticisms and suggestions made by various Federal Reserve Banks, be referred to the Committee for revision of the report and presentation to the next Presidents' Conference for further consideration."

In reviewing the correspondence received from the Presidents of the Federal Reserve Banks with respect to the report, it appears that eight of the Reserve Banks--Boston, New York, Richmond, Atlanta, St. Louis, Minneapolis, Kansas City and Dallas--approve the adoption of the Committee's recommendations without qualification, although St. Louis suggests a change in the last two paragraphs of the uniform circular letter, and New York thinks the circular can be improved. Two Banks--Philadelphia and San Francisco--do not suggest any change in the report but are rather inclined to the view that the present practice should not be changed. Both of these Banks, however, believe that the practice of the Reserve Banks should be uniform and are willing to go along with the other Federal Reserve Banks if the Committee's recommendations should be adopted. One Bank--Chicago--is in sympathy with the Committee's recommendations, but in view of present punch-card experiments being undertaken, does not want to make any change at this time. The remaining Bank--Cleveland--is opposed to making any change in its present practice and votes against adopting the Committee's recommendations.

The Reserve Banks that seem to have some doubt about the Committee's recommendations appear to feel that member banks are being

deprived of a service. While it is true that the banks which are now collecting postal money orders through the Federal Reserve System would have to make other arrangements if the Committee's recommendations were adopted, it is quite evident that the present service is being rendered at the inconvenience of the banks to which the money orders are being sent by the Reserve Banks for collection. It may be that fully as many banks are inconvenienced by the collection of postal money orders through the Federal Reserve System as are benefitted by the service.

The only suggestions with respect to specific changes in the Committee's report relate to the circular letter which the Committee recommended be sent by all Federal Reserve Banks to their member and nonmember clearing banks, advising them of the proposed change in practice. The Committee has considered these suggestions and recommends that the attached draft of circular be substituted for the draft attached to its March 11, 1941, report. While no other changes in the Committee's report of March 11, 1941, are recommended, the Committee again wishes to point out that the present practice followed by the several Federal Reserve Banks with respect to the collection of postal money orders is not uniform (see statement attached to March 11, 1941, report). If the recommendations of the Committee are not approved by the Conference of Presidents, it is suggested that the Conference consider whether the method of handling postal money orders should be made uniform or left to the discretion of each Federal Reserve Bank.

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Should this report receive favorable consideration by the Presidents' Conference, it is suggested that before the plan is put into effect and member and nonmember clearing banks notified thereof, formal approval of the Treasury Department be obtained of the tentative arrangements worked out between the Committee and the Treasury with respect to collecting money orders deposited with the Federal Reserve Banks by Government agencies and officials which are not drawn on or issued by postmasters in Federal Reserve Bank or Branch cities,

Respectfully submitted,

J. M. Rice

J. S. Walden, Jr.

E. L. Smead, Chairman.

FEDERAL RESERVE BANK OF

(Circular No. 0000)
(_____, 1941)

COLLECTION OF
U. S. POSTAL MONEY ORDERS

TO ALL MEMBER AND NONMEMBER CLEARING BANKS:

This is to advise that on and after _____, 1941, this Bank and other Federal Reserve Banks will not accept for collection from member or nonmember clearing banks, either as cash or noncash items, any postal money orders that are not drawn on or issued by a post office in a Federal Reserve Bank or Branch city, or Washington, D. C., and _____. We will continue after _____, 1941, to accept for collection as cash items money orders that are drawn on or issued by post offices in the cities referred to above.

Consistent with the foregoing, direct sending member banks and nonmember clearing banks should not send to any other Federal Reserve Bank, or to any Branch of another Federal Reserve Bank, any postal money orders not drawn on or issued by the respective post offices in the cities in which such other Federal Reserve Banks or Branches are located.

For the information of member banks and nonmember clearing banks we quote below paragraphs 1 and 2 of section 1429 of the Postal Laws and Regulations, which section is contained in Title VIII, Chapter 3, entitled "Payment of Domestic Money Orders".

* Each Federal Reserve Bank should insert here the names of cities, if any, adjacent to its head office and branch cities on which money orders can be collected locally by the Reserve Bank or Branch without the payment of a fee.

"Under such rules and regulations as the Postmaster General shall prescribe, postal money orders may be issued payable at any money-order post office, and on and after the date upon which such rules and regulations become effective all money orders shall be legally payable at any money-order post office, although drawn on a specified office; and as compensation for the extra labor involved in paying a money order at an office other than that on which the order is drawn the Postmaster General is authorized to exact a fee of the same amount as that charged for the issue of the order (act of June 16, 1934, Public, No. 366, 73d Cong.).

"2. An original domestic money order shall be paid at its full face value if presented at the office on which drawn or at the office of issue at any time within the period of its validity, which is 1 year from the last day of the month in which issued. For the first 30 days after issue any domestic money order issued in the continental United States (except Alaska), and drawn on an office located therein, may be paid for its face value, less the fee prescribed by the law quoted above, at an office other than that of issue or that on which drawn, provided the office at which presented is located within the continental United States (except Alaska)."

Prior to August 1, 1934, when the revised Regulations of the Post Office Department became effective, Federal Reserve Banks could collect all postal money orders at their local post offices without the payment of a fee, regardless of where such orders were issued or where they were payable. When the Post Office Department revised its Regulations to provide a fee for cashing any postal money order when presented at an office other than that of issue or that on which drawn, Federal Reserve Banks, as a general rule, began sending money orders not drawn on or issued by postmasters in Federal Reserve Bank and Branch cities to member or par nonmember banks located at the points on which the orders were drawn or at which issued as cash items for collection and reimbursement. This practice has not proven to be entirely satisfactory since many member and par nonmember banks feel that they are entitled to make a charge for their services in presenting the money orders to their local post offices for payment, and some banks have declined to handle postal money

orders for the Federal Reserve Banks unless they are permitted to make a charge for their services.

In view of these developments and since the payees or holders of postal money orders can collect all of them from their local post offices, and such of them as are drawn on or issued by their local post offices without the payment of prescribed fees, there is no adequate reason why the Federal Reserve Banks should continue to receive for collection any money orders, other than those (specified in the first paragraph of this circular) which can be cashed by the Federal Reserve Banks themselves for their member and nonmember clearing banks free of fees or other collection charges.

President