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METHODS OF COLLECTING COUNTRY CHECKS

BY

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THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

LOUIS CONRAD MOSCHEL

ENTITLED Methods of Collecting Country Checks

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE DEGREE

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PREFATORY.

In the preparation of this thesis the writer has not attempted to present anything especially new upon the subject of collecting country checks, neither has he aimed to startle the banking fraternity by bringing before it any novel method for the solution of the problem. The writer, through both a theoretical and practical study of the methods of collecting country checks, became interested in the subject and, finding that it was in a state of chaos, owing to the fact that those who were primarily interested in the problem were too busy to bring it to a literary stage, he has made an effort to collect the fragments of literature on the subject into a systematic whole. If the writer has succeeded in presenting in a more concrete form the condition of the country check problem and the methods that have been adopted to solve it together with a criticism of each of them, he shall feel justified for his effort.

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CHAPTER I.

I. PRESENT CONDITION OF THE PROBLEM.

There is probably no business to-day that has made a more marked and steady progress in the simplification of its methods than that of banking. Where a method has been found that was cumbrous, or that tended in any way to make banking unsound, a speedy elimination of such method was made. Yet, in spite of all this development toward sound banking, the almost antiquated practice of collecting country checks in a roundabout way has been permitted to go on, checked now and then by the adverse decision of some court, only to be continued more vigorously afterwards. So widespread has this practice of indirect collection become, that most banking problems have paled into insignificance in comparison to it. In fact, this practice has become so abominable that banks are unable to give the accommodations that business demands. As much as thirty per cent is found in the statements of banks representing the amount due in country checks from other banks; this sum is scattered all over the country, and why, simply to save the exchange that a direct collection would entail. The bank into whose hands the check first comes, having no account with the bank upon which the check is drawn, nor, as it may be, with any bank in the same town, sends it at hazard to any correspondent in any neighboring town with whom the receiving bank may happen at the time to have any transactions open. This correspondent, not happening to have any account with the bank drawn upon,

In

the amount great

on account of it

And why? simply

sends the check to a correspondent with whom a transaction is open; and so the process of collection by a circuitous route continues, regardless of the delay of time or the danger of loss that is occasioned, until both sides of the check are so marked with indorsements as to resemble a "Chinese Puzzle". The sole question that the banks seem to consider in this practice is; How can we so direct this check as to shift the incidence of exchange?

The following illustrations, taken from a pamphlet published by the Third National Bank of Cincinnati, are typical examples of this bank's own experience, showing the absurdity and danger of indirect collections. "Straight lines have been used as sufficient for the illustrations. Had we been able to give the angles and deviations of the mail routes as they exist in fact, the absurdity of the system would be even more apparent".

Check for \$6.25 on Troy, Ohio.

Starts at Indianapolis, Ind.



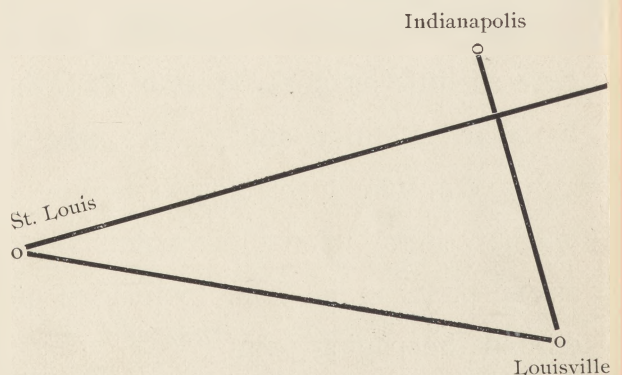
Indianapolis to Louisville.

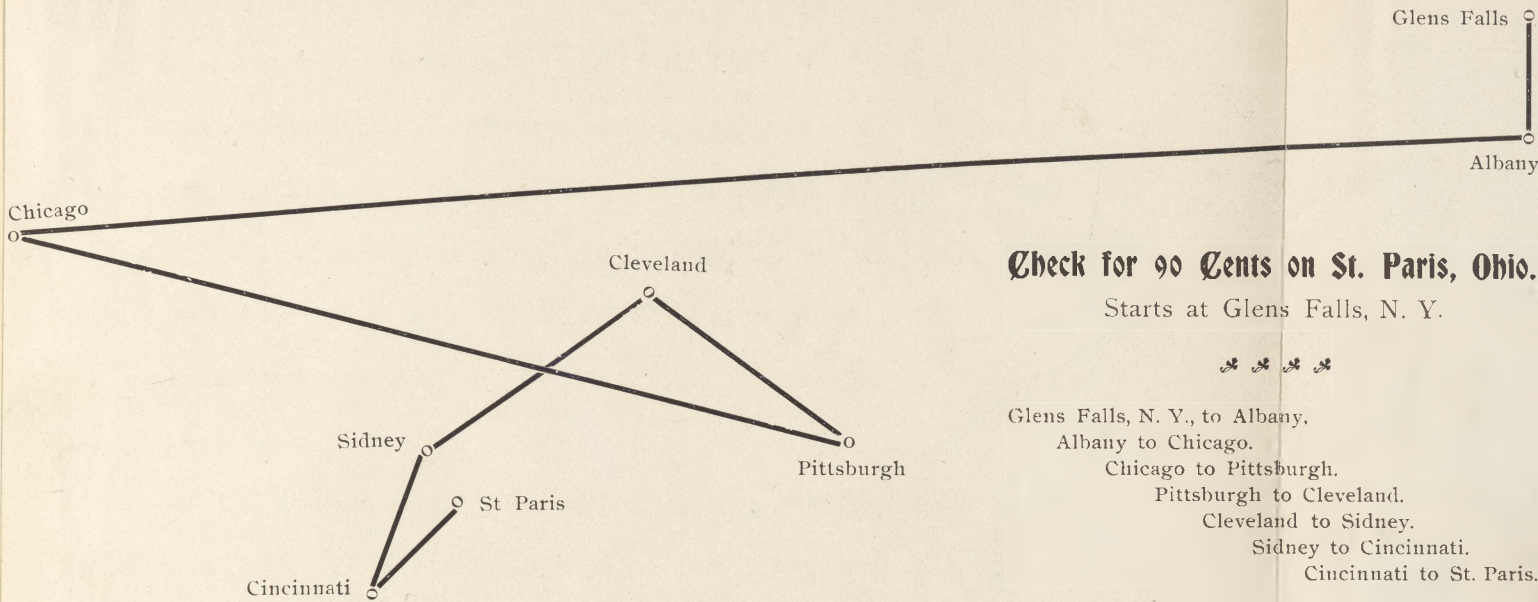
Louisville to St. Louis.

St. Louis to Columbus, Ohio.

Columbus to Cincinnati.

Cincinnati to Troy.





The system of indirect collection involved three factors that are detrimental to sound and judicious banking.

Lack of knowledge concerning
1-Standing and reliability of the remitting banks, thus making the ultimate collection of outstanding checks hazardous, and delaying protest.

2-The amount of money continually in transit, not being available immediately, prevents banks from extending their patrons the accommodations that are demanded, and is practically a method of loaning money without interest.

3-Expense of postage.

The courts in a number of our states have recognized the danger of the system of indirect collection and have rendered decisions adverse to the practice. The following decisions show the position of two courts upon this system and they have been sustained by a number of other courts in the United States.

Bank title

COLLECTION OF CHECKS.---ENDORSEER AS WELL AS MAKER RE-
LEASED IF NOT SENT DIRECT TO TOWN OR
CITY WHERE PAYABLE. *omit*

Supreme Court of Alabama. Watt vs. Gans; April 15, 1897.

The Supreme Court of Alabama has recently decided an interesting case which stamps disapproval on a very usual way of sending forward for collection out-of-town items.

A check drawn upon a bank in Greenville, Alabama, was deposited on December 13, with a bank in Philadelphia, Pa., and on that day the Philadelphia bank sent it for collection to its correspondent in Charleston, S. C. The Charleston bank sent its Alabama items to Montgomery, Alabama. The Montgomery bank sent it to its correspondent in Greenville. The check reached Greenville December 19. The bank on which it was drawn closed its doors the 18th. Had the Philadelphia bank sent the check direct to Greenville, it would have reached there the 15th of December, on which day the bank on which it was drawn paid all demands on it.

The Court held that this delay discharged the maker of the check.

By reading the opinion of the Court it will be seen that the position here taken has been sustained in many other States.

The procedure of the Philadelphia bank, viz: the sending of items in certain localities to one central bank is common in almost all large banks, and this decision should excite consideration.

The rule laid down in this case carried to its legitimate conclusion means that it was negligence in the Philadelphia bank to have sent the check to an intermediate State or locality, when time could have been saved in sending it to some solvent bank in the immediate locality. The loss in this case arose from the failure of the bank on which the check was drawn, but the reasoning of the Court can be easily applied to the liability of an endorser on a check or draft which has been forwarded for collection in this usual but indirect way.

The endorser of a check can only be made liable by its prompt presentation and protest if not paid. To quote from the decision in this case-"The law imposes upon the holder of a check the duty of presenting it for payment within a reasonable time; and if he fails to present the check seasonably the delay is at his own peril".

It is here decided that it is not prompt presentation of a check to forward it for collection through two intermediate points.

In large cities it is the exception where checks aggregating many hundreds of thousands are not daily sent for collection in this indirect way.

(From McMaster's Commercial Decisions, Volume 1.)

Such then, is the present condition of the country check problem. That a change must be made in conformity to sound, legitimate, and consistent banking is evident. It shall be our purpose in the succeeding pages to examine the methods that have already been adopted to eliminate the evil. However, before we proceed upon this investigation, it will be necessary to answer one question ^{the} namely, ^{whether} should the use of the country check ^{be} encouraged? If the country check is an evil and an imposition upon bankers, then some such system should be universally adopted as would discourage ^{its} the use of the country check. On the other hand, if the country check is a credit instrument vital to the commercial development of our country, essential to the growth of banking, and necessary as an integral part of our currency, then some such system of collection should be adopted as would encourage the use of the country check. With this consideration before us, we shall proceed in our next chapter to enquire into the merits of the country check itself.)

CHAPTER II.

II THE COUNTRY CHECK.

The individual check against a bank account is today the principal currency of the United States. Its growth has been so rapid that, as a medium of exchange, its use amounts to about ninety per cent of the total exchanges in the country. This great increase in the use of checks is not confined to the city check alone, but country merchants especially have found the use of the country check as a means of remittance to outside points almost indispensable in the conduct of their business. This has been due quite largely to the lack of an elastic bank currency. The check supplies the desired elasticity, because as quickly as the transaction for which the check is drawn is completed it is redeemed and cancelled. "Just the moment it ceases to be wanted as a medium of payment it is irresistibly attracted to the bank of its redemption". The country check has come to stay, and any attempt to discriminate against it or to force it out of existence is futile and contrary to the best interests of both bankers and their patrons.

Not only has the increased use of checks made our currency more elastic, but it has also caused a greater economy in the use of currency and has reduced to a minimum the danger of a scarcity of a circulating medium. By causing a lessened demand upon the supplies of actual money, the use of checks acts as a buffer in relieving those symptoms which precede financial panics. In other words, the check is the med-

ium which lessens the fear that banks will fail to meet the demand for actual money.

Besides the greater elasticity and superiority of the check over the bank note, in the United States, there has been another great reason for the increased use of the country check. The improved means of transportation and communication, and the concentration of the business of the country by the advancing appliances of civilization have made our country almost as nearly unified as the city itself. Today, our western cities are as near New York as was Philadelphia in the days of the stage-coach. With such conditions existing, it is but natural that the check as a superior means of remittance should be extended and fostered.

There is another phase of the use of the country check that needs to be considered at this point. Bankers do not seem to recognize that the increasing employment of the country check confers benefits on the banking business far beyond any disadvantages that may be experienced. They continually emphasize the abuse of the country check but fail to see that it may have its advantages. It must be admitted by the most vigorous opponents of the country check that its use by the people will in the end increase the business of banking and will ultimately make it more profitable. Should people discontinue to deposit their money in banks and keep it in their own possession, many banks could be dispensed with. The real situation is, that the more the patrons of a bank are permitted to use their private check the greater will be the increase in

deposits, and anything that tends to repress the use of checks will cause a decrease in deposits and a consequent decrease in the supply of loanable funds. It is from deposits and loans that commercial banks realize their profits, and it therefore becomes necessary to eliminate any scheme or method that in the end diminishes deposits.

The best advertisement that a bank can have is a satisfied customer. Today almost every depositor demands the privilege of remitting by his personal check. The higher organization and development of modern business makes every minute of his time valuable, and consequently he will not consent to be put to any inconvenience in his remittances. The time lost by purchasing a bank draft, instead of issuing an individual check, is far greater and of more importance than most bankers will admit. And from the standpoint of the creditor, the man who will remit promptly if permitted to issue his check from his private desk will fail to do so if he is forced by his bank to take the time of remitting by a more inconvenient and round-about method. If to save a little expense and time, a bank causes a greater public inconvenience, the demand for its services will be found to decrease.

An investigation into the enormous growth of the post-office money order system will serve to emphasize the necessity of considering carefully the interests of bank depositors. During the last fiscal year² somewhat over 50,000,000 money orders were issued, and the total of the domestic orders alone amounted to \$378,511,497. The total revenue that the

² June, 1903 to July 1904.

government secured from this source was \$3,626,676. This volume of business, amounting to nearly \$400,000,000, ~~which~~ might as well have been a part of the annual bank deposits of our country as not. True, much of this business came from those who seldom use banks; yet the fact remains, that banks are failing to educate and encourage people as to the advantage of a bank account in making remittances. Were people given the privilege of issuing checks from their own business places or in their homes and sending them where they choose, instead of being compelled to go to the post-office or express-office, an astonishing growth of banking deposits would result.

Our conclusion is, that commercial interests and the development of banking itself demand that the use of the country check should be encouraged. With this conclusion in mind, and with the method of indirect collections as considered in the preceding chapter clearly before us, there remains but one logical thing to do, namely, to adopt some universal method of collection that is just, quick, safe, and economical. Several methods of collection have been adopted, and are described in the following chapters.)

CHAPTER III.

III. THE LONDON SYSTEM.

The country check as an indispensable means of remittance and as an extraordinary economy in the use of money was recognized by the country bankers of England more than fifty years ago. The great progress of industry and commerce gradually made the use of the country check in England more desirable and necessary, until it became almost a universal form of payment. Country banks charged exchange for the collection of their checks and made a considerable profit as a result. Each country banker, receiving checks on other country banks, sent them to those other bankers by mail and requested that the amount be paid by the London agent of the banker on whom the checks were drawn, to the London agent of the bankers remitting them. Each remittance involved a separate payment in London.

It was soon realized, however, that this method of collection was too cumbrous and indirect. So, in 1858, the country bankers took the initiative and proposed as a remedy, the collection of all country checks of England and Wales through a Clearing House to be established. The London bankers at first opposed the plan, but realizing their inability to suppress the growing use of the country check, agreed to a conference with the representatives of the country banks. It was found that a separate and distinct clearing house was needless, as the London Clearing House could serve the purpose. Finally on November 23, 1858, the clearing of country checks through

the London Clearing House was actually begun. The plan included practically every bank throughout England and Wales, a territory comprising 58,186 square miles.

The rules, as originally adopted for the collection of the country checks, and as have been used up to the present time are as follows;*

1-A clearing to be held in the middle of each day for the interchange, among London bankers, of checks on their correspondents in the country, placed in their hands for collection.

2-Each London banker to remit for collection to his country correspondents the checks drawn upon them, saying, "Please say if we may debit you~~f~~—for checks enclosed".

3-Country bankers wishing to avail themselves of this clearing, to remit their country checks to their own agent, to stamp across them their own name and address, and that of their London agent.

4-Any country bank not intending to pay a check sent for collection, to return it direct to the country or branch bank, if any, whose name and address is across it.

5-Each country banker to write by return of post to his London agent in reply, "We credit you~~f~~—for checks forwarded to us for collection in yours of—". Adding in case of nonpayment of any such checks, "having deducted~~f~~—for check returned to Messrs.—, at—, and~~f~~—returned to Messrs.—, at—".

* "Clearing Out of Town Checks".-Hallock.

The plan itself is simple. Every country bank throughout England and Wales has a clearing agent in London, and it is through these agents that the entire collection of country checks is carried on. For example, suppose a Birmingham bank has received for collection fifty checks on banks in various parts of England and Wales. These checks are made up and listed in the evening and are sent to the London agent the following morning and are carefully assorted according to the different London agents of the banks on which the checks are drawn. Between the hours of 12 noon and 1 o'clock, these ⁵⁰ checks are taken to the London Clearing House by the agent of the Birmingham bank and exchanged with the agents of the banks for which our London bank is clearing agent. These checks are then taken to the bank of the agent and assorted. In the evening, they are sent out to the various banks throughout England and Wales, where they arrive the following morning. Our Birmingham bank, as all the others, now carefully examines each check, and in the daily letter of the evening advises the London agent to debit the bank's account accordingly. The London agent now makes its settlement with the London Clearing House by draft on the Bank of England and the collection is complete. The entire time that has elapsed is but two days. It will be observed that country checks are not credited in London until paid, that is, any deposit of them cannot be used until then. No charge is made against the London clearing agents by the country banks for remittance in payment of checks drawn on themselves. The cash cost of handling the

checks in London is paid by the country banks, each of them being charged a commission by its clearing agent.

The introduction and maintenance of the London System of collecting checks in England and Wales has been accompanied with few difficulties, ^{because a} owing to there being few great banks each with hundreds of branches controlling the entire banking situation. To introduce the system into the United States, where the independent bank reigns and where the territory is much greater and less closely centered upon one locality, would mean much opposition and ultimate failure.

The merits of the London System may be briefly summarized as follows;

1-It encourages the use of the country check and therefore supplements the volume of currency; gives accommodation to depositors, and consequently increases deposits.

^{It} 2-Eliminates indirect collection of checks.

^{It} 3-Causes a speedy and direct collection of checks, thus bringing about immediate redemption, when it has served its purpose as a medium of payment.

^{It} 4-Places the cost of collection upon the country banker and ultimately upon the drawer, where the cost properly belongs.

^{It} 5-Causes a great saving in postage.

^{It} 6-Insures quick protest when the check is not good.

CHAPTER IV.

II. THE BOSTON SYSTEM.

As the London System of collecting country checks is distinctly English, so the Boston System of clearing country checks is distinctly American. So widely has the Boston System departed from what has been considered sound business principles, and so tenaciously have the banks within the system held to their plan, that the attention of the entire business world has been ^{attracted} commanded.

The bankers and business men of New England, like those of England, early began to recognize the utility and efficiency of the country check, and the necessity of adopting some plan of direct collection which would lessen expense and save time. To secure the adoption of any method of clearing meant that much opposition, manifested especially by the Boston banks, had to be overcome. These banks had numerous correspondents throughout New England, and it was felt that if a clearing system for country checks were adopted the reciprocal relations between the Boston banks and their correspondents would be broken up. It was not, however, until 1877 that any positive plan for the direct collection of country checks was seriously considered. The initiative was taken by the Boston Clearing House Association and was prompted by the decline in the banking business and by the enormous cost of \$200,000 a year that the Boston banks had to pay for the collection of their country checks. It was proposed by the asso-

ciated banks of Boston that a new National bank be organized by themselves to take entire charge of collecting all country checks, thus consolidating the work and dividing the expense. This bank was simply for collection and not for deposit. The plan was not adopted, because of the opposition of some of the associated banks, and because it was considered unlawful. In 1883 the associated banks, finding that their annual expense for collecting country checks had grown to be \$400,000, came forward with recommendations and adopted a constitution, but to no avail. One of the Boston banks now came forward and proposed to collect the country checks of New England, provided it were permitted to collect them all. This proposal aroused the antagonism of the remaining Boston banks, and so was doomed to failure.

The problem was now ^{then} (1898) taken up by a committee of the Bank President's Association, assisted by Mr. James C. Hallock, son of the man whose labors brought about the establishment of the New York Clearing House System. The committee of Bank President's recommended that the Boston Clearing House undertake the collection of Country checks, confining its operations first to Massachusetts and then, if the plan proved successful, ^{including} the entire New England country [should be included]. Mr. Hallock felt that the recommendation of the committee was too radical to be adopted by the Boston banks and so he proposed the introduction of the London System. He visited all the Boston bankers, securing all but six ^{the signatures of} [of their signatures] to a statement that they favored an improved plan of col-

lecting country checks, at the same time not committing themselves to any definite scheme. In his investigations he found that the Boston bankers strenuously opposed the introduction of the London System, and he then turned to the plan proposed by the committee of bank presidents. The Clearing House Association now took up the plan and sent circulars broadcast to all the New England banks, asking them if they would support the plan of collecting their checks through the Boston Clearing House at par. Many approved of the plan at once. Others opposed it because they were reluctant to give up the exchange which they secured through the collection of their own checks. The Massachusetts banks supported the plan from the beginning, and an organization known as the Massachusetts Bank Cashier's Association asked for a conference with the committee of the clearing house for the purpose of co-operation in the movement. Two important changes in the proposed plan were demanded by the Massachusetts Bank Cashier's Association.

1-That the country banks be allowed to remit New York exchange or Boston exchange, according as it was most convenient for them.

2-That they be permitted to ship currency at the expense of the Boston banks when Boston or New York exchange was not available.

Both demands were conceded, and on June 8, 1899 the clearing of Massachusetts checks through the Boston Clearing House at par began. Two hundred banks were included in the system, leaving only twenty banks in the entire state of Mass-

achusetts outside of the system. Some of these latter banks charged exchange of 1/10, 1/20, 1/40 of one per cent. Others charged 25, 15, 10, or 5 cents per letter. This was the beginning of the end, for in less than a year the plan had proved that it was not an experiment, and the other States of New England were gradually added as follows:

Maine, September 21, 1899.

Rhode Island, November 9, 1899.

Connecticut, November, 9, 1899.

New Hampshire, January 23, 1900.

Vermont, January 23, 1900

shown in paragraph

The number of banks adopting the Boston System within a year after its inauguration was 519, out of a total number of 631 in New England. Today all but 76 banks in New England remit at par to the Boston Clearing House Association for all their country checks collected.

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The following is a list of these nonpar banks with their locations.

Checks on Banking institutions, as listed below, will be received on deposit subject to a discount of one-tenth of one per cent. under the Rules and Regulations adopted by the Clearing House Association.

MAINE.

Caribou, Arrostook Trust & Banking Co.

Fort Fairfield National Bank.

Fort Kent Trust Co.

Houlton, Farmers National Bank.

Caribou National Bank.

Houlton, First National Bank.

Presque Isle National Bank.

Presque Isle Merchants Trust & Banking Co.

VERMONT.

Bradford National Bank.

Barton National Bank.

Bethel, National White River Bank.

Bristol, First National Bank.

Burlington, Howard National Bank.

Burlington, Merchants National Bank.

Burlington, Trust Company.

Chelsea, National Bank of Orange County.

Chester, National Bank of.

Danville, Caledonia National Bank.

Derby Line, National Bank of.

Enosburg Falls Savings Bank & Trust Co.

Fairhaven, Allen National Bank.

Fairhaven, First National Bank.

Hardwick Savings Bank & Trust Co.

Island Pond National Bank.

Ludlow Savings Bank & Trust Co.

Lyndon, National Bank of.

Lyndonville National Bank.

Manchester Centre, Factory Point National Bank.

Middlebury National Bank.

Middletown Springs, L. & A. Y. Gray.
Montpelier National Bank.
Morrisville, Union Savings Bank & Trust Co.
Newport, National Bank of.
Newport Orleans Trust Co.
North Bennington, First National Bank.
Northfield National Bank.
Poultney, First National Bank.
Proctorsville, National Black River Bank.
Randolph National Bank.
Richford Savings Bank & Trust Co.
Rutland, Clement National Bank.
St. Albans, Welden National Bank.
St Albans, Franklin County Savings Bank.
Vergennes, National Bank of.
White River Junction, National Bank of.
Woodstock National Bank.

NEW HAMPSHIRE.

Berlin National Bank.
Colebrook, Farmers & Traders National Bank.
Colebrook, National Bank.
Gorham National Bank.
Groveton, Coos County National Bank.
Lancaster National Bank.
Lancaster Trust Company.
Lisbon Savings Bank & Trust Co.

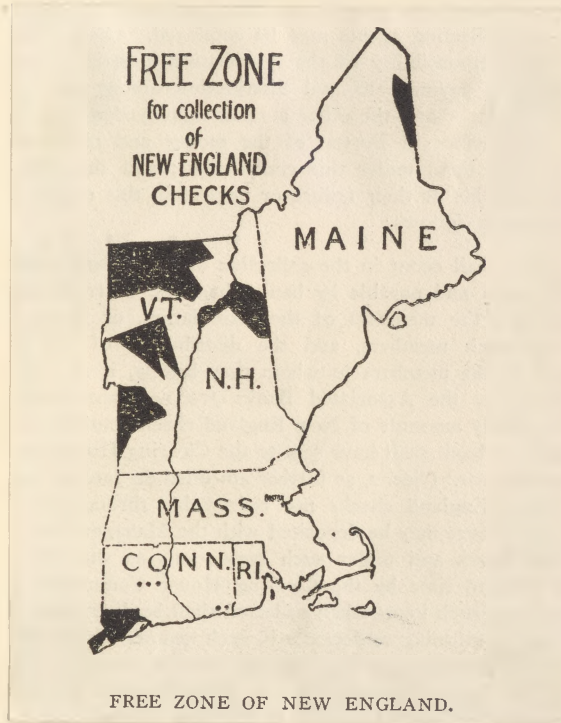
Littleton National Bank.
North Conway Loan & Banking Co.
Whitefield Bank & Trust Co.
Woodsville National Bank.

CONNECTICUT.

Ansonia National Bank.
Bristol National Bank.
Danbury National Bank.
Danbury City National Bank.
Derby, Birmingham National Bank.
Greenwich Trust, Loan & Deposit Co.
Mystic River National Bank.
Naugatuck National Bank.
New Britain, Mechanics National Bank.
New Britain, National Bank.
New Canaan, First National Bank.
New London, National Whaling Bank.
Norwalk, Fairfield County National Bank.
Norwalk, Central National Bank.
Seymour, Valley National Bank.
South Norwalk Trust Co.
Thomaston National Bank.

April 10, 1905.

The following map taken from James C. Hallock's "Clearing Out-of-Town Checks" shows more clearly the location of the non-par banks, and will serve to emphasize more strongly in what directions their affiliations, which we will discuss later, naturally lie.



Of course, the banks of New England, which remit at par to the Boston Clearing House for checks drawn on themselves, make a regulated charge for collecting the great mass of checks which come from all parts of the United States. The list of charges for such collections is as follows;

RULES AND REGULATIONS REGARDING COLLECTIONS OUTSIDE THE CITY
OF BOSTON BY BANKS AND TRUST CO'S.

SECTION I. These rules and regulations shall apply to all members of the Association, and to all banks or trust companies or others clearing through such members. The parties

to which the same so apply are hereinafter described as collecting banks.

SECTION 2. For ALL ITEMS collected for account of the governments of the United States, the state of Massachusetts, or the city of Boston, for New England checks collectible at par through the Boston Clearing House, and for ITEMS payable in the cities of New York, Providence, Albany, Troy, Jersey City, Newark, Hoboken, Bayonne, Philadelphia, and Baltimore, the charges shall in all cases be discretionary with the collecting bank, and shall not be governed by the provisions of these rules and regulations.

SECTION 3. For ALL ITEMS payable at any point in New England, excepting items on the city of Providence R. I. and checks on those banking institutions which pay checks on themselves sent through the Boston Clearing House by remitting therefore promptly on receipt thereof, without charge, checks on some member of the Boston or New York Clearing House, or upon some banking institution clearing through some such member, the collecting bank shall charge not less than one-tenth of one per cent, of the amount of the items respectively, and in no case less than ten cents upon any one item, but all such items received from any one depositor or correspondent on the same day may be added together and treated as one item for the purpose of fixing the amount to be charged.

SECTION 4. For ALL ITEMS received, except on the points declared discretionary in section 2, payable at points in Delaware, District of Columbia, Indiana, Illinois, Iowa,

Kentucky, Maryland, Michigan, Minnesota, Missouri, New Jersey, New York, Ohio, Pennsylvania, Virginia, West Virginia, Wisconsin, and Canada, the collecting bank shall charge not less than one-tenth of one per cent. of the amount of the items respectively, and in no case less than ten cents upon any one item; but all items described in this section received from any one depositor or correspondent on the same day may be added together and treated as one item for the purpose of fixing the amount to be charged.

SECTION 5. For ALL ITEMS payable at points in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indian Territory, Kansas, Louisiana, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, and Wyoming, the collecting bank shall charge not less than one-quarter of one per cent. of the amount of the items respectively, and in no case less than ten cents upon any one item; but all items described in this section received from any one depositor or correspondent on the same day may be added together and treated as one item for the purpose of fixing the amount to be charged.

SECTION 6. The charges herein specified are in all cases to be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall directly or indirectly allow any abatement, rebate, or return, for or on account of such charges, or make in any form any compensation therefor.

SECTION 7. In case any member of the Association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the Chairman of the Clearing House Committee, or in his absence to the Manager of the Clearing House. Upon receiving information from any source that there has been a violation of the same, said Chairman, or in his absence said Manager, shall call a meeting of the Committee. The Committee shall investigate the facts and determine whether a formal hearing is necessary. In case the Committee so concludes, it shall instruct the Manager to formulate charges and present them to the Committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violations, which shall have the right at any hearing to introduce such relevant evidence and submit such arguments as it may desire. The Committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the Committee shall call a special meeting of the Association and report thereto the facts with its conclusions. If the report of the Committee is approved by the Association, the collecting bank charged with such violation shall pay to the Association the sum of one thousand dollars; and in case of a second violation of these rules and regulations any collecting bank may also, in the discretion of the Association,

be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the Association.

METHOD OF HANDLING THE CHECKS.

The Boston System, like the London System, is simple yet the machinery is replete with details. It will be remembered that country checks are cleared through the London Clearing House like city checks. In the Boston System, however, country checks are taken to the Boston Clearing House and left with the manager who credits the depositing banks and forwards the checks to the country banks drawn upon. The time for depositing country checks at the Boston Clearing House is not later than 3:15 P. M., and excepting twelve banks in Massachusetts whose railway facilities are such as to make it necessary for the deposit of their checks not later than 1 P. M. daily so as to get out on an early mail. The exact method of clearing the checks is as follows:

A Boston bank, having received country checks, first indorses them over to the Boston Clearing House Association. They are then arranged in separate packages by states and alphabetically according to the banks drawn upon. Each package has then attached to it what is known as an out-of-town slip. This slip gives the name of the bank drawn upon, the date, the amount of the checks, and the Boston bank depositing them. To this slip is attached a stub which gives in duplicate the facts contained in the out-of-town slip itself. The out-of-town slip for each state has a distinct color which facilitates the clearing, as is shown on the opposite page.

Boston Clearing House.

No. Conway Loan & Banking Co.,
North Conway, N.H.
FROM

k,

nk,

37

ank,

ank,
Maine.

Bank,
n.

DATE.....

No. Conway Loan & Banking Co.,

k,

nk,

ank,

ank,
Maine.

Bank,
n.

These packages, which average seven thousand per day, containing on an average ten checks each, are then deposited at the desks of the clearing house, which are arranged alphabetically according to the location of the city or town on which the check is drawn. Here the clerks detach the stubs from the out-of-town slips, which are vouchers that the manager of the clearing house holds against the banks, charging him with the checks deposited. Should any error be found between the out-of-town slip and the stub, the depositing bank is notified and an explanation called for. The clerks at the Cashier's desk begin assorting the checks immediately after 3 o'clock, arranging in separate piles the packages on each town. As soon as the assorting is completed, the clerks fill out what is known as the letter of transmission, [as is shown on the opposite page.] This letter contains a list of the amounts of each check, the total, [together with] a detachable coupon, containing the same data. This letter is now attached to the separate packages for each country bank. The whole work is now verified and if there is no error the stub is detached, which is a voucher for the manager of the clearing house against the country bank to whom the checks are sent. The mailing is now done with so much expedition that by five o'clock the entire work is completed. *Insert form 10/30*

In order to secure punctuality and reduce errors to a minimum, a list of fines has been adopted as follows;

1-Failure of a clerk to be at his desk at the Clearing House on time, \$2.00.

C. A. RUGGLES, Manager.

BOSTON CLEARING HOUSE.

To the Cashier of the

Boston,

National Bank of

First *Reading*

Dear Sir:

Enclosed I beg to hand you checks on your Bank as listed below, for the amount of which please remit me by return mail a draft on your Boston correspondent, payable to the order of the Manager of the Boston Clearing House.

Please do not delay the protest or return of any check not good, but return it, under protest if necessary (*deducting check and fee from remittance*).

Yours truly,

C. A. RUGGLES, Manager.

9,601.06
9,295.29
290.24
7,699.77
858.13
21,864.01
1,726.97
37.43
314.28
9,843.34
623.83
537.29
3,259.12

65,960.76

National Bank

Reading

Date,

Amount, 65,960.76

2-Failure to deposit credit tickets when designated,
\$4.00.

3-Error in the amount of a credit ticket, \$4.00.

4-For an incomplete or incorrectly filled credit
ticket, \$1.00.

The entire force, however, has grown so expert that
an error is indeed a rare occurrence.

The country banks make their remittances directly
to the manager, and he settles with the banks that deposited
the checks for collection. Ninety per cent of the country
banks remit in drafts on their Boston correspondents. The
remainder remit in drafts on New York, in currency, or in
checks returned unpaid. The New York exchange and currency
is charged to the Boston banks, according to the amount of
business they do with the Clearing House. The manager makes
his settlement with the Boston banks through the regular morn-
ing clearing on the second business day after the checks are
deposited.

THE VOLUME OF BUSINESS DONE.

The amount of business, represented by the country
checks that have passed through the Boston Clearing House, is
as follows:

June 8, 1899, to Jan. 1, 1900; \$189,985,167.

Jan. 1, 1900, to Jan. 1, 1901; \$538,500,227.

Jan. 1, 1901, to Jan. 1, 1902; \$563,323,132.

Jan. 1, 1902, to Jan. 1, 1903; \$588,172,248.

Jan. 1, 1903, to Jan. 1, 1904; \$651,996,695.

Jan. 1, 1904, to Jan. 1, 1905; \$594,461,353^{1/2}

It will be noticed that the increase of business was gradual until the last year when there was a decrease of \$57,000,000. of business. This decrease was due to two causes:

1-The usual lessening of business during a presidential year;

2-The fact that a number of the banks found it to their advantage to collect checks in other ways—as is explained by the following statement of one of the officers of a Boston bank—"The National Shawmut Bank still uses the New England clearing largely, and last year collected probably between \$40,000,000. and \$50,000,000. by that means. We use our out of town checks to some extent to obtain deposit accounts of different banks. If by sending the checks ourselves by mail instead of through the New England Clearing, and allowing the bank to delay its remittance for a day or two, we can obtain a good account, it is for our interest to do so. Then again, some banks allow us to charge up their checks to them and so we avoid the small expense of the Clearing House".

THE COST OF CLEARING.

The entire expense of clearing the country checks through the Boston Clearing House is borne by the Boston banks, which are assessed pro-rata on the amount of business transacted. The expense for collecting country checks for each year has been as follows:

First year- 10 cents per thousand dollars.

Second year- 8-1/2 cents per thousand dollars.

Third year- 7 cents per thousand dollars.

Fourth year- 7 cents per thousand dollars.

Fifth year 6-3/4 cents per thousand dollars.

At the rate of 6-3/4 cents per thousand dollars the approximate cost to the Boston banks for collecting their country checks is \$40,000. per year. This includes everything at the clearing house and stands in contrast to the \$400,000. that the banks had to pay under the old system when every country bank charged exchange on every item collected.

MERITS OF THE BOSTON SYSTEM.

1-It solves absolutely the problem of indirect collection. The time taken to collect the checks is but two days, thus minimizing the danger of bad checks by speedy protest.

2-The System encourages and stimulates the use of the country check.

3-An enormous saving in postage is gained. No estimate has as yet been made to show the difference in postage cost between the Old System and the Boston System, but the difference must be a large amount, for when each Boston Bank was sending a single letter daily to the majority of the country banks, the expense must have been at least double that which is now attached to the collection of country checks.

4-The Boston System has brought about a fixed basis of exchange to the country banks on time items. This is now a source of income, while before it was rather uncertain. Now, in many cases the country banks make a charge of \$.50 to \$2.00 per month on such accounts as are not profitable.

5-Under the Boston System, if a country bank fails, only the checks on that one bank for one day are affected not

a whole weekly or monthly account, as is true in other cases.

6-The Boston System brings remote communities in closer financial touch, thus recognizing the unity of the country regardless of state lines.

7-The Boston System resists competition between banks. Where high rates of exchange are charged on country checks, interest must necessarily be high.

8-The Boston System has broken up the scheme of passing fictitious checks between different banks, in order to secure exchange for remitting the proceeds.

CRITICISM OF THE BOSTON PLAN—BOTH AS AN INDIVIDUAL AND AS
AN UNIVERSAL SYSTEM.

1-The Boston System of clearing country checks imposes the cost of collection upon the Boston bankers, which seems to the writer unjust. There is no banking principle that is more sound than that the drawer of a check should pay for the cost and only the cost of its collection. The Boston System violates this principle.

2-The Supreme Court of Pennsylvania decided that no check should be sent to the bank on which it is drawn, because no bank is the proper agent to undertake the collection of its own checks. Should any bank send a check directly to the bank on which the check was drawn, the depositor, in the event of the failure of the country bank before payment, can hold the sending bank liable. A number of legal authorities have endorsed this decision, saying that a bank on which a check is drawn is a debtor for the amount, and a debtor is

not a proper agent to collect his own obligations. This decision must be taken into consideration in discussing the extension of the Boston System. Of course there is another side to the matter. Should this decision be universally regarded, it would often force the collecting bank to imperil the real interests of its depositors. When there are several banks in one town, probably one bank is much larger and stronger than the others. It would be the duty of a collecting bank, according to this decision to send the checks on the strong bank to one of the weaker banks in order to escape responsibility for itself.

3-Another difficulty may occur when a country bank sends an uncollectable draft to the Boston Clearing House in payment for checks collected, and then fails. The Clearing House can only pay each depositing bank a proportion of what is collectable from the deficient bank. This might be a serious problem in the case of large checks [which often pass through the Boston Clearing House.]

4-The geographical question in the case of the Boston System was one of easy solution, owing to the compactness of the New England States and to Boston's being the natural financial center. As between Chicago and St. Louis, or as between either of those points and Kansas City, for example, the selection of a free zone would be extremely difficult. Or as has been suggested, New York and Western New England, New Jersey, Pennsylvania, Delaware and Maryland comprising 150,000 square miles would make an ideal free zone. This is a problem which

is far less easy of solution than in the case of the Boston System.

WHY ALL THE NEW ENGLAND BANKS ARE NOT IN THE BOSTON SYSTEM.

The discussion of the non-par banks' purpose in not entering the Boston System has been delayed because the reasons for their so doing would be more clearly understood after an entire presentation of the Boston System itself. Nearly all of the non-par banks of New England were written to in order to ascertain their reasons for not entering the Boston System and they are summarized as follows:

1-The banks of North Eastern Maine, as represented by the dark spot of the map on page 23 claim that their affiliations are naturally with New Brunswick; those of Vermont and Northern New Hampshire have their business relations chiefly with Albany; and those of South-Western Connecticut are more closely connected with New York City. This objection simply emphasizes the criticism the writer made, that the selection of a free zone for a system of par collection is one of difficult solution, depending upon the locality in which it is proposed to operate the plan.

2-Nearly all of the non-par banks emphasize the fact that should they enter the Boston System, they would necessarily lose a considerable profit in exchange which they consider a legitimate profit. Some one has said the Boston System of par collection "is probably the first instance in history in which institutions, organized for profit, have banded together

to forego one of their legitimate sources of profit." The loss of exchange, however, which the banks in the Boston System have undergone is largely offset by charges which they now make on their depositors for services heretofore rendered free of expense, as for example charging customers for keeping accounts unprofitable in themselves.

3-Most of the non-par banks still smart over the method used by the Boston Clearing House Association to bring the New England banks into the System. When the System was inaugurated a circular letter, was sent out to the New England banks for the purpose of forcing them into the System if necessary. These banks feel that the Boston plan is too much in the nature of a trust in which Boston banks and merchants have combined to make country banks do business as they direct. The position of the non-par banks may best be summed up in the words of an officer of one of the "black-listed" banks of New England, who says;

"The Boston Clearing House Association in January, 1900, issued its ultimatum to the country banks of New England, saying in effect that the cost of transporting their own funds to them must be paid by the country banker, and if any one of the latter should refuse to do this, his name would be placed upon a list called the non-par list by them (and by us, the "black-list,") and checks drawn upon him received by any member of the Clearing House Association should be discriminated against by the levying thereon by such member of a charge of 10% per \$100.00 or fraction thereof. This move created great

consternation in New England banking circles, and a great majority of the banks at which it was aimed were "stampeded" and hastened to get upon the Clearing House "band-wagon". I verily believe that had the Clearing House Association decreed also that the New England banks must not charge over 4% per annum interest upon loans, they would have swallowed this also and done as commanded, so great was their fear of this powerful financial autocrat, the Boston Clearing House Association. However, 70 or 72 banks in Maine, New Hampshire, Vermont, and Connecticut refused to be frightened by this action, and simply said to the Clearing House, "We propose to do business in the old way; we do not propose to pay any part of the legitimate running expenses of your members. Our checks are payable nowhere but over our own counters, and we are prepared to honor them there in current funds at all times. Any checks you send us we will pay in money over our counter to you or your agents. If, however, you wish the funds transported to your place of business you must pay the freight, ("exchange", so-called) not we. Upon this doctrine we will stand or fall. You may do your worst'. Since January 1, 1900, (over five years now) the Clearing House people have tried every coercive measure they could devise, shipping their checks for collection by express, hoping to draw away our currency; raising their charge upon our checks from 10% to 25% per \$100; newspaper articles attacking our business methods and calling us "check clippers", etc. All this has not changed our attitude in the matter, because we know we are absolutely right in our position, viewed from the

standpoint of sound business principles, and we stand today seventy-two banks united and determined to stand up for our rights".

CHAPTER V.

N. THE NEW YORK SYSTEM.

New York City, being the metropolis and financial centre of the United States, makes it natural that the country check problem should there be one of exceptional difficulty. The bankers of New York City had observed the repeated efforts of the Boston banks to cope with the problem, and had carefully weighed the radical movement of charging for the collection of country checks which had been in operation in St Louis for nearly four years. Yet [in spite of their observations], the bankers of New York were reluctant to make any decided change. The banks continued to collect all country checks free. It is said that one New York bank, which had been doing [the] business for one of the large department stores, had to give up the account because of the great number of country checks deposited. The bank credited these checks as cash immediately upon deposit, and when the time, clerk hire, postage, and stationery, together with the loss of the money during collection were considered, the bank was doing the business of the great department store at a loss. At last a vigorous agitation arose among the bankers of New York City for a revolution in the methods of handling the country check. A committee of the Clearing House invited some of the ablest bankers of the City to a conference, on the subject. Many ideas were advanced, and it was proposed that, a system of exchange charges was the most just and legitimate plan for the correction of the coun-

try check evil. With this end in view, immediate steps were taken to ascertain what charges were being made by the larger cities of the United States for the collection of country checks, and what time it took to receive returns from items sent for collection. Having done this, the United States was divided into two sections, based upon what was claimed to be the actual cost for collection and the time taken for remittance, and a fixed rate of exchange was established for each section. However, it was felt that, since the amount of business transacted between New York and certain other cities was so enormous, various free or par points should be established. After settling what was deemed a just minimum charge for small checks, the entire plan was worked out and was ready to be formulated into an integral part of the Clearing House rules and to be put into operation as soon as adopted by the members of the Clearing House. The adoption of the rules, which took place on March 13, 1899, ^{as an amendment to the constitution,} without an opposing vote, was a comparatively simple matter, for the banks had constructed the rules and had thrashed out all objections during the committee meetings. The amendment, together with the rules regarding the collection of country checks by New York City banks as adopted and in operation today is as follows:

NEW YORK CLEARING HOUSE.

Amendment to the constitution.

Adopted March 13th, 1899.

Add to Section 8 as follows: The Clearing House Committee shall have power to establish rules and regulations regarding collections outside of the City of New York, by members of the Association or banks or trust companies or others clearing through such members, and the rates to be charged for such collections, and also providing for enforcement of the same. The committee may from time to time make any additions to, or changes in, such rules and regulations as it deems judicious. After any rule or regulation upon the subject has been once established, it shall not, however, be altered or rescinded until it has been in force at least three months, except by majority vote of the Clearing House Association.

RULES AND REGULATIONS.

Regarding collections outside of the city of New York.

Pursuant to authority conferred upon it by the Constitution of the New York Clearing House Association the Clearing House Committee of said Association establishes the following rules and regulations regarding collections outside of the City of New York, by members of the Association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections, and also regarding enforcement of the provisions hereof.

Sec. 1. These rules and regulations shall apply to all members of the Association, and to all banks, trust companies or others clearing through such members. The parties

to which the same so apply are hereinafter described as collecting banks.

Sec. 2. For items collected for the accounts of, or in dealings with the Governments of the United States, the State of New York, or the City of New York, and for items payable in the cities of Boston, Mass., Providence, R. I. , Albany, N. Y., Troy, N. Y., Jersey City, N. J., Newark, N. J., Philadelphia, Penn., Baltimore, Md. the charge shall in all cases be discretionary with the collecting bank and the same shall not be governed by the provisions of these rules and regulations.

Sec. 3. For all items from whomsoever received (except on those points declared discretionary in Section 2), payable at points in Connecticut, Delaware, District of Columbia, Indiana, Illinois, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia and Wisconsin, the collecting banks shall charge not less than one-tenth of one per cent. (1/10%) of the amount of the items respectively.

Sec. 4. For all items from whomsoever received payable at points in Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Indian Territory, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming and Canada, the collecting banks shall charge not

less than one-quarter of one per cent. (1/4%) of the amount of the items respectively.

Sec. 5. In case the charge upon any item at the rates above specified does not equal ten cents (10c.), the collecting bank shall charge not less than that sum; but all items received from any one person at the same time and payable at the same place may be added together and treated as one item for the purpose of fixing the amount chargeable.

Sec. 6. The charges herein specified shall in all cases be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

Sec. 7. Every collecting bank, trust company or other corporation not a member of the Association, but clearing through a member thereof, shall forthwith adopt by its Board of Directors a resolution in the following terms, and file a certified copy thereof with the Association as evidence as therein specified:

WHEREAS, This corporation has acquired the privilege of clearing and making exchange of its checks through the New York Clearing House Association, and is subject to its rules and regulations, Now, therefore, be it resolved that this corporation hereby in all respects assents to and agrees to be bound by and to comply with all rules and regulations re-

garding collections outside of the City of New York, which may be established pursuant to the Constitution of said Association, and that the President of this corporation is hereby instructed to file a certified copy of this resolution with the Clearing House Association as evidence of such assent and agreement on the part of this corporation.

Sec. 8. In case any member of the Association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the Chariman of the Clearing House Committee, or in his absence, to the Manager of the Association. Upon receiving information from any source that there has been a violation of the same, said Chariman, or in his absence said Manager shall call a meeting of the Committee. The Committee shall investigate the facts and determine whether a formal hearing is necessary. In case the Committee so concludes, it shall instruct the Manager to formulate charges and present them to the Committee. A copy of the charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right, at the hearing, to introduce such relevant evidence and submit such argument as it may desire. The Committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted, and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the Committee shall call a special meeting of the Association,

and report thereto the facts with its conclusions. If the report of the Committee is approved by the Association, the collecting bank charged with such violation shall pay to the Association the sum of five thousand dollars; and in case of a second violation of these rules and regulations, any collecting bank may also, in the discretion of the Association, be excluded from using its privileges, directly or indirectly, and, if it is a member, expelled from the Association.

RESOLVED, That the foregoing rules and regulations are hereby established and adopted, and shall take effect upon the third day of April, 1899.

A true copy.

WILLIAM SHERER,

Manager.

No sooner had the new rules adopted by the New York clearing House Association for the collection of country checks been announced, than a wave of protest arose from the business men of New York City. They protested because they thought that the expense of collection would fall upon them. Philadelphia, Boston, and every other money center used every means in its power to draw business from the New York banks, and for a time succeeded. One bank outside New York City, in order to get the business of a large concern, offered to pay 3% interest on its balances and to collect all its country checks free of charge. It is calculated that this bank paid seven and one-half per cent for the deposits of the concern. However, it was not long until the business attracted by the outside money centers gradually returned to New York. In this way, Philadelphia and various other cities were made the dumping ground of all New York's country checks, and the latter's banks were relieved of a great expense and trouble.

Not only did the banks outside New York City begin to clamor for its business immediately upon the adoption of the system of collection charges on country checks, but there now grew up a large number of trust companies which sent traveling men through the west, offering to collect country checks free of charge. The trust companies, however, have found that the free collection of country checks without any restrictions was unprofitable; and today, those companies that claim to collect country checks free, compel their depositors to keep a balance free of interest, which [when considered] off-

sets the direct charge to cover the cost of the collection of items.

CRITICISM OF THE SYSTEM.

It is contended by many that the New York System places a tax upon country checks which tends to restrict their use. To a certain extent, this contention is true. The validity of the objection, however, is due not to the principle involved in the system, namely, that the drawer of a check should pay all exchange, but to the excessive charges made for the collection of the country checks. Undoubtedly the New York banks are making a profit as a result of their plan; for it is said ^{that} an average of \$3,000,000. has been saved to the banks yearly since the adoption of their system. This amount is considerably in excess of the actual cost of collection, which fact constitutes the real objection. The charges should be adjusted to the actual cost of collection. Were this done, the restriction of the ^{use of} country checks ~~use~~ would be reduced to a minimum.

A further criticism urged against the New York System is that the drawer of the check does not in reality pay the exchange; that while it is true the bank charges its depositor, he in most cases pockets the loss, as the drawer would refuse to trade with the depositor should he demand payment of the exchange. Consequently, the argument, that the sound principle that the expense of collection should be borne by the maker of the check, fails and is in reality ineffective. It must be admitted that this objection in many cases holds

true. But does this necessarily mean that the system is faulty? Not at all. The fault lies with the New York merchant who fails even at a slight loss in trade to insist upon his customer's adding the exchange charge, for the privilege and convenience afforded him in his remittances. Many New York merchants have become firm in their demands upon their customers adding a sufficient sum to their checks to cover collection cost, and these customers are today realizing more and more the justice of the principle. Someone has truly said "that freedom of exchange is not a mark of banking progress". Why should the New York City bank or the New York City merchant be compelled to pay for the cost of collecting country checks, when the benefits of the check enure almost solely to the country drawer? The New York plan is aiming to place the charge of collecting country checks where it belongs, namely, upon the drawer; and while the system may fail in many instances to accomplish the purpose, the principle at least is just and sound, and will ultimately accomplish in a more progressive way what the Boston System is aiming to effect, namely, a more fair, direct, and less expensive method of collection.

Again, the opponents of the New York System hold that it does not permit banks to discriminate between a valuable customer and a poor one. The valuable customer who very seldom deposits a country check, it is said, is annoyed at the trifling charge in his account which appears to him unreasonable in view of the value of his business to the bank. On its face, this contention seems vital, but if discrimination were carried on in favor of the valuable customer the founda-

tion upon which the New York System rests would be undermined. Favoritism would almost necessarily be shown and a dangerous competition between banks would spring up. New York business men are realizing this fact more every day and are supporting the plan with the hopes of attaining the result toward which the New York System is directed.

In conclusion, the New York plan of charging for the collection of country checks is diametrically opposed to the plan used in Boston. Both plans aim to remedy the evils connected with the country check; one by striving toward the goal of making the drawer of the country check pay for the cost of collection; the other by relieving the drawer of all expense and placing the cost upon an association of bankers in a central clearing city. There is in effect a battle for the supremacy of two opposing principles in banking science, and it ^{is} shall purpose of the writer ^{later} in a subsequent chapter to make some suggestions as to which of the principles should ultimately prevail.

CHAPTER VI.

VI. THE ST. LOUIS SYSTEM.

The St. Louis Clearing House Association is the pioneer of the United States in adopting a plan for the solution of the country check problem. This city has experienced to as full a degree as New York and Boston the evils connected with the unsystematic methods of collecting country checks, and without much hesitation adopted a plan in March, 1895, aiming to strike at the very root of the difficulty. The plan which was put into operation is as follows;

COLLECTION CHARGES.

Every bank and trust company connected with the clearing house shall charge for all items received from St. Louis city customers and passed direct to their credit, or cashed for any resident of said city on points (except those hereinafter declared discretionary) in Maine, Massachusetts, New York, Delaware, Kentucky, Michigan, Missouri, New Hampshire, Connecticut, Pennsylvania, Virginia, West Virginia, Ohio, Wisconsin, Minnesota, Vermont, Rhode Island, Maryland, Indiana, Illinois, Iowa and New Jersey, not less than $1/10$ of 1 per cent of the amount of the item, and if said per cent, when calculated upon any such item, does not equal 15 cents, the charge shall not be less than that sum. Provided that all items received at any one time, from any customer, and payable at one place, may be added together and treated as one item, and be charged for as if they were one item.

And for all such items (except those hereinafter declared discretionary) on points in North Carolina, Florida, Louisiana, Indian Territory, Arizona, Wyoming, Montana, Oregon, Nebraska, South Carolina, Alabama, Arkansas, New Mexico, Utah, South Dakota, Idaho, California, Georgia, Mississippi, Texas, Kansas, Nevada, North Dakota, Washington, Colorado, Tennessee and Oklahoma, not less than $1/4$ of 1 per cent of the amount of the item, and if said per cent, when calculated upon any such item, does not equal 15 cents, the charge shall not be less than the latter sum; provided that all items received at any one time, from any customer, and payable at one place, may be added together and treated as one item, and be charged for as if they were one item. On all such items drawn, "with exchange", the charge shall be one-half of the foregoing rates, except those on which the charge of 15 cents is fixed.

On all such items on the cities of New York, Brooklyn, Jersey City, Boston, Philadelphia, Baltimore, Chicago, Cincinnati, Louisville and New Orleans, and bank drafts on banks in Kansas City, Mo., the charge shall be discretionary with each bank or company.

On all items taken for collection on points outside the city of St. Louis the charges shall be the actual cost incurred and in addition thereto a handling charge of 15 cents on each item whether collected or not; provided that said handling charge of 15 cents need not apply to bonds or coupons.

PREMIUM ON EASTERN EXCHANGE.

Upon all drafts or checks drawn by any bank or trust

company member or connected with said clearing house association on New York, Boston or Philadelphia, there shall be charged to the party taking the draft a premium of not less than 50 cents per \$1,000; and if the premium thus estimated on the amount of any draft or check shall not equal 15 cents, then the charge on that item shall be the last named sum; provided that this rule shall not apply to the purchase and sale of exchange between members of the clearing house or institutions clearing through a member; and provided also that banks and institutions clearing through them may make such modifications in the enforcement of this rule as they may from time to time deem fair and expedient.

TIME FOR COLLECTING CHARGES.

Each bank or trust company member of or connected with the St. Louis clearing house shall actually collect the foregoing charges on all items not later than the third day of the calendar month next following the receipt or handling of the item or issuance of the draft or check. And no such bank or trust company shall directly or indirectly allow any abatement, rebate or return of any such charges or make in any form whether of favor or otherwise any compensation therefor. Banks and trust companies shall not be obliged to impose any of the foregoing charges on their accounts or dealings with the United States government, the state of Missouri, the city of St. Louis, steam railroad companies or the board of public schools of the city of St. Louis.

CONTRACTS OF INSTITUTIONS CLEARING THROUGH OTHER BANKS.

Every bank or trust company not a member of this association which may desire to make its clearings through the clearing house of this association shall deposit with the secretary of this association a copy of a resolution of its board of directors worded as follows:

"Whereas, this corporation is about to acquire the privilege of clearing and making exchange of its checks through the clearing house of the St. Louis Clearing House Association, Now, therefore, be it resolved, that this corporation does hereby assent to the rules and regulations adopted by said St. Louis Clearing House Association in so far as the said rules and regulations mention or refer to banks and trust companies clearing through members of said association; and the president and secretary of this corporation are now hereby instructed to deposit with the secretary of said clearing house association a certified copy of this resolution".

Such copy shall be certified in the manner required by Section 5 of Article II. of the constitution of said association.

LIABILITY AS TO COLLECTIONS LIMITED.

No bank or trust company belonging to or connected with this association shall be bound to use more than ordinary diligence in endeavoring to make collections of any item left with it for collection or by it passed to the credit of any customer. It shall not be liable for the neglect or failure of the channels or parties to or through which such item has to

be sent; nor shall it be liable for the returns received thereon until such returns have been cashed. And in case of loss on any item for failure to collect or failure of returns, the bank or trust company shall be entitled to charge such loss back to its customer or to collect the same from the customer at once.

DEPOSITS OF CITY CUSTOMERS LIMITED.

All banks and trust companies belonging to or connected with this association are prohibited from receiving as deposits from city customers checks on banks or trust companies located in the city of St. Louis which have not arranged for clearing their checks through the clearing house of this association.

PENALTY AS NON-MEMBERS.

The violation by any bank or trust company connected with this association, through a member thereof, of any of the rules or regulations applicable to banks or trust companies, clearing with the association through a member, shall deprive such bank or trust company clearing through a member of its connection with this association, and work a forfeiture of its rights and privileges in the clearing house.*

as The New York System, ^{is} being modeled after the St. Louis System, it will be interesting to note a few comparisons. Both systems divide the United States into two districts, a 1/10 district and a 1/4 district. The states and territories are included in the same districts in each system, excepting St. Louis puts Iowa and Minnesota in the 1/10 district, and

*Constitution St. Louis Clearing House Association.

New York puts them in the 1/4 district. New York has the district of Columbia in the 1/10 district and Canada in the 1/4 district, while St. Louis does not mention them. New York's minimum charge is 10 cents, while that of St. Louis is 15 cents. New York charges out of town customers as well as city customers for collecting country checks; St. Louis charges only for checks deposited by city customers and for any checks which may be received from country correspondents, having the indorsements of St. Louis individuals, firms, or corporations.

Opposition to the St. Louis System began early. The merchants of St. Louis through their organization, The St. Louis Credit Men's Association, took up the matter in a systematic and detailed manner. The merchants felt that they were being discriminated against. They argued that the St. Louis banks were not fighting for a principle but were striving to obtain an enormous profit at the expense of the St. Louis merchants. All the strenuous remonstrances of the merchants were of no effect; the system went on unchecked and operates today practically unmodified.

A considerable number of merchants now began to send business to other cities than St. Louis rather than submit to the charge. This action still goes on considerably and is not confined only to small concerns. Some of these use banks in other large cities, while a great number use various banks scattered out through Missouri and Illinois, as a medium for collection. The arrangements with these banks are various, not only as to the rate charged by the country banks, but as to

the regulations imposed by the latter. In some instances, a small balance is required. Occasionally a country banker will take the business on condition that a loan is effected through his bank, and occasionally a St. Louis firm has availed itself of this offer to borrow from him \$20,000, or \$50,000, possibly paying a fraction more in some instances for such loan than he would have paid had he borrowed in St. Louis. In most cases, however, the country bank makes a specific charge of so much per check or so much per \$100, and immediately sends the proceeds by its own draft on New York, St. Louis, or Chicago, perhaps less the charge for handling the checks.

In an investigation, recently made by St. Louis merchants as to the amount of business driven away from St. Louis, ^{forty} 40 out of 162 firms corresponded with, ^{said} held that they were using out of town banks extensively. The amount of the checks sent in one year by seven of these firms was over \$2,000,000. This same investigation showed that,

^{nine} 9-firms use large cities.

^{sixteen} 16-firms use smaller cities.

^{fifteen} 15-firms do not specify.
40

^{six} 6-report saving about 50%.

6-report saving over 50%.

6-report saving over 33-1/3% and under 50%.

^{seven} 5-report saving several hundred dollars. The

others do not specify the amount of percentage saved.

Two 2-firms pay under \$20.00 per month exchange.

thirteen 13-firms pay \$20.00 to \$80.00 per month exchange.

seven 7-firms pay \$80.00 to \$125.00 per month exchange.

eighteen 18-firms pay over \$125.00 per month exchange.

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A fair estimate of the amount of exchange that the St. Louis merchants are paying the banks of that city is between \$1,200,000.00 and \$1,500,000.00 per annum.

It will be interesting here to compare the results of the preceding investigation with those secured from a subsequent one. This comparison will enable us to place an estimate upon the justice of the St. Louis System as it now operates. Letters were written country banks in Missouri and Illinois, asking questions given below with answers. *date*

1-"What do you charge your St. Louis Correspondent bank for exchange covering checks drawn on you?"

Answers received. 184.

No charge. 131.

Under 10 cents. 4.

10 cents. 27.

10-15 cents. 12.

Over 15 cents. 3.

Indefinite. 7.

184.

2-"Do you charge for each check or for the total amount of the checks received under a single cover?" (Referring to dealings with banks in St. Louis that are not their regular correspondents)

Answers received.	176.
On total amount.	158.
On single check.	10.
No charge at all.	<u>8.</u>
	176.

Eighty one per cent.
 61% of these interior banks in Missouri and Illinois, in remitting to other St. Louis banks than their regular correspondents, (will) charge ^{ten} 10 cents, and ^{twenty five per cent} 25% will charge less than ^{ten} 10 cents.

Now what do the results of these investigations mean? Simply that the St. Louis banks have organized themselves into a combination or, even more, into a trust for the purpose of exacting a profit from their St. Louis customers. The principle that the drawer of the check should pay the expense of collection has been perverted, and a plan for making an unreasonable and unjust profit has arisen. The St. Louis merchants are not asking that their banks should refrain from charging any exchange; but they do hold, and that rightly, that only such charges should be made as are necessary to cover the actual cost of collection; and that not only St. Louis merchants but all out of town correspondents should pay this actual cost. In this way, the principle of the exchange charge would be justified, and we would have practically the same system as is in successful operation in New York today.

CHAPTER VII.

W HOW SOME OTHER CITIES HANDLE THE COUNTRY CHECK.

Sedalia, Missouri Plan.

In 1893 the Sedalia Clearing House Association was organized for the purpose of clearing the checks on the five banks then existing in Sedalia. This organization naturally brought these banks into closer relation with ^{one another} each other, and they began to devise schemes whereby they could benefit themselves in other ways. Among the most important changes that were made was the adoption of a system of clearing country checks. The plan is simply the London System in a modified form. The clearing district includes about fifteen towns within a radius of thirty miles around Sedalia. Two points are outside the district, one of them being 102 miles distant by rail. The number of banks in the clearing district is about twenty-five. Each one of these banks keeps a deposit with some one of the Sedalia banks, and when a check on one of the banks in the clearing district is deposited in a Sedalia bank, it is sent through the clearing house in the morning, like the Sedalia checks. The Sedalia bank, having the account of the outlying bank, simply charges the check at par to this account. The check is then forwarded in the afternoon to the bank drawn upon. Should a Sedalia bank receive a check on its correspondent too late for the morning clearing, the check is held over until the next morning and then cleared. If after a country correspondent bank has received a check that has been

cleared through the Sedalia Clearing House and finds the item not good, it is returned to the Sedalia correspondent bank, which credits the country correspondent with the amount. The Sedalia bank allows interest to the depositing correspondent on the amount on deposit each day after all checks drawn are charged against it.

This same system is in operation in a number of other cities. The plan has the merit of securing speedy collection without entailing any expense upon the Sedalia banks. Of course the plan is adaptable to only limited territories, and it is questionable as to whether it could be operated to advantage in all cities. The plan is a scheme of collecting country checks at par, but it must not be confused with the Boston plan. The Sedalia plan causes all banks within its system to maintain an account with some Sedalia bank against which the country checks may be charged. In this way the country check is as good as a Sedalia check, because there is an account that is immediately available with which to redeem the check. In the Boston System, on the other hand, there is no fund immediately available for redeeming the check, and it is not remitted for until the next day after clearing.

Detroit, Michigan, Plan.

The Detroit plan, which took effect February 20, 1900, is, ^{as} briefly summed up ^{is} by Mr. J. G. Cannon ^{is} as follows:*

To charge on all Detroit items bearing the endorsement of any bank or banker in the cities of Greater New York, Boston, and Philadelphia, no matter from whom received, and

⁵*Address before Bank President's Association of Boston, May 16, 1900

upon all items received from banks in any other towns than those named the indorsements on which show that such items have been sent in an indirect course for presentation to the payer, not less than 1/20 percent, with no charge less than 15 cents.

To charge on all items payable in the State of Michigan, outside of Detroit, received from the sources above enumerated, not less than 10 cents in addition to all actual cost of collecting the same.

The penalties attached for violating these rules were modelled after those adopted by the New York Clearing House.

omit
In a circular, issued by the Detroit Clearing House Committee under date of March 12, 1900, they define what "direct items" are. While the limitations are arbitrary, they are never the less steps in the right direction, the home of the original payee being determined by the first bank indorsement.

Fargo, North Dakota Plan.

In the city of Fargo, North Dakota, there is in operation to a very limited extent what may be classified as a distinct method of collecting country checks. In addition to clearing the regular city checks, items on country banks are occasionally included. "For instance, Bank "A" sends through the exchange to the other members the items which it has received on their correspondents, and the other members, in turn, clear the items which they hold on "A's" correspondents".

Chicago.

The writer does not wish to give anyone the impression that Chicago has a distinct and individual method of collecting Country Checks. Yet, the manner in which Chicago deals with the country check is so typical of the way nearly all cities of our country, without an individual plan, deal with the country check, that a description of the method will not be amiss.

The rule is to handle the items "with diligence" that is, according to Illinois Supreme Court, "To forward the items at the earliest opportunity by the most direct route to its destination for collection". As a matter of fact, each Chicago bank handles country checks as well as it can. Most of the banks have a number of correspondents who collect for the Chicago banks free of cost. The latter are therefore in a position to furnish a list of par points, ^{that is} i.e. points upon which collections are made free of cost. To these are added other points which can be collected from free of charge through indirect presentation, that is to say, through the use of other people's par lists. In that way by accumulation of par lists, concentrated in the hands of one city bank, the latter is able to furnish a very comprehensive list. This System, it will be easily seen, is replete with all the evils and dangers of indirect collection and to state the method is to condemn it.

CHAPTER VIII.

CONCLUSION.

In the preceding chapters, } the purpose has been to present the problem of the country check as it has confronted and still confronts to a considerable degree the bankers of the country. An attempt has been made to explain in detail what systems have been adopted to alleviate the condition, together with their merits and weaknesses, and to demonstrate that nearly all the existing systems, while seemingly successful in some instances due to local conditions, are deficient as systems for universal adoption. It now remains to suggest some new system or some vital changes in an old system which will solve the difficulty, not only for certain local communities, but for the country as a whole.

Two questions present themselves in seeking a remedy for the difficulty. Shall the country check be made a credit instrument to be treated universally at par, or shall uniform rates for each district be established for the collection of country checks? As to the first of these questions, it is held that the collection of country checks at par is in harmony with sound business principles. The advocates of a par system of collection maintain that like a draft a check should always be taken at its face value. They fail, however, to consider that even a bank draft may not be worth its face value if the market value of exchange happens to have fallen. Neither do these advocates seem to realize that in the collec-

tion of country checks there is necessarily an expense involved which must be borne by someone. It may be said that all proposals for a par system of collecting country checks are fundamentally unsound, in that the entire tendency of such plans is to shift whatever necessary expense and time are involved farther and farther away from the drawer upon whom the entire expense should rest. It follows then, that the proposals for a national or a state clearing house for clearing country checks at par as an ultimate and universal solution of the country check problem must be abandoned.

Our conclusion then is, that the only just and economical method of collecting country checks is through a system of uniform exchange charges for each district to be established, based upon the actual cost of collection. This simply means that the New York System so modified as to eliminate all profit and to reimburse banks for their actual expense in collecting country checks is the recommendation as the universal remedy for the evil. The underlying principle will be that the drawer who receives the benefit accruing from the issuance of his private check, will pay all expense entailed in collection. One hundred cents on the dollar will be the rule; a just compensation for a just service will be the motto; and direct collection will be the gain.

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