

Planned Changes in the Federal Reserve System's Check Processing Locations

On June 26, 2007, the Federal Reserve Banks announced multi-year plans to continue to scale back their paper check processing infrastructure to match declining paper volumes. Below are excerpts from the press release announcing these changes.

Federal Reserve Banks Announce Changes to Increase Check Service Efficiency

Minneapolis, Minn., June 26, 2007 — The Federal Reserve Banks today announced changes to their check operations as consumers and businesses continue the shift from using paper checks toward electronic payments. As part of a longer-range strategy, the Federal Reserve Banks have selected Philadelphia, Cleveland, Atlanta and Dallas as regional check processing sites that are expected to provide the full range of check processing services through at least mid-2011. Other remaining sites will have their operations scaled back. These scaled-back sites will all print substitute checks, but some will also capture paper checks. The regional sites will provide a full range of check processing services and receive processing volumes from the other sites in a phased transition.

These changes are expected to begin in 2008, and the Reserve Banks will continue to review this check infrastructure annually to respond to further change within the nation's payments system and to meet statutory requirements for long-term cost recovery.

"These changes will enable the Reserve Banks to continue to provide high-quality check processing services to depository institutions throughout the country well into the future while further encouraging the use of electronics within the nation's check collection system," said Gary Stern, chairman of the Reserve Banks' Financial Services Policy Committee and president of the Federal Reserve Bank of Minneapolis. "At the same time, these changes will facilitate ongoing efficiency improvements for the Reserve Banks' check processing operations in line with the continuing shift in consumer and business preferences for electronic payments. In addition, these changes support our long-term business strategy to use the authority provided by Check 21 to collect more checks electronically, reducing the reliance on the physical transportation of checks."

Today's announcement marks the Reserve Banks' fifth annual review of their check infrastructure. Since 2003, the Reserve Banks have reduced the locations where they process checks from 45 to 22, with one other site (Nashville) scheduled to discontinue operations this summer. Three other sites previously scheduled to discontinue check operations (Helena, San Francisco and Kansas City) will remain as print-only sites. The table on the reverse page describes how check operations will be affected at each Reserve Bank location.

The Reserve Banks earned revenues in 2005 and 2006 that exceeded the actual and imputed costs of providing check services to depository institutions, as well as their targeted level of profitability for the first time in several years. But check volumes have continued to decline, and further decline is anticipated in the coming years. The most recent Federal Reserve study of the nation's payment system revealed that about 37 billion checks were paid in the United States in 2003—down from 42 billion in 2001 and 50 billion in 1995—as electronic payments, including those made by credit cards, debit cards and automated clearinghouse transactions, increased considerably. Further Reserve Bank restructuring efforts will be necessary as check volumes continue to decline and as more depository institutions begin to collect checks electronically using the authority provided by Check 21.

The Federal Reserve Banks' long-term check processing strategy is to reduce costs and restructure their check processing operations in line with declining check volumes while encouraging the greater use of electronics in the collection of checks. This strategy will allow the Reserve Banks to meet the expectations of the 1980 Monetary Control Act. That Act requires the Federal Reserve to set prices to recover, over the long run, its total operating costs of providing payment services to

financial institutions, as well as the imputed costs it would have incurred and the profits it would have expected to earn had the services been provided by a private business firm.

For additional information regarding planned changes in the Federal Reserve System's check processing locations, visit www.frbservices.org. To obtain Check 21 product information, visit www.frbservices.org/Retail/Check21.html.

Federal Reserve Infrastructure Changes 2008-2011

Office	Service level/where processing volume will move	Tentative transition timing
Atlanta, GA	Regional processing site	—
Cleveland, OH	Regional processing site	—
Philadelphia, PA	Regional processing site	—
Dallas, TX	Regional processing site	—
Utica, NY	Print only/Philadelphia	First quarter 2008
Kansas City, MO	Print only/Dallas	Second quarter 2008
Memphis, TN	Print only/Atlanta	Third quarter 2008
Cincinnati, OH	Print only/Cleveland	Fourth quarter 2008
Seattle, WA	Capture and print/Dallas	Fourth quarter 2008
Windsor Locks, CT	Print only/Philadelphia	First quarter 2009
Charlotte, NC	Print only/Atlanta	Second quarter 2009
Minneapolis, MN	Capture and print/Cleveland	Third quarter 2009
Baltimore, MD	Print only/Philadelphia	Fourth quarter 2009
Chicago, IL	Capture and print/Cleveland	First quarter 2010
Denver, CO	Capture and print/Dallas	Second quarter 2010
Jacksonville, FL	Print only/Atlanta	Third quarter 2010
Des Moines, IA	Print only/Cleveland	Fourth quarter 2010
Los Angeles, CA	Capture and print/Dallas	Fourth quarter 2010
St. Louis, MO	Print only/Atlanta	First quarter 2011

Regional processing sites will retain all of the functionality that exists in current processing locations. For instance, these sites will process paper checks and electronic images, as well as print substitute checks, and provide reconciliation and settlement services.

Capture and print sites will convert paper checks to Check 21 items and print and dispatch substitute checks.

Print-only sites will print and dispatch substitute checks.