

Are you well positioned for the future?

It is quite clear from the two charts on page 8 that the pace and movement from paper check processing to Check 21 check processing is continuing to gain momentum. This rapid adoption of Check 21 has prompted the Federal Reserve Banks to migrate their Payor Bank Services to Check 21-enabled presentment services over the next two years.

Key dates are approaching

We have been communicating key dates of the migration plan for some time (See “Moving to an all-electronic check environment: Payor Bank Services migrate to Check 21” in the July 2007 *FedFocus*) to help customers prepare for their migration.

The first key date, **July 1**, is just around the corner. On this date, all MICR File Formats (except SOP IV.8, X9.37-1994 and X9.37-2003), Account Number Sorting, Grayscale Image Capture Services and MICR Manipulation Services will be discontinued. Another key date is at year end,

December 31, when all MICR Information Services will be discontinued, as well as delivery of MICR Presentment and MICR Presentment Plus files in any formats except the Check 21 X9.37-2003 format.

All financial institutions using Payor Bank Services should be evaluating product options and preparing to transition to Check 21-enabled presentment services, such as FedReceipt or FedReceipt Plus, as soon as possible. Truncation customers, in particular, should begin migrating services now. They will need to respond to the movement from traditional Payor Bank Services to Check 21-enabled presentment services, which will require working with vendors and processors, as well as making internal changes, to be prepared when Payor Bank Services are sunset.

Operational efficiencies can be realized

Many financial institutions have already migrated to Check 21-enabled presentment services and are enjoying the benefits of end-to-end electronic check processing. Customers have told us they are now experiencing

operational efficiencies, fewer opportunities for keying errors, fewer cash letter adjustments and reduced risk exposure. Also, they will not be impacted by the migration plan that calls for the sunset of additional Payor Bank Services through 2009.

Check 21 makes good sense

Naval Research Lab Federal Credit Union (NRL FCU), headquartered in Oxon Hill, Maryland, is a former truncation customer that successfully made the conversion from Payor Bank Services to FedReceipt Services in 2006. For NRL FCU, the move toward Check 21-enabled presentment services just made sense, according to Linda Powell, chief financial officer.

“Check 21 is so sensible. There is no reason to move all that paper around when it can be done electronically.”

NRL FCU experienced challenges converting from paper-based check clearing to Check 21-enabled services, especially since it converted at a time when few financial institutions in its service area had done so. Powell

recommends working closely with your Reserve Bank and further added, “Identifying hardware and imaging software vendors who are familiar with each other — as well as with the Federal Reserve Banks — will make the process smoother.” Now that it has successfully converted, NRL FCU is able to provide faster image postings and customer credit, while saving courier fees and reducing risk.

Action needed

By taking early action, NRL FCU and many other institutions have completed their migration to Check 21-enabled presentment services and are now reaping the benefits. Additionally, they are well positioned for the sunset of Payor Bank Services.

All financial institutions that are using one or more of the services that will be sunset this year are urged to begin their migration immediately. It’s time to prepare and be counted among the institutions that are well positioned for 2010. For more information, visit FRBservices.org/communications/payor_conversions.html.

“The benefits of Check 21 far outweigh the challenges faced in migrating to Check 21.”

Linda Powell, Chief Financial Officer
Naval Research Lab FCU