

Check Restructuring Schedule Changes as Electronic Check Processing Continues to Accelerate

“The transition in consumer and business preferences from paper checks to electronic payments is moving at a very brisk pace. The revised schedule enables the Reserve Banks to continue to provide high-quality check processing services to depository institutions throughout the country. The announcement also supports our business strategy to use the authority provided by Check 21 to collect more checks electronically, reducing the reliance on the physical transportation of checks.”

Gary Stern, Chairman of the Financial Services Policy Committee and
President of the Federal Reserve Bank of Minneapolis

Federal Reserve Banks Announce Changes to Increase Check Service Efficiency

On March 31, 2008, the Federal Reserve Banks announced modifications to the schedule for check processing infrastructure changes as consumers and businesses continue the shift from using paper checks toward electronic payments and as financial institutions rapidly adopt electronic check processing.

In June 2007, the Federal Reserve Banks selected Philadelphia, Cleveland, Atlanta and Dallas as regional check processing sites that are expected to provide a full range of paper check processing services and receive processing volume from other sites in a phased transition. Other remaining sites will have their operations scaled back. These scaled-back sites will all print substitute checks, but some will also capture paper check images for processing.

The revised schedule will take effect immediately, with seven sites transitioning in 2008, as opposed to the five that were originally scheduled. Also, the overall transition schedule has been shortened and is set to conclude in early 2010, instead of early 2011. The Reserve Banks will continue to review their check infrastructure annually to respond to further change within the nation’s payments system and to meet statutory requirements for long-term cost recovery.

The March 2008 infrastructure announcement marks the Reserve Banks’ sixth annual review of their check infrastructure. Since 2003, the Reserve Banks have reduced the locations where they process checks from 45 to 18.

The accelerated 2008 schedule includes:

- Five sites converting to print-only locations (Kansas City, MO; Memphis, TN; Cincinnati, OH; Windsor Locks, CT and Jacksonville, FL)
- One site converting to a capture and print site (Seattle, WA)
- One site that is now closed (Utica, NY)

The table found on the back describes the revised schedule for each Federal Reserve Bank location.

The Reserve Banks earned revenues the last three years that exceeded the actual and imputed costs of providing check services to depository institutions, as well as their targeted level of profitability. But, check volumes have continued to decline, with further decline anticipated in the coming years. The *2007 Federal Reserve Payments Study* revealed that about 30 billion checks were paid in the United States in 2006 — down from 37 billion in 2003 and 42 billion in 2001 — as electronic payments (including those made by credit cards, debit cards and Automated Clearing House (ACH) transactions) increased considerably.

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, which requires the Federal Reserve to set prices to recover, over the long run, its total operating costs of providing payment services to depository institutions. The Act also requires recovery of the imputed costs the Federal Reserve 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 FRBservices.org. To obtain Check 21 product information, visit FRBservices.org/check/check21.html.

Check Processing Infrastructure Revised Schedule

Office	Service level/where processing volume will move (print sites only)	Original transition date	Revised transition date
Atlanta, GA	Regional processing site	_____	_____
Cleveland, OH	Regional processing site	_____	_____
Philadelphia, PA	Regional processing site	_____	_____
Dallas, TX	Regional processing site	_____	_____
Utica, NY	Closed	1Q2008	_____
Kansas City, MO	Print only/Dallas	2Q2008	April 18, 2008
Memphis, TN	Print only/Atlanta	3Q2008	July 18, 2008
Seattle, WA	Capture and print	4Q2008	3Q2008
Windsor Locks, CT	Print only/Philadelphia	1Q2009	3Q2008
Cincinnati, OH	Print only/Cleveland	4Q2008	4Q2008
Jacksonville, FL	Print only/Atlanta	3Q2010	4Q2008
Minneapolis, MN	Capture and print	3Q2009	1Q2009
Baltimore, MD	Print only/Philadelphia	4Q2009	1Q2009
Charlotte, NC	Print only/Atlanta	2Q2009	2Q2009
Denver, CO	Capture and print	2Q2010	2Q2009
Des Moines, IA	Print only/Cleveland	4Q2010	3Q2009
Los Angeles, CA	Capture and print	4Q2010	4Q2009
St. Louis, MO	Print only/Atlanta	1Q2011	4Q2009
Chicago, IL	Capture and print	1Q2010	1Q2010