

Milestones continue to be reached three years after passage of Check 21 Act

Federal Reserve Banks processed more than 50 percent of forward items electronically in September 2007

Throughout the three years since the Check 21 Act went into effect, the Federal Reserve Banks have been in the forefront of electronic efforts, enabling check image exchange for financial institutions large and small. All the while, the Federal Reserve has also been advancing standards for the financial services industry to ensure interoperability and enable a wide choice of Check 21-enabled products from vendors.

These efforts have led to a significant milestone in industry use and acceptance of Check 21. "This past September, more than 50 percent of the forward items processed by the Federal Reserve Banks were deposited in FedForward® image cash letters as opposed to paper forward items," stated Fred Herr, senior vice president in the Federal Reserve Banks' Retail Payments Office. "Marketplace acceptance of electronic processing has turned the corner...and

there's no going back." Herr points to the fact that just last June, the Reserve Banks announced the latest in their multi-year plans to continue to scale back their paper check processing infrastructure to match declining paper volumes.

This shift away from paper check processing has also impacted the Federal Reserve's Payor Bank Services, which are being migrated to Check 21-enabled presentment services by January 2010, as announced in the July issue of *FedFocus*. This effort is meant to help move the industry toward the more efficient and cost-effective check clearing that is possible when paper checks are truncated early in the payment cycle and check images flow as presentment.

Many Payor Bank Services customers have already begun moving to FedReceipt®, which enables "straight-through" electronic check processing for a portion of incoming items.

That portion includes image cash letter (ICL) deposits and select paper cash letter deposits converted by the Federal Reserve Banks into images for the sake of payment system efficiency. FedReceipt Plus goes the extra step to present *all* imageable items drawn on your institution in an ICL, in lieu of a paper cash letter presentment. No substitute checks are created. Using FedReceipt can qualify a financial institution for

discounts on its Federal Reserve Bank deposits, in addition to other operational benefits.

Anna Marie Harrell, vice president of operations at Darby Bank & Trust in Vidalia, Georgia, told us that back-office operations are "much more efficient" since moving away from Payor Bank Services, with fewer cash-letter adjustments. "Moving away from Payor Services to FedReceipt Plus put us where we need to be. With FedReceipt Plus, we receive four files throughout the day, instead of just one," she explained. Furthermore, the transition from Payor Bank Services to Check 21 was smooth. As Harrell put it:

"I can't see any reason not to move from Payor Services to Check 21."

At Big Horn Federal Savings Bank in Greybull, Wyoming, chief executive officer and chairman John J. Coyne has also been pleased with the results of his bank's transition to Check 21. "We're not babysitting the paper checks anymore and that frees our people up to focus on other things, such as customer service," Coyne said.

As the Federal Reserve Banks continue to pave the way for electronic check processing, financial institutions and the payments system, as a whole, will benefit. If your financial institution has not already begun the transition, we encourage you to act now. For more information, contact your account executive or visit FRBservices.org/Retail/Check21.html.

Financial institutions that have already migrated to FedReceipt are experiencing operational efficiency, fewer opportunities for keying errors, fewer cash-letter adjustments and reduced risk exposure.