

Moving to an all-electronic check environment: Payor Bank Services migrate to Check 21

The implementation of the Check 21 Act in late 2004, has spurred the use of new technologies to collect checks, leading to industry-wide improvements in the nation's check collection system.

Customers of the Federal Reserve Banks are increasingly taking advantage of the benefits enabled by the Check 21 Act through the use of the Federal Reserve's Check 21 product suite. Today more than 38 percent of checks deposited with the Federal Reserve are in an Image Cash Letter (ICL) and almost 25 percent of items are presented by the Federal Reserve in an ICL.

As is becoming increasingly clear, financial institutions realize the greatest benefits when paper checks are truncated early in the payment cycle and check images flow as presentment. In support of the industry's movement toward realizing more efficient and cost-effective check clearing alternatives, the Federal Reserve Banks will discontinue most Payor Bank Services in favor of Check 21 presentment services by January 2010. Ancillary services, such as reject repair and inclusion services, will continue to be available as part of the FedReceipt and FedReceipt Plus Services (see chart).

Common industry standards are key to all-electronic environment

"Our goal is to eliminate the physical movement of paper checks by capturing items as early in the process as possible," stated Terry Roth, vice president of the Retail Payments Office of the Federal Reserve Banks. "Most financial institutions have evaluated their clearing options and have developed plans to leverage the benefits enabled by Check 21. As a result, our plans align well with most customers' long-term check clearing strategies," he added. Moving toward common industry standards to help ensure widespread interoperability is the key to moving to an all-electronic check environment. The Check 21 image clearing standards are the future, and the Federal Reserve Banks' transition plans are designed to migrate customers toward these industry standards.

Payor Bank Services	Transition Dates			
	7/1/08	12/31/08	7/1/09	12/31/09
All MICR File Formats except SOP IV.8, X9.37-1994 and X9.37-2003	X			
MICR Manipulation ¹	X			
Grayscale Image Capture Services	X			
Account Number Sorting/Cycle Sorting Services	X			
All MICR Information Services		X		
MICR Presentment and MICR Presentment Plus Services in legacy formats SOP IV.8 and X9.37-1994		X		
Account Totals Services		X		
FedImage [®] File Delivery		X		
FedImage CD-ROM Delivery (excludes CD-ROM delivery for selected accounts)		X		
Computer Interface/Bulkdata connections			X	
MICR Presentment and MICR Presentment Plus with paper to follow				X
Presentment Services Remaining January 1, 2010: FedReceipt (MICR only or MICR plus image), FedReceipt Plus (MICR only or MICR plus image), Truncation (FedReceipt/FedReceipt Plus and FedImage Archive)				
Explicitly Priced Ancillary Services Remaining January 1, 2010: Electronic Reject Repair, Inclusion Services, Custom Pocket				

¹ MICR Manipulation occurs when Reserve Banks move or change certain fields on the MICR line at the paying banks' request.

Migration to Check-21-enabled products

The Federal Reserve Banks' Check 21-enabled inclearing services provide all of the benefits available with current legacy Payor Bank Services and provide the added advantage of helping you move to electronic check receipt and maximize the benefits of electronic check processing. A multi-year transition period, kicking off in July 2007, will afford paying bank customers time to transition to image-based presentment services. The next 12 months will allow you to evaluate product options and prepare for your transition to Check 21-enabled presentment services prior to the discontinuation of support for the first set of products in July 2008 (see chart).

It's time to move to Check 21

We encourage you to begin evaluating product options by visiting www.frbservices.org. Getting a head start in this transition process will position you for 2010.

We will communicate directly with paying banks impacted by this change over the coming months. In the meantime, if you have any questions, we encourage you to contact your Account Executive by accessing *My FedDirectory* (see page 1).

As the Federal Reserve Banks move with the financial services industry toward greater adoption of electronic check processing, we will all reap the benefits facilitated by Check 21 in the form of lower costs and improved payments services.