

Fed's First "Check 21" Images

Seattle, Washington. October 28, 2004. The Seattle Branch became the first office in the Federal Reserve System to convert paper checks to electronic check images under the Check Clearing for the 21st Century Act, which took effect on October 28, 2004. Traditionally, Reserve Banks have transported physical checks for payment processing—to and from financial institution customers for local checks and between Fed offices for out-of-state checks. Under the act, called "Check 21," a "substitute check" is the legal equivalent of a paper check. As a result, Reserve Banks and financial institutions can exchange electronic images for processing, printing the substitute check, rather than waiting for the arrival of the original check.

After scanning the paper deposits from its customer and converting them into an image file, the Seattle Branch transmitted the file to the Los Angeles Branch's virtual sorting site (one of 12 Federal Reserve sites) for distribution to Fed offices around the country. In turn, the Fed offices printed substitute checks for presentment to paying banks in their respective regions. In the future, more paying banks likely will elect to receive these images electronically, eliminating the need for Fed offices to print substitute checks.

Electronic image exchange is not mandatory, but it can reduce or eliminate transportation costs and significantly shorten the traditional check clearing and settlement process. How quickly Check 21 takes hold in the banking industry depends on the costs of adopting the new technology and the operational benefits, which vary for different types of financial institutions in various regions around the country.

Consumers can expect changes as well. Because of Check 21 and other improvements, checks may be processed faster. Consumers who receive canceled checks with account statements, receive image statements (pictures of several checks on a single page), or request a copy of a canceled check, may receive a combination of original and substitute checks.

To learn more, read:

Consumer Guide to Check 21 and Substitute Checks
www.federalreserve.gov/pubs/brochure.htm