



Highlights of [GAO-09-8](#), a report to Congressional Committees

Why GAO Did This Study

Although check volume has declined, checks still represent a significant volume of payments that need to be processed, cleared, and settled. The Check Clearing for the 21st Century Act of 2003 (Check 21) was intended to make check collection more efficient and less costly by facilitating wider use of electronic check processing. It authorized a new legal instrument—the substitute check—a paper copy of an image of the front and back of the original check. Check 21 facilitated electronic check processing by allowing banks to use electronic imaging technology for collection and create substitute checks from those images for delivery to banks that do not accept checks electronically. Check 21 mandated that GAO evaluate the implementation and administration of the act. The report objectives are to (1) determine the gains in economic efficiency from check truncation and evaluate the benefits and costs to the Federal Reserve System (Federal Reserve) and financial institutions; (2) assess consumer acceptance of the check truncation process resulting from Check 21; and (3) evaluate the benefits and costs to bank consumers from check truncation. GAO analyzed costs for the check operations of the Federal Reserve and a group of banks, interviewed consumers about their acceptance of and costs and benefits of electronic check processing, and analyzed survey data on bank fees.

The Federal Reserve agreed with the overall findings of the report.

To view the full product, including the scope and methodology, click on [GAO-09-8](#). To view the E-supplement, click on [GAO-09-09SP](#). For more information, contact Yvonne D. Jones at (202) 512-8678 or jonesy@gao.gov.

CHECK 21 ACT

Consumers Have Accepted and Banks Are Progressing Toward Full Adoption of Check Truncation

What GAO Found

Check truncation has not yet resulted in overall gains in economic efficiency for the Federal Reserve or for a sample of banks while Federal Reserve and bank officials expect efficiencies in the future. GAO's analysis of the Federal Reserve's cost accounting data suggests that its costs for check clearing may have increased since Check 21, which may reflect that the Federal Reserve must still process paper checks while it invests in equipment and software for electronic processing and incurs costs associated with closing a number of check offices. However, GAO found that the Federal Reserve's work hours and transportation costs associated with check services declined from the fourth quarter of 2001 through the fourth quarter of 2007. Several of the 10 largest U.S. banks reported to GAO that maintenance of both paper and image-based check processing systems prevented them from achieving overall lower costs, although they had reduced transportation and labor costs since Check 21 was enacted. Check imaging and the use of substitute checks appear to have had a neutral or minimal effect on bank fraud losses.

Most bank consumers seem to have accepted changes to their checking accounts from check truncation. In interviews with bank consumers, the majority of them accepted not receiving their canceled checks and being able to access information about their checking account activity online. Several reported that they did not need the "extra paper" from canceled checks and that image statements and online reviewing was more secure than receiving canceled checks. Eleven percent of the 108 consumers still preferred to receive canceled checks. Most consumers reported that they were not significantly concerned about their ability to demonstrate proof of payment using a substitute check or check image rather than a canceled check and few reported that they suffered errors from the check truncation process. Also, GAO found that the federal banking regulators reported few consumer complaints relating to Check 21.

To the extent that banks have employed check truncation, bank consumers have realized benefits and costs relating to faster processing and access to account information. GAO found that some banks have extended the hours for accepting deposits for credit on the same business day, which can result in faster availability of deposited funds for consumers. Based on consumer interviews, consumers have benefited from receiving simpler imaged account statements and immediate access to information about check payments. Check 21's expedited recredit (prompt investigation of claims that substitute checks were improperly charged to accounts and recrediting of the amount in question) also is considered a consumer benefit. However, based on our consumer and bank interviews, it appears that a small number of consumers have filed expedited recredit claims. Based on analysis of survey data on bank fees, GAO found some consumers may incur fees related to receiving canceled checks and images. Since 2004, fees for canceled checks appear to have increased, while fees for images appear to have remained relatively flat.