

Check Clearing for the 21st Century Act
"Check 21"
What it Means to Consumers!!!!

Presented at:
National Consumer Protection Week Conference
Federal Reserve Bank of Boston

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Topics of Discussion

Current Check Collection Process

Legislative Overview

- Why Check 21? What does it Authorize
- What is a Substitute Check

Check 21 & Consumers!

- Why is Check 21 Important to Consumers?
- State laws versus Check 21
- Consumer Protections
- Consumer Awareness Requirements by Banks

Current Check Collection Process

Check Collection Participants

- Check Writer – consumer writing the check
- Payee – person consumer is paying
- Depository Bank – bank where the payee deposits the check into his/her account
- Collecting Bank – intermediary bank where the depository bank sends the check for collection, i.e., Federal Reserve
- Paying Bank – check writer's bank – Collecting bank presents the check to the paying bank
- Check Writer – “paid” item is presented back to check writer in periodic statement or on-line

Check 21 Legislative Overview

Why "Check 21?"

1. Foster innovation and efficiency in the check payments system by facilitating check truncation
2. While designed to facilitate truncation the law does NOT mandate check truncation
3. Law removes some of the legal impediments to truncation

Check 21 Legislative Overview

What Does Check 21 Authorize

- New negotiable instrument called a “Substitute Check”
- Check 21 provides the legal framework for the substitute check
- Substitute check is the “legal equivalent” of the original check

Check 21 Legislative Overview

What is a “Substitute Check”

- Paper reproduction of the original check
- Contains an image of the front and back of the original check
- Conforms to industry standards
- Suitable for automated processing by banks and others
- Paying banks **MUST** accept substitute checks for payment – “legal equivalence”

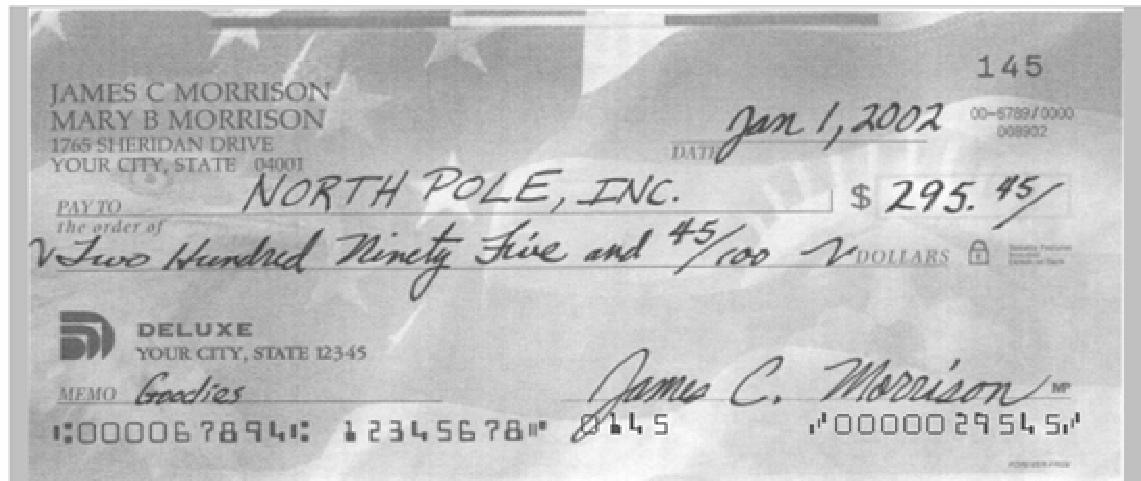
What is a Substitute Check

011500120
01/03/2002
8587408979

This is a LEGAL COPY of your check. You can use it the same way you would use the original check.

IRD

2002/20/T0 [T100001E0]
EE220E95T8?



⑆000067894⑆ 12345678⑆ 0145 ⑆0000029545⑆

011500120 01/03/2002
8587408979

MEMO HERE

X FOR DEPOSIT ONLY

FIRST UNION NATIONAL BANK
ACCOUNT 1234567890123
NORTH POLE, INC.

DO NOT SIGN / WRITE / STAMP BELOW THIS LINE
FOR FINANCIAL INSTITUTION USE ONLY

JAN - 2 02
⑆031000011⑆
FIRST UNION NATL SVC-013
PHILADELPHIA PA 01022002
⑆0000029545⑆

>031000011< 01/02/2002
7615630233

↓ Do not endorse or write below this line. ↓

Check 21 & Consumers

Why is Check 21 Important to Consumers?

- 40 billion checks are written in the U.S. each year!
- Consumers write 52% of these checks
- Over 20 billion checks written by consumers
- Effective October 28, 2004, consumers will likely begin to see substitute checks in their period bank statement – via paper statements, image statements or via on-line banking systems

Check 21 & Consumers

State Laws versus Check 21

Massachusetts law requires Banks to return paid checks to check writers in periodic statements if they want them

Current Massachusetts law is pre-empted by Check 21 to the extent that writers will receive “substitute checks” in lieu of the original – “legal equivalence”

Check 21 & Consumers

Consumer Protections under Check 21

- Bank that creates, transfers or presents the substitute check
 - warrants its legal equivalence
 - indemnifies the consumer for a loss that loss is due to the receipt of the substitute check instead of the original check

Consumer protections still exist under UCC Articles 3 and 4 and Federal Reserve Board's Regulation CC

Check 21 & Consumers

Consumer Awareness Provisions

- Each Bank shall provide a brief notice to consumer customers about substitute checks, that includes;
 - how substitute check is the legal equivalent of the original check
 - how it accurately represents all of the information on the original check
 - explanation on consumer protections
- Timing of Notice
 - existing consumer customers - no later than the 1st regularly scheduled communication after Act's effective date
 - new consumer customers - at the time the relationship is established
 - any consumer who requests a copy of a check and receives a substitute check

Check 21 & Payments Efficiency

