

## Check 21

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# *Check Truncation Act*

## Check 21 – What Is It

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- To facilitate check truncation by authorizing substitute checks
- To foster innovation in the check collection system without mandating receipt of checks in electronic form
- To improve the overall efficiency of the Nation's payment system

## Check 21 – Brief History

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- Federal Reserve Board submitted proposed legislation to Congress in December 2001
- Senate Banking Committee unanimously passed S1334 known as the Check Truncation Act of 2003
- House Banking Committee unanimously passed HR 1474 known as the Check Clearing for the 21<sup>st</sup> Century Act
- Signed into law by President Bush on October 28, 2003

## Check 21 – What will happen

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- Federal Reserve must complete its required work prior to date of implementation
- Federal Reserve Board to issue regulations for implementation and proposed language for disclosures
- Anticipate implementation 12 months from date signed into law or October 2004

## Check 21 – Summary

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- Creates new negotiable instrument or “substitute check”
- Permits checks to be truncated at any point
- Banks not required to truncate checks but are required to accept substitute paper checks
- Expedited recrediting if disputed
- Current check images are not “substitute checks”

## Check 21 – Terms to be familiar with

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- Substitute checks – Image Replacement Document (IRD)
- Reconverting Banks
- Bank Warranties
- Indemnities
- Expedited recrediting for Consumers
- Special Notice/Disclosure to Consumer Account Holders
- Expedited recrediting for Banks

## Check 21 – Key Issues

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- Authorizes Substitute Check
  - Discretionary to create
  - Mandatory to accept
  
- Does not authorize ECP or image
  - ECP and image exchange continue based on agreements
  
- Protects the receiver of substitute checks
  - Warranties
  - Indemnity
  - Expedited Credit

## Check 21 – Key Issues

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- Requires Consumer disclosures
  
- Fraud concerns
  - Can “substitute check” be modified
  - Substitute check has same legal status as check
  - Speed collection process
  - Unlike ACH check conversion which falls under Reg E and NACHA rules
  
- Day 2 Processing Changes
  - Exception Handling
  - Overdrafts

## Check 21 – What should I be doing

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- Regulatory updates
  
- Strategic Planning
  - Capital Expenditures
  - Customer Impact if truncation
  
- Identify Vendor Solutions
  - Check Processing Vendor
  - Core Processing Vendor
  - Federal Reserve Bank
  - Correspondent Bank
  
- Educate Employees and Customers

## Check 21 – What other changes to expect

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- Check truncation by Merchants
  - Point of Purchase (POP)
  - Processed as ACH transaction
  
- Effect to income – loss of check processing volumes
  
- New Income Opportunities
  
- Regulatory Changes
  - Reg CC
  - Reg E

## Check 21 – What does Crowe Chizek Offer

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- Assessment of Current Process
- Vendor Evaluation and Selection
- Project Management
- Regulatory Compliance
- Fraud Detection
- Policies and Procedures

# Crowe Chizek Consulting Services

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- Revenue Preservation Assessments
- Performance Assessments
- Vendor Evaluation and Selection
- VaultWorks
- OverdraftHonor

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Thank You for Your Time!