

Check 21

Check 21 refers to “The Check Clearing for the 21st Century Act” that became effective October 28, 2004. It allows financial institutions to scan paper checks and send check images electronically between institutions (see ‘Collection Process’ on back). Previous to Check 21, banks had to physically transport checks, sometimes across the country, before they were cleared. After September 11, 2001, when air transportation was shut down for days, the Federal Reserve pushed for changes that would make the financial system less vulnerable to disruptions. Check 21 is designed to foster innovation in the check collection system and provide overall efficiencies.

- Check 21 allows a financial institution to create a new negotiable document – the substitute check (see ‘Substitute Check’ on back) – that is the legal equivalent of the original paper check.
- Because the substitute check is the legal equivalent of the original check, financial institutions cannot refuse to accept a substitute check from other financial institutions, as long as it meets all legal requirements under Check 21.
- Eventually, the Check 21 act is expected to reduce “float” which is the time between when a check is written to the time it clears the bank. Under the Act, there is a greater chance that checks could bounce, causing hefty overdraft fees.
- Under Check 21, consumers have protections from potential double postings or wrong amounts called “expedited recredit” rights. This means that consumers generally have 40 days from the date the bank mailed or delivered a statement relating to a substitute check or the date the consumer received a substitute check, whichever is later, to request that their bank provide the original check or a better image of a substitute check they believe was erroneously paid. The bank then has 10 business days to recredit the consumer’s account.

- All checks, except foreign checks, are eligible to become substitute checks.

How Check 21 Affects:

Paper Checks

Check 21 does not change how checks are written. The impact is to how checks are *processed* by financial institutions. The law will move banks toward equipment that automates paper check processing. To assist processing and image quality, check stock must meet industry imaging standards, which have been in effect since 1999.

Consumers

- Checks will clear faster, sometimes in a matter of hours.
- Consumers will receive original checks and/or substitute checks with account statements if they currently receive original checks.
- Check fraud against an account may be detected faster.
- Quicker availability to deposits into a consumer’s account .

Businesses

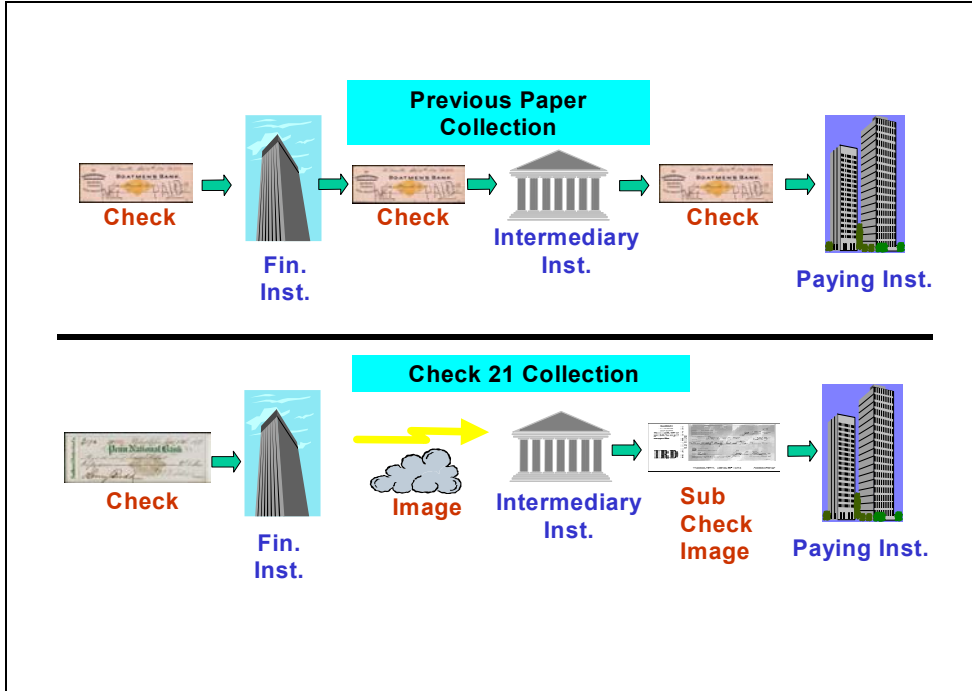
Check 21 will not affect the current check processing environment for businesses. In fact, businesses will experience a variety of benefits as banks become more image enabled.

- Better time deposit cut offs.
- No delays in posting checks.
- Reduced risk of check fraud losses.
- Improved access to check information.
- Better operational continuity.

What Broker Forms is Doing:

- Broker Forms prides itself on compliance and is dedicated to assuring that our check stock meets industry imaging standards. We test our extensive check product line against these imaging standards to provide our customers with products that meet their needs and the needs of the banking industry.
- Broker Forms will continue to monitor Check 21 to provide ongoing education and information via our website. For more information go to www.brokerforms.com.

Past & New Collection Process



Example of a Substitute Check

