

CHECK 21: FREQUENTLY ASKED QUESTIONS

Are DFS Group checks compatible with Check 21?

Yes. Our products are designed and tested to be compatible with electronic check processing technology. We have proactively tested our products, and are committed to providing products compatible with electronic check processing technology. Our products meet or exceed existing industry standards for check design. As standards change and develop, DFS will continue to monitor and meet industry quality standards for electronic check imaging.

Is “Check 21” the same thing as the “Check Truncation Act”?

Yes. The legislation was first called the “Check Truncation Act for the 21st Century”, which was later shortened to the “Check Truncation Act” and eventually simplified within the media as “Check 21.”

What is “Check 21”?

After September 11th, the Federal Reserve focused on creating legislation to ensure the safeness and soundness of the U.S. payments systems. When the planes were grounded, the checks couldn’t process. Check 21 is designed to foster payment system innovation and enhance the efficiency of the Payments System by reducing some of the legal impediments to check truncation that exist under current law. It will enable the expanded use of electronics in check collection and return. Primary components of this legislation include:

- Defining that “substitute checks” are the legal equivalent of the original check
- Authorizes the creation and use of “substitute checks”
- Protects receivers of “substitute checks” (indemnities and warranties)

When is it effective?

Final regulations were issued by the Federal Reserve on July 26th, 2004. Financial institutions are now completing their implementation strategies for the required changes by October 28th, 2004. However, some clients will still only be piloting the new processes that Check 21 authorizes. Changes to the check processing in the industry will gradually evolve over the next few years.

Are financial institutions required to use check imaging technology?

No. If an institution chooses, they can continue to process paper documents in much the same way they always have. However they do have to prepare their bank operations to receive checks that have been imaged by other financial institutions. If an institution chooses not to participate, they can continue to receive a physical item back. In some cases, this may be a printed substitute check that is created from the check image.

What is Truncation?

Simply stated, truncation is the non-return of checks, either to the issuing bank or to the issuing individual, and the discard and destruction of the source paper document.

What does Check 21 mean to consumers?

Check 21 doesn't change how consumers write checks, it changes how checks consumers write are processed. The most immediate change consumers will see is changes to their account statements, and the potential that their financial institution may not return checks in monthly statements. Financial institutions will provide information to their customers based on these changes. As the changes to check processing become more widely adopted, consumers may see that checks are clearing faster, reducing the lag time or 'float' before funds are deducted from their account.

What new rights do consumers have with Check 21?

In certain cases, federal law provides a special procedure that allows consumers to request a refund for losses suffered if a substitute check is posted incorrectly to their account. This only applies if the account problems are based on how a check was converted to a substitute check. In this situation, the financial institution will provide a disclosure to outline the process and guidelines for processing requests for expedited re-credit.

What does Check 21 mean to small businesses?

Check 21 will not require small businesses to change the way deposits are made, or how checks are accepted today. All checks drawn on U.S. financial institutions are eligible for electronic processing using substitute checks or image exchange. Financial institutions will begin to offer alternatives for returning checks in monthly statements, providing options for secure storage of images or substitute checks.

What are the key priorities for financial institutions in responding to Check 21?

The immediate priorities for all financial institutions to respond to Check 21 legislation include:

- Educate and communicate to employees and customers
- Prepare internal check operations to be able to receive or accept substitute checks
- Understand and implement regulations for customer disclosures on substitute checks.

What is the impact to fraud?

As banks are able to collect and return checks faster, and customers are able to review check images online, there is a greater likelihood that banks will identify a fraud before the funds leave the banking system with the fraudster.

Check fraud costs are primarily borne by banks and merchants, not consumers. The consumer is protected under the Uniform Commercial Code and the Check 21 Act in the event that an unauthorized or fraudulent check is charged against his/her account.
