

Preparing for Check 21 Minimum Requirements

Although Check 21 has now been passed as legislation, the FRB has not yet created the regulations associated with the enactment of the legislation. There are several aspects of the legislation that we know will most probably be retained.

The legislation will make legal the use of a substitute check to replace the original check and the paying bank and its account holder will be required to accept such item without agreement. Additionally, the legislation provides for an expedited recredit process if the account holder can substantiate a claim for loss because the original check was truncated and a substitute check presented in its place.

The requirements of the legislation pertain to the paying bank as a receiver of a substitute check. There is no requirement for a depository or paying bank to create a substitute check, however, the creator is subject to warrants and indemnifications. Use of a substitute check in the forward collection by a depository or intermediary bank or use as a return item by the paying bank is optional.

This document is based on information of the legislation, as interpreted by the writer, and identifies areas where a paying bank must prepare for the implementation of Check 21 as well as some optional considerations.

Check 21 – Minimum Requirements of the Paying Bank

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| Staff Training | Education of staff: <ul style="list-style-type: none"> a) understand processing implications b) understand the expedited recredit process c) know when consumers must be made aware of the act d) address customer service needs |
| Consumer Awareness | Education of customers regarding: <ul style="list-style-type: none"> a) the potential of having an original check converted to a substitute check b) the expedited recredit only applies to consumer accounts c) the process for making a claim in the event the payment of a substitute check creates a loss FRB will create Safe Harbor language to be used by banks to facilitate consumer awareness <ul style="list-style-type: none"> a) Changes to specific depository agreements to reflect the legislation |
| Expedited Recredit | Develop the process that allows for the consumer submission of a claim through to the request of obtaining a “copy” from the reconverting bank and resolution of the claim. |

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| Item Processing | |
|------------------------|---|
| Inclearings | Substitute checks will process as normal in a capture run even though the EPC field (position 44) will contain the value "4" |
| Reject Reentry | Missing/unread information can be entered as normal. |
| Outgoing Returns | When returning a dishonored substitute check in a QRC manner, the value of "5" must be entered in position 44 on the strip affixed to the item. This identifies to a subsequent processor that the item is a substitute check in the event they might create a substitute check from the item. |
| Statement Rendering | <p><u>Check Return Customer</u> Substitute checks will intersort with original checks presented for payment within the statement cycle.</p> <p><u>Image Statement Customer</u> Substitute check will image normally but will be of the size of a corporate check and be intermixed with retail size images for a consumer account.</p> <p><u>Truncated Statement Customer</u> Normal text information will be displayed on the statement.</p> |
| Image Archive | Nothing different to consider. |
| Posting System | Nothing different to consider. |

Check 21 – Optional Considerations of the Paying Bank

| Item Processing | |
|------------------------|---|
| Inclearings | Modification of the capture run to recognize the EPC field (position 44) and store the value "4" in the item record. |
| Reject Reentry | Modification of the reject reentry process to require the entry of the EPC field (position 44) if it is missing/unread from the MICR capture and store the value "4" in the item record. |
| Image Archive | Storing the EPC field (position 44) as an index to the image. |
| Posting System | <p>Acceptance of the value "4" from the EPC field of the item record can be used:</p> <ul style="list-style-type: none"> a) to include in the transaction history for identification during an inquiry, particularly in the event of a claim by a customer b) to detect duplicate posting in the event the reconverting bank entered both the original check and substitute check in the forward collection process |
| Outgoing Returns | Create Substitute Checks instead of QRC of original checks |