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Federal Reserve Banks Announce Policy Change Regarding Check Carrier Documents

Minneapolis, Minn., May 18, 2004 --The Federal Reserve Banks today announced a change in deposit procedures for certain types of items effective October 28, 2004. In conjunction with implementation of The Check Clearing for the 21st Century Act, known as Check 21, Reserve Banks will no longer accept items in carrier documents in high-speed forward and return cash letters. This includes carriers containing photocopies in lieu, notices in lieu of return and foreign or mutilated items.

"In order for Reserve Banks to offer products that fully enable the opportunities of this ground-breaking law, it is important that these items are not included in high-speed processing cash letters," says Bob Price, senior vice president, Federal Reserve Bank of Cleveland, with responsibility for the operational implementation of the Reserve Banks' Check 21 initiative. "Industry experience shows that image quality for these types of items often doesn't meet a high standard for readability, which prevents conversion to substitute checks."

Once Check 21 takes effect, these types of items must be deposited in a separately sorted cash letter (for forward collection) or a raw return cash letter (for returns processing). Depositors who include these types of items in high-speed forward and return cash letters will assume all Check 21 liability for losses. The Federal Reserve will revise Operating Circular 3, Collection of Cash Items and Returned Checks, to reflect this change in policy.

About Check 21

The Check 21 Act facilitates truncation through expanded use of electronic processing technologies to improve the efficiency and reduce the cost of the nation's check collection system. The law provides for a new negotiable paper instrument called a substitute check, which can be used in place of the original paper check without an agreement. This allows paper items to be truncated early in the collection or return process, with image cash letters replacing paper cash letters.

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