



The next generation of checks

The Check 21 Act

What is the Check 21 Act?

The Check 21 Act is landmark legislation that will take effect beginning October 28, 2004. It will permit any person or entity who processes a check to create what the Act dubs a “substitute check”—a paper reproduction (front and back) of the original check. These substitute checks will contain all the information contained on the original check and will bear the legend: “This is a legal copy of your check. You can use it the same way you would use the original check.” The first step in creating a substitute check is to create an electronic image of the original check. Once an electronic image is created, the original check is “truncated,” or taken out of circulation. The person or entity that creates the electronic image is then responsible for truncating the original check. Depending on that person’s or entity’s policies, they may either destroy the original check or store it for a period of time. Institutions can then process the electronic image or use it to create the paper reproduction (or substitute check) at any point in the process.

What will I get back with my statement?

Not all checks you write will be transformed into substitute checks. However, if a substitute check is created, it is very possible—in fact, very likely—that you won’t see the original check again. If you currently receive your processed checks with your account statement, you may begin to notice a combination of original checks and substitute checks. However, if you currently do not receive your processed checks, your account statement will not be affected—all checks will continue to be listed

on your statement in the same manner. If you currently view your check images on-line, you may begin to notice a combination of original check images and substitute check images.

Why create a substitute check?

There are many good reasons for the creation of substitute checks. Currently, the check processing system relies on physically transporting paper checks from one location to the next; and, in the event of bad weather, the system can get bogged down. In addition to the time constraints, it costs millions of dollars every year to transport and process paper checks. As a result of authorizing substitute checks, the Check 21 Act will foster the electronic processing of checks because the substitute check process begins by creating an electronic image of the check. By its very nature, the electronic check image can be conveyed and processed electronically—decreasing processing time and transportation costs while reducing the likelihood of items being lost or destroyed in transit. If a physical check is ever needed, the electronic image can be used to create a paper reproduction (or substitute check) at any point in the process.

How does the Check 21 Act affect the possibility of someone stealing my identity or using my account to write fraudulent checks?

Relying on check images—instead of paper checks—should make it less likely that an identity thief will come into possession of the personal financial information located on your check. The original check is physically taken out of the processing stream, and the security

of electronic channels limits human contact with your financial information. Also, the expedited processing time should reduce the ability of anyone trying to use your account to commit check fraud—a shorter processing time means you should be able to identify forged or altered items sooner, thereby increasing the likelihood of catching the fraudster.

How does the Check 21 Act affect float time?

Accelerated check processing also means a reduction in the so-called “float” time—the amount of time between the writing and the cashing of a check.

What if the original check and its substitute get processed?

This is a natural question to ask. And, the answer is that in order to process a substitute check, a financial institution must warrant that the original check will not be processed. The check’s drafter will be able to submit a claim in the unlikely event that the original check and the substitute are both processed.

What if the substitute check is not an accurate image of the check I wrote and I need the original to prove my claim?

The Check 21 Act provides consumers with specific recrediting rights. If you believe the substitute check does not accurately reflect the transaction, contact us immediately (you may be asked to submit your claim in writing). After receiving your claim, we will investigate the matter and get back to you—and, if warranted, recredit your account.

What if there is a dispute and the retailer or service provider won’t accept the substitute check as proof of payment?

The substitute check is the legal equivalent of the original. Courts, retailers, and service providers are all required to accept the substitute check as proof of payment in the same manner as they would accept the original.

What’s the difference between an electronic check conversion (e-check) and a substitute check?

An e-check is an electronic funds transfer initiated by a check. With an e-check, the transaction is actually routed through the Automated Clearing House (ACH) network. Typically, the retailer takes your check, scans it for the encoded financial information, and gets your authorization prior to initiating the transfer. Once you authorize payment, the original check is stamped “void” and returned to you. The transaction will generally appear on your account statement with other electronic or ACH-type transactions. A substitute check, on the other hand, is a replacement that is the legal equivalent of the original check. It is created from an image of the original, processed as a check, and will appear on your account statement as a check.

If you have more questions about the Check 21 Act, please contact a service representative.