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H.R. 1474—CHECK CLEARING FOR THE 21ST CENTURY ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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H.R. 1474—CHECK CLEARING FOR THE 21ST CENTURY ACT

Tuesday, April 8, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:10 a.m., in Room 2128, Rayburn House Office Building, Hon. Spencer Bachus [chairman of the subcommittee] presiding.

Present: Representatives Bachus, Bereuter, Baker, Lucas of Oklahoma, Gillmor, Biggert, Hart, Tiberi, Feeney, Garrett, Murphy, Barrett, Fossella, Capito, Kennedy, Hensarling, Oxley (ex officio), Sanders, Maloney, Sherman, Ford, Lucas of Kentucky, McCarthy, Crowley, Davis, and Frank (ex officio).

Mr. BAKER. [Presiding.] If I could ask individuals to take their seats. Chairman Bachus has been momentarily delayed and has asked that I go ahead and call the meeting to order since we have people ready and available to be heard.

The subcommittee meets today for a legislative hearing on H.R. 1474, the Check Clearing for the 21st Century Act, or Check 21 introduced by two distinguished members the subcommittee, the gentlelady from Pennsylvania, Ms. Hart, and the gentleman from Tennessee, Mr. Ford. Mr. Bachus is also a cosponsor of the legislation, as is Full Committee Chair Michael Oxley.

This is the second hearing the subcommittee has held on this important topic. As with last year, we are fortunate that the Vice Chair of the Federal Reserve, the Honorable Roger Ferguson, Jr., has joined us to discuss the Federal Reserve Board's view on this issue. We are also joined by a group of distinguished private sector witnesses that will share their views with us.

The Check 21 legislation is intended to modernize the nation's check clearing system by providing an interim step towards allowing banks to exchange checks electronically, rather than in paper form. Electronic check imaging and the ability of financial institutions to exchange checks electronically is the first major innovation in the check-handling and processing process since the invention of the magnetic ink character recognition line in the 1950s. The consumer and economic benefits that will accrue from this technology are potentially immense.

Perhaps the most dramatic example of the need for this legislation was demonstrated in the week after the September 11 terrorist attacks. As some may recall, for approximately one week after Sep-

tember 11, planes were not allowed to fly. As a result, the check clearing system suffered from severe disruptions as the planes that customarily transport checks could not carry the paper to the financial institutions on which they were drawn. Bad weather also has a disruptive effect on check clearing. While the September 11 tragedy provides perhaps the most dramatic illustration of the need for the Check 21 legislation, the legislation is important for many other reasons.

Consumers in particular will benefit because the legislation will enable depository institutions to offer their customers a host of new products and services. For example, consumers in rural areas may be offered extended deposit hours because financial institutions will then be able to transmit the images of checks through the check-clearing process, rather than having to send couriers out to remote branches or ATMS to pick up the deposited items. In addition, consumers and business customers will benefit from quicker collection and return of checks. Other indirect benefits potentially will occur as well.

The Check 21 Act will create a new value proposition for check imaging technology, which will encourage depository institutions to implement check imaging and exchange. Financial institutions that have already implemented check imaging have learned how pleased their customers are that they can now have instant access to copies of their checks when they visit branches, speak on the phone with customer service representatives, or view pictures of their checks on the Internet. Moreover, the legislation will empower customers to better manage their finances and detect and prevent fraud against their accounts because they are provided more information about the transactions in a timely manner.

In conclusion, we should acknowledge the work of all the persons who have contributed to the construction of H.R. 1474. Thanks should go to Chairman Oxley for making the legislation one of his committee's top priorities; to Vice Chairman Ferguson and the Board staff who first presented the committee with draft legislation in December, 2001, following many years of work by the Federal Reserve. Also, I wish to extend commendation to Ms. Hart and Mr. Ford for introducing the bipartisan legislation, and Congressman Mike Ferguson who sponsored similar legislation with Mr. Ford during the last Congress.

Finally, there has been significant input from banks, thrifts, credit unions, technology providers, consumer groups—all stakeholders—to help assist in drafting the most appropriate legislative remedy.

I just have one personal comment to make, too, with regard to the final consideration of this matter, and whenever markup may occur. Specific attention should be focused on the question of what I term "float"—the time in which an out-of-area check is presented to a financial institution until the customer knows those funds are available for utilization. Under the current rule, out-of-area checks may have as a period up to five days before requiring the allocation of those resources to the appropriate account. It would seem very appropriate to have a careful analysis given the potential for electronic transfer to some significant reduction in that float period from the current five-day minimum to something customarily less

than that, based on whatever the professionals tell us is achievable. But I know that many folks, when told they will not get access to their funds for a business week, are rather frustrated in the current system, and that offers potentially some significant benefits if we are able to move to a paperless electronic method of transfer. That is my own two cents, not Chairman Bachus'.

At this time, I would like to call on Ranking Member Sanders for his openings statement.

Mr. SANDERS. Thank you, Mr. Chairman, and thank you, Mr. Bachus, for holding this important hearing.

We are here today to discuss the Check Clearing for the 21st Century Act. It is my understanding that this legislation will eliminate the ability of millions of U.S. customers to get their checks back. So the first point that I want to make is I am sure that there is a very positive aspect to this legislation, but as I understand it, you are making it mandatory. That means an 80-year-old woman who does not own a computer, is not comfortable with computers, is going to be caught into that trap. Whether or not this should be mandatory, impacting every American, or those rather who want to be part of the process is my first concern.

According to an April 3, 2003 article in the Associated Press, Federal Reserve Vice Chairman Roger Ferguson said that this legislation, quote, would bring huge cost-savings for banks, end of quote. Well, that is good for banks, but the question is what does that mean for the average consumer? What we have been seeing in recent years, in fact, is a huge increase in consumer fees that millions and millions of Americans are paying. So what is good for large banks is not necessarily good for consumers.

Mr. Chairman, I will look forward to hearing from the representative of the Consumers Union who has some concerns about this legislation from a consumer point of view. I share some of those concerns. But my first concern is that in a Congress which very often talks about choice and the right of people to make their own choice, I am concerned, deeply, that every American is going to be asked to participate in this process. For millions of people, especially elderly people who are not comfortable with computers, this may be a very unfair burden.

Thank you, Mr. Chairman.

Chairman BACHUS. [Presiding.] Thank you, Mr. Sanders.

At this time, does Chairman Oxley wish to make a statement?

Mr. OXLEY. Thank you, Mr. Chairman. I want to thank you for holding this important hearing on Check 21. It is bipartisan legislation, as we know, introduced by our friend Melissa Hart and Harold Ford, Jr. This hearing continues the work we began late last Congress in the subcommittee. I am confident this year we will succeed in getting a bill to the President's desk that truly modernizes the payment system.

I would also like to thank the panel of witnesses who have come to testify—Mr. Ferguson, welcome back—and give their insights. I look forward to your thoughts and comments on the effect Check 21 will have on the domestic payments system.

After the September 11 terrorist attacks, domestic flights were suspended, preventing millions of checks from physically moving through the payments system. While the system was stalled, float

built-up in the payment system and the Fed was forced to take emergency action to continue the movement of checks around the country. This committee responded to the terrorist attacks with legislation aimed at eliminating terrorist financing, getting our financial markets open and operating, and providing businesses with protection from future losses from terrorist attacks.

Check 21 is another effort by the committee to protect the payment system in times of national emergency by ensuring that checks will continue to be processed through the payment system with limited interruption. The technology exists to provide electronic check presentment, while combating fraud and improving service. As a matter of fact, if members of the committee have not seen the technology, it is really quite extraordinary. Today, millions of Americans could go online and examine their accounts, pull up images of their checks, and determine if the proper amounts were debited. Now, there is no need to wait until the end of the month to reconcile your account. It can be done on a daily basis. Americans without Internet access will benefit from this technology through expedited processing and will still receive images of their checks in the mail. There is little need for original paper checks in today's payment system. We should not mandate they be retained if they are not useful.

We must ensure that our banking system operates as efficiently as possible, while preserving safety and soundness. Check 21 achieves these goals by improving our payment system and encouraging the electronic movement of checks across the country. At the same time, this bill protects consumers by ensuring that they have the ability to retrieve improperly debited funds and are given information on the operation of this new system. I am hesitant to burden this bill with additional and unnecessary provisions aimed at creating new rights not already available under the current law of negotiable instruments. Check 21 grants banks useful tools to improve the delivery of services to their customers and expedite the flow of funds through the system.

We must ensure that the efficiencies achieved are not reversed by excessive regulatory intervention. The laws governing checks have not changed much over the past several decades, and by all estimates the system has worked very well. Consumers are well-protected through existing check law in the UCC and other regulations. This bill does nothing to reduce these protections and actually provides enhanced provisions for consumers. I expect we will receive and achieve broad bipartisan support to move this proposal through the committee and to the floor for consideration. We have the technology and the ability to make current check processing more efficient, less costly and more consumer-friendly. Let's take advantage of it.

I yield back.

Chairman BACHUS. Thank you.

At this time, we are going to recognize Mr. Ford. After Mr. Ford, we are going to recognize Ms. Hart and then Mr. Baker, and then if other members wish to be heard.

Mr. FORD. I will be real brief, Chairman. Thank you, and thank you to Ranking Member Sanders and certainly to Chairman Oxley.

I am pleased to join both Ms. Hart and my colleague Mr. Ferguson in introducing this. I know there will be some concerns expressed by some of my colleagues, including Mr. Sanders already, and I look forward to hearing from Ms. Duncan and from others on the panel to address some of the concerns raised by consumer groups and consumer organizations. I might add Ms. Duncan is a personal friend. I worked for her when I was in law school, a summer clerk for her at a law firm here in Washington, so it pains me a bit to be slightly on the opposite side with her and her interests at this moment.

However, I think Check 21 builds upon some of the goals set forth by Mr. Ferguson and the Fed in reducing costs and providing consumers with more options, and generally making our banking system more effective and more efficient in delivering services to the consumers. I happen to believe that Check 21 is a strong pro-consumer bill. The bill has already been described at length by both Chairman Baker and Mr. Oxley, and I would imagine Ms. Hart will as well. Let me just address one or two issues regarding how I think the bill will benefit consumers in multiple ways.

First, as I said, it will lessen reliance on the physical transportation and presentation of checks, promoting efficiency in big ways. It will lower costs and expedite services as well. As Vice Chair Ferguson has indicated, check truncation is generally more efficient, more cost-effective and less prone to processing errors. Second, a streamlined system will reduce the disruptions caused by bad checks. By speeding up the check clearing system, individuals will be notified faster if their check has not cleared. This will reduce the likelihood that a single bounced check will result in a chain reaction of bounced checks.

Third, more customers will be able to benefit from new products and services such as online access and review of check images. Millions of consumers already enjoy these services, which give consumers instant access to information about their checks day or night. Also, if a consumer makes an inquiry about a check, his or her bank's customer services representative will be able to access and review the check instantly. This can sharply reduce the time for customer inquiries. Consumers may also benefit from more deposit options. Because electronic processing could eliminate the need for daily physical pickup of checks, consumers could enjoy extended deposit cut-off hours or deposit services at more ATMs and remote locations.

Finally, Check 21 establishes a new consumer right—an expedited re-credit for contested substitute checks. If a substitute check is not properly charged to a consumer's account, banks must re-credit the consumer for the amount of the check, up to $2,500 within 10 business days. This is a new and important consumer protection established by this bill.

Let me make one last point. I know my friend Mr. Sanders made the valid point about the actual presentation of checks. I might add that there is no right as we speak for consumers to actually receive that, and perhaps that is another conversation or something else the committee can take up. Check 21 facilitates check truncation without mandating the receipt of checks in electronic form. It does this by establishing a negotiable instrument, a substitute check

with the same legal status as original checks. These substitute checks can be used by banks and consumers in the same way as original checks.

With that, I yield back the balance of my time, Mr. Bachus.

Chairman BACHUS. Thank you.

Ms. Hart?

Ms. HART. Thank you, Mr. Chairman. Thank you also for scheduling this hearing, and also to Chairman Oxley for your leadership and foresight on this issue, on legislation to modernize our nation's check processing system.

I also want to thank original cosponsor, Congressman Ford, and Congressman Mike Ferguson who was involved in this issue in the last session, for joining in the introduction of H.R. 1474, the Check Clearing Act for the 21st Century. Our truncated name, which I prefer, is Check 21. Finally, I also want to thank my colleagues, members of the committee, who have joined as cosponsors as well, of this important legislation.

The Fed estimates that over 40 billion checks are written annually, resulting in $39.3 trillion in payments. Today, a check is processed numerous times before it is eventually paid. Each step of this process relies on the physical transportation of the check, resulting in billions of checks being driven or flown across the country every day. I can only imagine the cost to consumers of this cumbersome and anachronistic process. But under current law, unless a bank has an agreement with another bank to receive payment by electronic means, the bank must physically present and return the original check to receive payment.

Today, there are over 15,000 banks, thrifts and credit unions negotiating separate agreements, which for each of these institutions would be an impossible task for even the most diligent financial institution. Building upon the Fed's check truncation proposal and legislation introduced in the last Congress, H.R. 1474 will end the requirement to physically move these paper checks, by removing existing legal barriers that prevent the banking industry from incorporating advances in technology such as digital imaging, to improve check processing efficiency and to provide improved services to customers.

The members of the committee have at their desks an example of what one of these checks looks like. For those consumers who may not be technologically involved or maybe fear technology, it looks exactly like a canceled check. So this technology is not a non-consumer-friendly technology. In fact, it is extremely helpful to provide improved services to consumers. The legislation allows banks to technologically progress into the 21st century, as well as benefit these consumers in a number of ways. Financial institutions may have the ability to provide new and improved services to their customers, such as later deposit cut-off hours, expanded access to enhanced account information, and check images through the Internet, if that is what the customer prefers. Also, the ability to resolve customer inquiries more easily—and anyone who has ever had a problem with a lost check would understand how this enhanced opportunity to access account information will be helpful to consumers.

In addition to these, consumers will benefit from a new expedited right of re-credit for amounts of up to $2,500. Most importantly, banks will be better able to stop and detect fraud very early in the check process, which is obviously another great benefit for the consumer.

I would like to thank the witnesses in advance for the testimony they are going to give this morning, and look forward to hearing their suggestions on ways we can build upon or improve the bill. Mr. Chairman, I also have testimony from the National Association of Federal Credit Unions that they have asked me to submit. I ask unanimous consent that that testimony also be included in the record.

Chairman BACHUS. Without objection.

[The following information can be found on page 244 in the appendix.]

Ms. HART. And I yield back. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

Are there members on the Democratic side that wish to make an opening statement? If not, Mr. Baker?

Mr. BAKER. Just a real brief comment, Mr. Chairman. First, I thank you, as other members have, for convening this hearing on this important matter. Secondly, I thought your opening statement was excellent and it was very persuasively delivered this morning.

[Laughter.]

Thirdly, I merely want to recognize your abilities to select a panel of very capable witnesses, not the least of which is the representative here today for the Association of Independent Community Bankers, Mr. Rusty Cloutier, who happens to be a good South Louisianean. I wanted to get that on the record so everyone would now it is Cloutier. I welcome him here today. Regrettably, I have another meeting which I must excuse myself, but it does not in any way diminish my interest in the subject, nor my appreciation for Community Bankers' testimony here today.

Thank you, Mr. Chairman, I yield back.

Chairman BACHUS. Thank you.

At this time, we are going to hear from Vice Chairman Ferguson. I do want to make one comment to the members. The gentleman from Vermont used an example of the 80-year-old that might not be comfortable with this new technology. Actually, this is not new technology, because what she is going to be getting will be a copy of her checks. The copying machine is very old technology. She is still going to write a check. She is still going to have paper checks. She is still going to write the check the same way she would in the past. In two-thirds of the cases today, she does not get back a check. She gets back a copy of the check on the back of her bank statements. So two-thirds of the 80-year-olds today are not getting this. The difference in her check and this copy—this is a legal copy, which the courts in our country have been using as, and giving the same weight of evidence as the original for some 60 years. And it looks very much—I mean, that is just a copy of her check.

So I believe that, and I think we could disagree, but I think most 80-year-olds are used to seeing copies of things. In fact, many of them complain when they are asked to produce an original. We use copies of birth certificates, certified copies. We use all sorts of

things today, and really our banking system is behind everything else in continuing to process these original checks. The checks will continue to go in. I did want to point out that. It is not anything overly complex about what she will be reading. And I think she can see a copy of it as easy as an original. I do not think that will give her any trouble.

Mr. SANDERS. We will learn more this morning. The question is not so much the copy that looks like the original. The question is how many people in fact will be getting the copies compared to how many get the original. That is one of my concerns.

Chairman BACHUS. Right. And she will have a right to get those, so she will have that right if she wants it. She can request it.

Mr. SANDERS. It is one thing to have a right and it is another thing when you are 80 years old to be able to implement that right.

Chairman BACHUS. Well, and two-thirds of people today are getting it on the back of their statements, or credit unions, for some 20 or 30 years—I do not know how long—have not been giving these checks. They do not do that, and there are many 80-year-olds who are members of credit unions, who write checks. I have not heard any of them complain about this.

Mr. Ferguson—our first witness is Vice Chairman of the Board of Governors of the Federal Reserve System, the Honorable Roger W. Ferguson. Vice Chairman Ferguson, we look forward to your testimony.

STATEMENT OF HON. ROGER W. FERGUSON, VICE CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. FERGUSON. Thank you very much, Mr. Chairman. I would also like to thank the subcommittee for inviting me to discuss the Check Clearing for the 21st Century Act, or Check 21, and for holding hearings on this very important legislative initiative.

This bill, which is similar to a proposal that the Board forwarded to Congress in late 2001, removes legal barriers to the use of new technology in check processing. It accomplishes this essentially by allowing banks to replace one piece of paper during the check collection or return process, the original check, with another piece of paper that contains the same payment information—a substitute check as you have already said. This simple change holds the promise of a more efficient check collection system.

Today, consumers, businesses and the government write about 40 billion checks annually. Over the years, banks, thrifts and credit unions, which in the rest of this testimony I will refer to collectively as banks, have applied a variety of electronic technologies to automate check processing, which involves handling and sorting checks so that they can be physically shipped to their destinations.

A typical check is processed several times before it is eventually paid. First, it is processed by the bank at which it is deposited. Then, it may be shipped for processing to one or more intermediaries, and finally it is shipped for processing and payment to the bank on which it is drawn. While most checks are currently processed in this fashion, some checks are removed from the collection process, and the payment information on the checks is captured and delivered electronically to the banks on which they are drawn. This process, which is commonly referred to as check trun-

cation, reduces the number of times the checks must be physically processed and shipped. As a result, check truncation is generally more efficient, more cost-effective, and less prone to processing errors.

The check system's legal framework, however, has not kept pace with technological advances and is now constraining the efforts of many banks to use new electronic technologies such as digital check imaging to improve check processing efficiency and to provide improved services to customers. Today, check truncation can occur only by agreement of the banks involved, because existing law requires original paper checks to be physically presented or returned in the absence of an agreement to the contrary. Given the thousands of banks in the United States, it is not feasible for any one bank to obtain check truncation agreements from all other banks or even a large portion of them. Therefore, legal changes are needed to foster the use of new electronic technologies to improve check processing and reduce the need for physical transportation in the check collection process.

Check 21 facilitates check truncation early in the check collection or return process without mandating that banks accept checks in electronic form. The Act accomplishes this by creating a new negotiable instrument called a substitute check that banks could use in place of an original check. Under the Act, banks would be able to truncate original checks, process check information electronically, and deliver substitute checks to other banks and bank customers that want to continue receiving paper checks. As a result, banks could handle much of their check processing electronically without needing to obtain legal agreements from thousands of other banks to truncate checks.

A substitute check, as you have already seen, would be the legal equivalent of the original check and could be used by both banks and their customers just as if it were the original check. As you know, it would look like a regular check. It would carry an image of both the front and the back of the original check, and could be processed on existing check processing equipment. Under the Act, a bank could still demand to receive paper checks, although it would likely receive a mix of original checks and substitute checks. Because substitute checks could be processed just like original checks, the bank would not need to invest in any new technology or otherwise change its current check processing operations. Further, bank customers that receive canceled checks with their monthly statements would continue to receive canceled checks, only some would be the original checks and some would be substitute checks. Bank customers would be able to use the substitute checks in exactly the same way they would use the originals.

While allowing banks to replace one piece of paper with another might seem like a small change, eliminating the need to deliver original checks would allow banks to speed up the process, a technological transformation in check clearing that is already under way. By adopting a market-based approach that permits each bank to decide when and how to use substitute checks, the Act should result in the use of technology to provide a more efficient and flexible check collection system.

The Act would also help address the risks to the check collection system from its extensive reliance on air transportation that was highlighted immediately after the September 11 tragedy. One effect of air transportation being grounded was that the flow of checks slowed dramatically. During the week of the attacks, the Federal Reserve Bank's daily check float ballooned to over $47 billion, which is more than 100 times its normal level. Had the Act been in effect at that time and had banks been using a more robust electronic infrastructure for check collection, banks would have been able to collect many more checks by transmitting electronic check information across the country and presenting substitute checks to paying banks.

The Act might also enable banks to provide new and improved services to their customers. For example, banks might allow some corporate customers to transmit their deposits electronically. Further, if banks begin to transmit check images from the point of deposit to their operations centers for processing, they might be able to establish branches or ATMs in more remote locations and provide later deposit cut-off hours to their customers. Later deposit cut-off times could result in some checks being credited one day earlier and interest accruing one day earlier for some checks deposited in interest-bearing accounts.

Because the Act will likely encourage greater investments in image technology, banks might also be able to expand their customers' access to enhanced account information and check images through the Internet. In addition, banks might be able to resolve customer inquiries more easily and quickly than they do today by accessing check images. Further, as banks reduce their operating costs, the savings will be passed on through a combination of lower fees to their customers and higher returns to their shareholders. Banks have indicated that they expect cost savings to be substantial.

While there is a fairly broad consensus on the desirability of the Act's underlying concepts that permit the use of substitute checks, the issue of customer protection has been the subject of much debate. The Board has had an opportunity to further reflect on the views that have been expressed by both consumer advocates and the banking industry, and it has concluded that expedited re-credit provisions are not necessary for the successful implementation of the Act. We recognize that the issue of customer protections is the most challenging policy issue in the Act, and that Congress might arrive at a different conclusion as it considers whether to include expedited re-credit provisions.

I would like to discuss briefly consumers' rights under existing check law, additional rights granted under the Act's new warranty and indemnity provisions, and why we believe that expedited re-credit provisions are not needed. The Act extends the protection of existing check law, including the UCC, the Uniform Commercial Code, and the Federal Reserve Board's regulation CC, to substitute checks as though they were original checks. Long-established check law protects bank customers if checks are improperly charged to their accounts. While it is true that the UCC does not provide a specific time frame within which a bank must act, the UCC's provisions give the bank a significant financial incentive to resolve prob-

lems on a timely basis. Specifically, a bank generally would be liable to its customer for the amount of an unauthorized charge. Moreover, if a bank bounces a customer's check that would have been paid were it not for the unauthorized charge, the bank may also have to reimburse its customer for consequential damages. The only way a bank can limit its liability is by resolving its customers' claims as quickly as possible. This incentive appears to have worked well for many decades.

In addition to the protections provided in the current check law, the Act requires banks to provide new warranties for substitute checks and to indemnify customers for losses resulting from the receipt of a substitute check instead of the original check. Customers whose checks have been converted to substitute checks receive a warranty that the substitute checks are legally equivalent to the original checks and that a check will not be paid more than once from a customer's account. Banks must also indemnify customers for losses they incur due to the receipt of substitute checks rather than the original checks. Taken together, these warranty and indemnity provisions provide customers with additional protections against losses related to the use of substitute checks.

The use of a substitute check is not expected to result in problems different from those that are routinely addressed in today's environment, and existing law already encourages the prompt redress of consumer complaints. Therefore, the Board believes that the significant compliance burdens imposed by the expedited recredit provisions on the banks that receive substitute checks would outweigh the small incremental benefits that the provisions would provide to consumers. Nonetheless, Congress may conclude that expedited re-credit provisions for consumers should be included in the legislation. In that case, we believe any expedited re-credit provision should be consistent with the Act's basic purpose and should not go beyond the provisions originally proposed by the Board in 2001. In the unlikely event that additional consumer protections are needed for substitute checks, the Act grants the Board authority to adopt such protections by regulation.

In conclusion, although an increasing number of payments are being made electronically, it is clear that checks will continue to play an important role in the nation's payment system for the foreseeable future. The Board believes that, over the long run, the concepts embodied in Check 21 will spur the use of new technologies to improve the efficiency and flexibility of the nation's check collection system and provide better services to bank customers. The Act accomplishes this by simply permitting banks to replace one piece of paper, the original check, with another piece of paper, the substitute check, both of which contain exactly the same payment information. Because the Act should result in substantial cost savings, it would also be desirable to begin obtaining these savings as quickly as possible.

We look forward to working with the subcommittee as it further considers this legislation. Thank you, Mr. Chairman and members of the subcommittee for your attention and your time. I would be happy to answer your questions.

[The prepared statement of Hon. Roger W. Ferguson can be found on page 109 in the appendix.]

Chairman BACHUS. Thank you, Vice Chairman. Let me pose this question to you. There is a broad consensus among most of the members on the basic underlying need for this legislation. However, in your testimony you state that the Federal Reserve believes that the expedited re-credit provision is unnecessary. First of all, that is a change from last year when I think the Federal Reserve agreed that it was a necessary protection. Can you comment on what has led to apparently what is a change in position? I know there are some on this committee that think the expedited re-credit provision is an important consumer benefit.

Let me go ahead and ask two questions and you can wrap them both up in one, because I think they are related. This legislation creates a new negotiable instrument, the substitute check. That is sort of the basis for this legislation. To have a substitute check, we have to produce an image of the original. Consumer groups have said that with an image out there, as well as the original check and then the substitute check, that it increases the likelihood that consumers may be double-debited on their accounts, and with both the original check, the substitute check and the image being made, that there may be a higher likelihood of fraud. Would you comment on these concerns?

Mr. FERGUSON. Certainly. Yes, the Board has changed its view from the original proposal. I thought it was important in our testimony to be very upfront about that so we could have just this discussion. The reason we have changed our view is that as we have analyzed both existing check law and importantly the experiences that have seen under existing check law, we believe that there are adequate coverages in that law. As we have said, this substitute check is a legal equivalent or would, should the Congress pass the bill, become the legal equivalent of the original check. Therefore, all the rights on the original check law under the UCC would apply. In the UCC there are a number of provisions that give banks incentives to avoid just the kind of problem that you have talked about in terms of double debit, for example. Those incentives emerge because should a bank inadvertently debit one's account twice, obviously there is no legal right to do that so they owe that extra debit back to the consumer right away. In addition to that, should other checks come in that are erroneously dishonored because of the original double debit mistake on the part of the bank, then the bank would be liable for consequential damages that may result from that original mistake.

So having looked at that, and seen that the UCC, plus other regulations, seemed to cover most of the kinds of issues that people were worried about with respect to the substitute check, we thought that the expedited re-credit was no longer necessary. Now, to be very clear and to very fair, we are not opposing expedited re-credit if that is the judgment of Congress, but we also recognize that since there seem to be very, very few problems with 40 billion checks written now, there is a cost to adding a new kind of check law, and there are some burdens to the banks as well. I guess our judgment became, if one looks at the cost and benefits to society overall, that the expedited re-credit was not essential to putting forth the major benefits of this check truncation Act.

Now, to go to the second part of your question, which is whether or not this substitute check, which again is very much like the real check and indeed has all the information on it, is prone to new types of mistakes. I would say the answer to that is no. First, with respect to double debit, exactly the same answer that applies to original checks would apply to the substitute check. The same set of incentives would apply to the substitute check. Secondly, the law as proposed in H.R. 1474 and as we originally proposed it, includes a couple of new provisions as well—warranty and indemnity. If there is a violation of the warranty and the indemnity comes into play, then banks could potentially be liable for consequential damages again, so that adds an extra element of incentive. And finally with the question of information on the bottom line here, what is called the MICR line that contains all the information about the check, we do not believe that there would be further MICR or translation problems because of this proposed law. The current check system depends on the information on that line. There is not a great deal of evidence of translation problems that exist currently.

More importantly, once the line is correctly input and is used in check processing, then whatever may or may not be easily legible on the paper check becomes irrelevant once you have the correct information on the MICR line. So I believe that going to more of an image base, more of an electronic system which this would allow—would not mandate, but would allow—has the possibility of reducing the number of errors that might occur. So for those reasons, one, I do not believe that on balance we need an expedited re-credit, but we are not in opposition should Congress choose to do that; and secondly, I do not believe that we are likely to see an increase in problems; and third, we have looked at our various databases among all the regulators and see no complaints that have emerged with respect to existing check law, and there is very little anecdotal evidence that this is a major problem requiring a new congressional intervention.

So for that variety of reasons, yes, we did change our view. We are not in opposition if Congress wants to go down that path, but we do not expect a new range of problems to emerge from the availability of a substitute check.

Chairman BACHUS. All right, thank you.

The gentleman from Vermont?

Mr. SANDERS. Thank you, Mr. Chairman, and thank you for your presentation, Mr. Ferguson.

Mr. Chairman, it seems to me that there are two basic issues that we are dealing with today. One is the inherent strength or problems of the legislation, and Consumers Union is going to testify to some of the concerns that they have. The second broader issue is one that Mr. Ferguson touched on, and that is he indicated, and I think we are all in agreement, that the greater efficiencies that will be developed as a result of this legislation is going to save banks money. Is that correct, Mr. Ferguson? No argument there, right?

Mr. FERGUSON. Correct.

Mr. SANDERS. The question you also said is that you assumed, or you thought that because of these efficiencies and these cost sav-

ings, consumers in fact might result in terms of lower fees. What we can agree on, I think, Mr. Ferguson, is that fees have soared for many consumers in the last number of years. Is that a fair assertion?

Mr. FERGUSON. I think it depends on the product, and I would also observe that there have been new products and services introduced as well over the last several years, including for example, ATMs. So one should think about both the service benefit and the expansion of service.

Mr. SANDERS. I know, but my question was dealing with fees. ATMs are a great service. We all take advantage of it, but it costs us a pretty penny as well to take advantage of it. But my point here is that you are saying——

Mr. FERGUSON. But sir, you have to recognize there is no service without a cost to it.

Mr. SANDERS. Excuse me—my point was that banks are pushing this legislation. Banks will save money. Your suggestion was that you think consumers will benefit. Maybe they will; maybe they will not. I would suggest to you that the Bank of America in 2001 made over $6 billion in net income. What they are able to do with some of that income is provide their CEO with over $17 million in compensation. Meanwhile, that same bank took many jobs from the United States and sent them to India. I am not sure that the fees at that bank went down. In 2001, Wells Fargo made over $3 billion in net income. They were able to pay their CEO over $34 million in total compensation. I am not sure that fees at that bank went down. At J.P. Morgan Chase in 2001, they made over $1.6 billion in net income. They managed to pay their CEO close to $22 million in compensation, and on and on and on it goes.

So I think that there are two issues here. Number one, the benefits and the problems associated with that legislation, but second of all the assertion that savings for large banks are necessarily going to go to the average consumer. Now, what in this legislation is mandated that says that if there are savings that go to large banks, fees are going to go down. So that all the consumers in this country say, well, this is really good; banks are going to save money, therefore my fees are going to go down. I am just a regular, average bank consumer. I have got $10,000 in the bank; I strongly support this legislation.

Anything in this legislation that you could tell me that will guarantee that mandates that those savings will be passed on to consumers, rather than take CEOs who today get only $25 million, maybe they go up to $30 million. Did I miss some language in that legislation, Mr. Ferguson?

Mr. FERGUSON. Is this the chance where I can respond?

Mr. SANDERS. Please. You can respond right now, sir.

Mr. FERGUSON. It is always nice to have that opportunity.

A couple of points I would like to make. No, in America we do not mandate necessarily that banks change what they do in terms of compensation. However, to be very clear about what I believe in this matter, because we have a great deal of competition in the financial services sector, and we do, we have observed over many, many years that whenever there is any advance with respect to technology, consumers get some of the benefit. In your State, up-

state in St. Albans, which I happen to go to every summer, in the far northern part of the United States—there are five ATM machines there that charge no particular fees that were not there 10 years ago, because banks have found that it is in their benefit to provide services to customers. There are other opportunities here that may also accrue to customers.

One of the benefits of this, if I may complete my answer——

Mr. SANDERS. We have a very limited amount of time.

Mr. FERGUSON. I realize you do, but I have a point that I would like to make to you. One of the benefits here, and that is true in your State, in particular rural States, States that are affected by bad weather occasionally, is that if you have a more electronic check processing system, you are unlikely to find that far rural locations, for example, have disadvantages from not getting checks delivered on time because of the weather, et cetera. So there is a possibility that many consumers in all states, including yours, may find some benefits because the regularity of check service for them may go up. We do not have a major problem with that in this country, but there are some parts of the country where it is true. There are a number of arrangements.

Mr. SANDERS. If I may please.

Mr. FERGUSON. If I can finish my answer, since you raised the question about the issue of compensation.

Mr. SANDERS. The difficulty is we only have five minutes of time. That is all.

Mr. FERGUSON. Fine.

Chairman BACHUS. That time is already gone by. I will allow him to extend his answer, though.

Mr. FERGUSON. The only other point I would make is I am not going to, I do not feel obliged necessarily to, defend CEO compensation and other things you have raised. That is an important part of your question. I am not going to necessarily go down that path. Thank you.

Mr. SANDERS. Let me just in two sentences conclude by saying, this will definitely benefit banks, but there is no guarantee at all that it will necessarily benefit consumers. Some aspects of it may; some may not.

Chairman BACHUS. This witness is testifying on behalf of the Federal Reserve, who has taken a position that this legislation will benefit the Federal Reserve, and actually the cost of your processing, too.

Mr. FERGUSON. We actually, from the standpoint of the Federal Reserve, have not yet developed a strong perspective here on what this might do for us. We are putting this forward because we think it is in the country's interest overall, not that it is going to benefit us, but we think it will benefit consumers and potentially benefit banks as well.

Chairman BACHUS. Thank you.

The order of the witnesses is Baker, Tiberi, Hensarling, Garrett, Murphy, Barrett, Oxley, Feeney, Bereuter, Biggert and Fossella. So we will go to Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Ferguson, I believe that you testified here that nothing included in this bill is going to increase costs on the banks and that

they will not need to invest in new technology in order to process this new particular negotiable instrument. Is that correct?

Mr. FERGUSON. That is part of the testimony, yes.

Mr. HENSARLING. Okay. So the Fed is predicting a substantial, I assume, system-wide savings by this new technology. Correct?

Mr. FERGUSON. If I could be clearer, what we have said is this has the potential to do that. Because this is not mandatory, but gives an option, part of the question of the cost savings depends very much on how much the banks and consumers take up this option. So there is some potential for savings, for sure. We have not tried to calibrate it because we do not know exactly how many banks will use the option, but we think there is some potential for cost savings in the whole check processing system, yes.

Mr. HENSARLING. But you are not mandating that banks invest in new technologies. Correct?

Mr. FERGUSON. No, we are not mandating that banks invest in new technology. Some of them may choose to do that because it allows for new services, but we are not mandating that.

Mr. HENSARLING. Do you have any estimate of the range of savings that might occur?

Mr. FERGUSON. I have seen a broad range of savings, in all honesty, and as I have said I have attempted to avoid trying to estimate that, in part because it depends very much on what the bankers do and what consumers do. I would encourage you to talk to some of the people on the second panel, and they may give you a perspective on how much they might have saved already or what they think might occur here, but we have been pretty judicious in not putting a hard and fast number on it.

Mr. HENSARLING. One of my colleagues brought up the concern of a customer no longer being able to receive a copy of a paper check. Is there anything in this legislation that prevents consumers from receiving copies of paper checks?

Mr. FERGUSON. No, there is nothing that prevents a consumer from receiving a copy of a check. It is the one that you have in front of you, the substitute check, and they simply have to request one.

Mr. HENSARLING. Did I also hear in your testimony that in the opinion of the Federal Reserve this new legislation will mean fewer errors in processing checks?

Mr. FERGUSON. Yes, you did. We believe that the system would be more efficient, more cost-effective, and less prone to errors.

Mr. HENSARLING. Is there anything in this legislation that lessens the liability of financial institutions for negligence in handling negotiable instruments or checks?

Mr. FERGUSON. No, there is nothing that lessens their liability. In fact, there are two provisions that are new that adhere particularly to the substitute check, so there are new kinds of responsibilities that would emerge from the legislation in lieu of having it lessened.

Mr. HENSARLING. So if I understand the testimony correctly, in the opinion of the Federal Reserve this legislation will create fewer errors in the check transaction process for consumers. This has the potential to have a great cost savings within the system. And assuming a competitive marketplace within banks, along with the

elasticity of demand, we are looking at savings to consumers. We are looking at additional options for consumers and we are seeing no diminution in financial institution liability. Is that correct?

Mr. FERGUSON. That is a fair summary, yes.

Mr. HENSARLING. If so, I frankly cannot conceive of a more pro-consumer piece of legislation within this context, and I applaud Mr. Ford and Ms. Hart for their leadership in bringing this to the committee.

Mr. Chairman, I yield the balance of my time.

Chairman BACHUS. Thank you.

We will now hear from the gentleman from Tennessee, Mr. Ford.

Mr. FORD. I thank the Chairman, and thank you again, Vice Chair Ferguson.

Let me ask just one or two very quick questions, to sort of walk through what exactly happens, because when some of the folks approach Ed Hill and others are approached about this issue, it was easier for me to understand when you sort of walk through what happens if I wrote a check to, say, a hardware store or something like that in my district, on my banking account, First Tennessee back in my State. What exactly happens? Can you walk through for me, when the hardware store deposits my check at the end of the day. What happens to the check before the whole process is completed? And two, how will this legislation potentially affect and/or improve this process?

Mr. FERGUSON. What happens is that your hardware store would first endorse the check on the back and take it to their bank, which may or may not be your bank. That would be the first question. The bank will look at the check and determine, first, is this a check that is drawn on that bank, which is called "on us," or is it drawn on another bank? They may first bundle up all the checks from a branch and send them to a processing center to make that determination. So there is a first night movement of the check. There will be determination of whether that check is drawn on that bank or drawn on another bank. If it is drawn on another bank, then the physical check currently has to be handled again either through another processing center, through an intermediary such as the Federal Reserve. It may go into a correspondent bank, which is another bank. There may be in Nashville or other places a clearing center, a clearinghouse for all checks.

So then the check gets processed again and it goes to the——

Mr. FORD. I will overlook the fact you put Nashville above Memphis, but go right ahead.

[Laughter.]

Mr. FERGUSON. This is where my colleague, Sue Biass, who used to work at First Tennessee, should have been here. She would have known that.

[Laughter.]

Then the check then will go to your bank, the bank on which it is drawn. They will look at it. They will look at the information. They will then debit your account. Now, because you are good credit, you have plenty of money in your account. If it turns out that someone wrote——

Mr. FORD. You are making up.

[Laughter.]

Mr. FERGUSON. Your colleague to your right is supporting you completely.

[Laughter.]

What may happen then, if in the unlikely event that you did not have a sufficient amount of money in your account if there were insufficient funds, then that check would have to be returned through this process back to the original bank, and then your hardware store would be notified that there were insufficient funds in the account and the check was not good.

So what you see in the current process is that the check gets handled through two or three different intermediaries—two banks, maybe three if there is a correspondent bank; two banks, maybe the Federal Reserve if we are providing the check clearing process. It is a very, as you can tell, slow, cumbersome time and labor-intensive process in which there are a number of places where small things could go wrong. As you know, the legislation would allow that original deposit to be converted to an image, with the information at the bottom captured correctly, and have that image be the thing that drives the whole check clearing process. It does have the potential—I am not sure how it would really work out—but it does have the potential to shorten the time.

Mr. FORD. Shortening the time does not lessen the likelihood that mistakes, or I should say increase the likelihood that mistakes can be made, does it?

Mr. FERGUSON. No, it does not increase the likelihood that mistakes would be made. There is no new increase in that risk from the way checks are currently handled, in my judgment.

Mr. FORD. As a matter of fact, if a mistake is made, this process probably will accelerate discovery of that and help to remedy that quicker than the former process.

Mr. FERGUSON. There are places where that might occur because it would allow the image to have been captured early in the process, and electronic images can be shared obviously more quickly than going back and trying to find the original piece of paper. So indeed you are right. There is a possibility that problem resolution times could be somewhat shorter because they could be driven off of what is, as you see here, a very accurate image of both the front and the back of the check.

Mr. FORD. Let me switch gears for one moment. We constantly point to the tragedy of 9-11 and the anthrax mailings here on the Hill as examples of why legislation like this might be needed. I believe that to be the case, but I think it is convenient at times to point to incredible moments as justification for incredible changes. But you have talked a little bit in a previous question about why this bill could be helpful and how it could lower costs. You began to touch on how this may help some of the larger corporate clients do business faster and better and cheaper, which could produce greater benefits.

I appreciate the question that Mr. Sanders asked, although some of his question is outside the scope of this hearing and this bill regarding compensation levels for CEOs of large companies, and perhaps that is something we can take up at another time. That is not necessarily relevant to this conversation or hearing or legislation today. Can you give me, outside of 9-11 and anthrax, just one or

two, in addition to what you just stated, how this new process or this new law could impact positively a reduction of costs and increase services for consumers?

Mr. FERGUSON. I think you phrased it correctly, which is both a reduction in costs for some processing in the system and also potentially increase services. I will give you just a couple more examples—one physical and one that deals with something that went wrong, and then some other benefits that may occur.

The Federal Reserve, as you know, processes about 40 percent of the checks that are not "on us." We process the majority of checks that go through the system that are not drawn on the same bank. We have had a couple of experiences in banking because of bad weather, planes are grounded. We had an unfortunate accident in Montana a year and a half ago in which checks were destroyed. The process of then trying to figure out which checks were on that particular plane was a very cumbersome process, except in the cases where we had images, in which case the images were handled in the regular course of business, even though the checks had been destroyed. There are a number of businesses and households who were depending on a check clearing, and we could have through our process checks cleared on the regular schedule because the images were available. So it is not just terrorist attacks. It is not things such as anthrax, but frankly, it is bad weather, for example, that might slow down this process.

It is also true that it is possible, if banks and businesses make these investments, that some checks may clear even more quickly then they do today, and it is one of the things that we obviously have to monitor and be aware of. There is a broad range of services. One of the congressmen astutely observed that if you have access—I think it was Chairman Oxley—if you have access to the image, your image of the check, on the Internet very, very quickly, then you can do things such as balance your checkbook much more quickly.

So there are a number of possibilities here that might emerge, and it is impossible to identify exactly what all of them would be, but I think there is a high likelihood that because we live in a very competitive banking environment, that banks would have the incentive to hold onto customers by providing new products and services and using some of those cost savings in that way.

Mr. FORD. My time is up, but I will say this, thank you, Mr. Ferguson, for being here. I know that there is some concern on the part of the Fed regarding this expedited re-credit, this new consumer protection which I support, and I know that the Consumers Union and some of the other organizations have expressed concern that perhaps that should be expanded outside of the orbit of just substitute checks. I tend to agree with that, but maybe that is something this committee and Ms. Hart and I, since we developed this good bipartisan flavor here, can work on perhaps in the near future to try to address that concern.

Thank you for being here, Mr. Ferguson. I yield back.

Chairman BACHUS. Thank you.

At this time, Ms. Hart—please?

Ms. HART. Thank you, Mr. Chairman.

Thank you, Mr. Ferguson, for being with us, as well. A couple of questions, kind of dovetail into each other a bit, but the first question is regarding the creation of a brand new negotiable instrument, this substitute check. We have discussed how that will expedite the processing and makes it a lot better for the consumer as far as access to their money. But is there not also an increased likelihood that with both an image of the check and a check in the payment system that there could be a greater chance of some kind of double-debiting issue or perhaps another kind of fraud? How would that be avoided?

Mr. FERGUSON. One, I do not think there is an increased likelihood of that, as I indicated. The banks have a very strong incentive to avoid that. There are a number of processes that are already in place with respect to avoiding double debits, and those will stay in place. You also have to recognize that once a check has been imaged, it is really just the image or the MICR line information and the image that travels through the system. The original check is truncated—"truncated" is a fancy word for saying basically it is safe kept someplace and over time may well no longer be available in the system. The credit unions, for example, do that already and there is no evidence of problems that we have seen or very little evidence, and none that has reached a policy concern.

Ms. HART. Is it envisioned at all that the check would be destroyed?

Mr. FERGUSON. It is a possibility, and you can talk to the credit unions about how they handle it, and some other banks do as well. But you also have to understand that today, there is a range of estimates as to what percentage of checks are currently truncated, so the original check may no longer be available, but then you obviously would have the substitute check. But I do not think that there is a risk of a significant increase in double debits because of law that you have introduced here.

Ms. HART. So the processes that are in place have really not experienced that problem as it is?

Mr. FERGUSON. They have not experienced that problem as it is, and we already have a world in which there is imaging and some truncation that already occurs. So one of the reasons that we have some comfort is that, in fact, this is not creating something that is totally unheard of, other than the substitute check, but the processing behind it has been tested already and is understood and seems to be working.

Ms. HART. Okay. Thank you. The other concern is regarding any other safety or soundness issues that may relate in increased electronic check truncation. Are you confident that the current technology is adequate to protect the U.S. payment system from some unanticipated crisis regarding that? Or is there something else that we should put in place?

Mr. FERGUSON. No, I am confident that the confluence of technology, law and regulation and natural incentives on the part of banks and on the part of customers has all worked to create a payment system that I think benefits the consumers and serves an $11 trillion economy. So I think the concepts in the check truncation act would be a major step forward, without question, but I am not sure that we need at this stage any further changes, and we are

not proposing anything else, other than the kind of things that have already been picked up, generally speaking, in H.R. 1474.

Ms. HART. Would you expect that the Fed will be ready to step up to the plate as this would proceed, and make suggestions?

Mr. FERGUSON. Absolutely. We will be very vigilant through all of our usual methodologies, but I and a number of my colleagues are very involved in two or three different committees with the purpose of being on the forefront or understanding where the forefront of payment systems will be, and if we see other needs that emerge over time, we would certainly, as we did with our original proposal on check truncation, let the Congress know. So we will be vigilant on these matters.

Ms. HART. Thank you for that, Mr. Ferguson. I yield back.

Chairman BACHUS. Thank you.

Mr. Davis?

Mr. DAVIS. Thank you, Mr. Chairman, and Mr. Ferguson, welcome.

Let me give you a chance to perhaps anticipate some of the criticisms that the panel after you may offer for this legislation, and let me get the benefit of your expertise in analyzing some of it. Recognizing that the Fed does not have a terrible stake in the re-credit provision either way, I still want to direct a few questions about it to you.

One of the contentions, as I understand, of the consumer groups is that the re-credit provision, while it offers in effect a new set of protections to consumers, that the provision is triggered by the presentment of a substitute check. Their concern, as I understand it, is that for the class of consumers who may not have a substitute check in their position, for whatever reason—something as basic as losing it or something more advertent, such as not seeking it—that they are somehow worse off under this legislation than they would be under the current regime. Can you address that concern for a moment? First of all, do you agree, as a matter of interpreting this legislation, that to trigger the re-credit provision that one has to have in his or her possession a substitute check—do you agree with that?

Mr. FERGUSON. Yes. I think that is correct.

Mr. DAVIS. Now, taking that point, can you comment on whether that leaves a class of consumers somehow worse off than they currently are?

Mr. FERGUSON. No, I do not think it leaves a class of consumers worse off than they currently are. I think the scope that is here is much more practical to implement, if one is going to go down this path towards having a re-credit. Consumers that do not receive their canceled checks would have really no way to determine which checks they wrote were subsequently converted to substitute checks. So if you expanded this to more than individuals who did get back their substitute check, they would not know when and how to exercise that right. So I think you would be creating new confusion in the minds of consumers as to exactly which rights apply to them, and they would have to try to go back through their bank and figure out, gee, was this ever converted to a substitute check or not? I do not think that would be very beneficial to consumers.

Mr. DAVIS. Let me cut you off and give you one hypothetical. Let's say that someone, most banks right now provide some service by which you can call a 1-800 number or call some other number and find out how much is in your account and find out the particular value of a check. Let's say that hypothetically I am checking my bank account by telephone and I find out that check 2874 shows a $100 check and I think I wrote a $10 check to Pizza Hut, and somebody could not read my handwriting. Now, in that instance obviously I have not gotten a substitute check. Let's say for whatever reason I never get a substitute check. Why shouldn't I just be able to call my bank and say, look, I called in yesterday on the 1-800 number and you all are showing a $100 check and I know that nothing at Pizza Hut costs $100. Why shouldn't I be able to do that by telephone? Why should I have to have a substitute check?

Mr. FERGUSON. That issue is really much more about current check law, because what you are saying is your bank erroneously debited your account, and current law already prohibits that and gives you the right to have that money put back in your account beyond the $10 in your example. Indeed, if it turned out that they inadvertently debited your account for $100 when they should have debited for $10, under current law if you write another check for $90 and they bounce that and you have some late fees, et cetera, then they are obliged to make you whole for those as well. So the example you have talked about is really something that is well covered under current law. As I tried to indicate a few other times, we have seen no evidence that that current approach under the UCC is not working.

Let me remind you, we have 40 billion checks written every year in this country. So if that had been a systematic problem, then I think it would have been recognized. So what you are talking about now is current law, and current law covers your case very well and seems to cover it efficiently.

Mr. DAVIS. Let me quickly address that before I ask you one final question. The time is limited. I think that is true in the sense that UCC provisions provide a protection for the consumer. However, I suspect that what the consumer groups would say in response is that someone has got to go out in effect and trigger the UCC remedy through getting a small claims lawyer and paying the fee for a small claims lawyer. Whereas the benefit of the re-credit provision, as I understand it, is that it creates an automatic set of rights that do not have to trigger through litigation.

Mr. FERGUSON. But one must also understand two things. One is that banks have an incentive to do this right. It is a very competitive business. They are trying to hold on to consumers. Many banks look at the checking account and the checking relationship as the anchor of the relationship. What we have seen thus far is that the incentives that banks have seem to be working very well to get problems resolved quickly.

Mr. DAVIS. Let me just make one point—if I could ask unanimous consent for about 30 seconds, Mr. Chairman—the point that I am making, I suppose, Mr. Ferguson, is that I think you are 100 percent correct in terms of the incentives the banks have, but those incentives do not create an error-free system. I think we agree on

that. So the proposition that I am stating to you, and I suspect what the consumer groups are saying is that if we are going to have a re-credit provision, why shouldn't the re-credit provision be universal in its applications, as opposed to being limited? If I could just make one additional point, I think the argument is there is no question that the whole panoply of current State laws, the whole panoply of UCC laws do provide a remedy for the consumer, but in the spirit of truncation and the spirit of expediting the delivery procedure for checks, that it might somehow also be worth our while to expedite the challenge procedure, if you will. That is the whole thrust of the re-credit provision. If we do that, I suppose that their argument would be that we ought to have a system that is as simplified as possible and one that does not necessarily make it easier for some people than others.

I recognize that my time is also expired.

Mr. FERGUSON. May I please respond to that, because I think that——

Chairman BACHUS. In fact, we have two Harvard law school graduates debating, and I know that you would never get—five minutes would not be long enough

[Laughter.]

Mr. FERGUSON. I was going to say, this reminds me very much of moot court.

I will give one very uncharacteristically short Harvard response to this comment, because I think this is——

Mr. SHERMAN. At least, Mr. Chairman, we do not have any senators.

[Laughter.]

Mr. DAVIS. Unless we count Mr. Ford, anyway. Is that right?

[Laughter.]

Mr. FORD. No.

[Laughter.]

Mr. FERGUSON. Cut Mr. Davis off right now.

[Laughter.]

Chairman BACHUS. I am actually enjoying this because it is two Harvard law school graduates, and I can actually follow what they are saying.

[Laughter.]

Mr. FERGUSON. But you raise a point that is extremely important. I think it is very unwise, it would be unwise for Congress, I believe, to expand new capability of this expedited re-credit beyond the narrowest way in which it is required. The reason is, I believe, you give individuals—all of us are consumers—so you give us all as consumers a new right, but you do not let us know when we can exercise that right, then I think you raise the barriers and create confusion. You do not reduce confusion. The second point I would make is that no rights come without some costs here. The expedited re-credit provision does have some costs on the other side. I realize that not all of us are equally concerned about the costs to the banks, but I think it is important for you as legislators to be aware that nothing is free. If you decide that you are going to expand beyond what we had originally proposed and beyond where you are on H.R. 1474, you are going to be raising the cost and possibly cutting off benefits in other directions.

The final point I would make is I believe that if the federal government is going to legislate in an area, it is important to have found that a problem exists or there is a high probability of a problem. What I have just tried to explain to you is that while this is a major step forward in many ways, the risks of new problems, it seems to me, are not very high here. And to have the full power of the federal government creating some new legislation and some new rights when the probability of a problem, I believe, is very, very small, it strikes me as at least a question that you want to ask yourselves before you go too far down that path.

So that is one of the reasons why the Board has changed its view completely, and says expedited re-credit is not necessary. If in the judgment of Congress you think it is necessary, I really strongly urge you not to expand it beyond what had been originally proposed because I am afraid you would be creating new costs, some confusion and federalizing an area of law where things are working extremely well today, though obviously we are proposing some areas for improvement. So that is my not very short Harvard answer back—it would not be based on evidence; but that is where I stand, sir. Thank you.

Chairman BACHUS. Thank you very much.

Mr. FORD. Did you follow that, Bachus? Did you get that? Did you understand that?

[Laughter.]

Chairman BACHUS. Actually, one thing I will follow up as an Alabama graduate—but take it a step further—is that we are finding ourselves in a global economy. And if we have inefficiencies in this country that they do not have in other countries, then it is a disadvantage. But if we can create an efficiency in this country that they do not have in another country, it is an advantage. And this is an inefficiency in our present system that by eliminating we can be more competitive in a world environment.

Mr. FERGUSON. I agree.

Chairman BACHUS. I think in this case, we would be ahead of other countries which we compete with, in eliminating a cost that they still have, and they have many cost advantages, labor and otherwise, but this would be a great advantage to us as we compete in the world arena.

Mr. FERGUSON. I would agree with you, as I put on my economics hat, I would say that if we can help keep costs low and increase consumer service here in the U.S., then that is an advantage for all of us.

Chairman BACHUS. Thank you.

Mr. Garrett?

Mr. GARRETT. I hope you will bear with me as a Rutgers Law School graduate.

[Laughter.]

I am intrigued as to the cost efficiencies and the cost savings and the potential for the positive result for the consumer. As you very nicely walked through my colleague over there through the process, under current law, can you just fill me in as far as the requirements as far as the waiting period while checks are being held, during the float period? Is there a divergence as far as that time limit is, as to the nature of the check?

Mr. FERGUSON. Well, yes, it is one that is basically non-local or local, is the shorthand way to think about it. There is a longer period that currently exists. But I want to make a quick point here, because there is a period in the law that is five days and I think three days, but the major point to recognize is that many, many banks are already providing services more quickly in that. Again, this makes the point about competition, so you should not think about our requirements under the Expedited Funds Availability Act as in some sense being the limiter here. Banks already in many cases, not all, are providing funds more quickly than the timeline currently required, the five days currently required. So the holds that people think about as being what is in the law may or may not be the experience that they have in their individual bank account relationships.

Mr. GARRETT. Okay. I just know that I hear from friends and neighbors as to why it takes so long. Although there may be competition out there, it seems like they are all taking——

Mr. FERGUSON. But can I explain? Part of the reason why we have the time frames that we have is this entire process of getting a check from the place where you first deposit it, to the bank on which it is drawn, and then back. One of the reasons that this time frame exists is to help banks reduce the amount of fraud that they are subject to, because they have to know that there are good funds at the other end, and give some time for that to occur. So I do not think people understand that is the reason why there is some time that does elapse for many, though not all, in the check process; that funds are not immediately available because the banks have to make sure that whoever it is that gave you the check has sufficient funds. That is a multi-day process currently.

Mr. GARRETT. You made a comment before, that percentage wise there are a number of checks that go through the Fed—I have not got the exact number that you rattled off as a percentage. The rest, I assume, then are the checks that could be called "on us" checks, that are bank affiliations where they are all within?

Mr. FERGUSON. No, they are not all "on us" checks. Let me look at our numbers here. There are three ways that checks are handled—or four. One is "on us" checks, yes. Then we have about 40 percent of those that are not "on us." But the others go through either a correspondent bank or a clearing house. Correspondent banks are banks that compete with the Fed in this area. First Tennessee is one of our strongest competitors, but many, many other banks provide that kind of service. And then there are within certain cities clearinghouses where the banks just clear the checks among themselves. And then there is another category which is called direct presentment, where a bank just simply has a bilateral relationship with another bank, maybe in the same town, and they do direct presentment. So this is an area in which, though we are active participants, it is very, very competitive. The margins are pretty thin, but there are banks that stay in it.

Mr. GARRETT. So for those that are the ones that I am thinking of, either "on us" or some of those other agreements that are in place right now that maybe are already using an electronic transmission, are we able to look to them today, or have you looked at them today already, to say, well, they are out there; they are doing

it today; and their costs—this goes back to the issue of what is the benefit to the consumer—they are already doing it. Their fees are generally lower or their cost to the consumers are generally lower, so now if we impose it on the other 43 or 44—not impose, but allow it to the other 40 percent we can see that. Or if not, if that is not the case, that the ones that are already doing it electronically within themselves—if those fees are not lower than the rest that are doing it right now, then you can make the argument that even if we do this, the consumer is not going to see the benefit.

Mr. FERGUSON. We have been reluctant to do that or cautious about doing it for a couple of reasons. What you have just identified, if you will let me put on my economics hat, is a very partial equilibrium story. The fact that a bank may have done this with one other bank or within a small community, or with a subset of its checks, and there are some banks that already are doing this on their own and have gotten these agreements, does not give you a strong sense of what it would look like when it becomes universal. Because the ability to increase services, to reduce fees, depends on having a broad ability, a broad acceptance of a particular approach, and not a narrow one for a small band of some of your checks. So while I am firmly convinced that there will be some cost savings and some increase in benefits to consumers in new services, I think it is important for us to let this go through and then we can observe exactly how it occurs once it becomes national law. Because you cannot generalize from the few cases that exist today, because those are all by definition special circumstances that are outside of what the current configuration and construction is.

I know it is sort of a cautionary kind of Federal Reserve statement and you would like a firm definitive answer, but I have got to be very honest with you. I think there will be cost savings, but I have not attempted to multiply up what we see now, because I do not think it is necessarily fully reflective of what the cost savings could be once this becomes universal. I am comfortable, having seen what exists today, that there are not a new set of risks that emerge because the technology works pretty well. But exactly how banks are going to change their behavior and what new services they are going to provide I think are important.

There is somebody on your second panel, if I have read their testimony correctly, who can perhaps give you some insight into the kinds of new services they are thinking of providing if this Act or bill becomes law.

Mr. GARRETT. Thank you very much.

Chairman BACHUS. Thank you.

Mr. Crowley?

Mr. CROWLEY. Thank you, Mr. Chairman.

Mr. Ferguson, if you can just walk me through this just a little bit. Taking a hypothetical approach to it, the 70-year-old male in my district who lost his wife five years earlier. She did all the books in the house. He now is doing that—and this may be a little self-exposing—but he is used to writing checks to his local grocery store, for instance. He lives in a small town, maybe—not from my district, then. He gets his canceled checks back in the mail and has been used to that process. There is a dispute at the local grocery as to whether or not his check went through or not. Right now, he

is able to bring a canceled check and say, well, I do not know what the problem is; here is my canceled check. The bank has verified that I have made this payment; do not make my life any more difficult than it is right now; I am done.

Who knows what happens to the relationship between himself and the local grocery store. What does that individual do now. In other words, under the truncation process, does he get a list of checks on one page, or does he just continue to get checks like this? Or does he get a list of truncated—even smaller versions of this? And is that a legal replacement for a canceled check?

Mr. FERGUSON. The answer is, what he gets depends in some sense on what he wants and what his bank offers. He may get back checks like this, plus some originals, depending on which banks they have gone through. He may, for some banks, get an image of this check, front and back, plus an image of other checks. That happens to be what my bank delivers. There are some banks that offer service where you get your check number and the amount that was paid. The important thing, though, is that this substitute check would be, if this law goes through, the legal equivalent of the original check. So in your story the individual would take the substitute check, if that is what he got, and would say, here it is. And by the way, this is the legal equivalent, and there is—back to my Harvard law friend—a best evidence concept. This would be the best evidence available and it would suffice. This would be the legal equivalent.

If what the individual had gotten originally was an image of the check, then he could call up his bank and get the actual check itself, if he needed the legal equivalent, but this would be the legal equivalent and it would resolve these problems that you have just raised.

Mr. CROWLEY. So is it possible that banks will not send back an image monthly?

Mr. FERGUSON. It is possible that banks would not send back an image. They may simply send back a statement that has your check number and the amount. There are a range of practices that might emerge, but the image would be available.

Mr. CROWLEY. That person would have to go through another process then in order to access that canceled check or the image of that canceled check.

Mr. FERGUSON. Right. That would be, as one of your colleagues said, a phone call away today.

Mr. CROWLEY. The onus would be on the person writing the check, as opposed to receiving the check—they do that?

Mr. FERGUSON. The person writing the check is the one who would have the canceled check, if that is your question, if that makes sense. You are looking like I am not answering your question.

Mr. CROWLEY. He says he paid the check—I paid for the bill.

Mr. FERGUSON. Yes.

Mr. CROWLEY. The grocer says, well, I did not get your money. The man says, well, I do not have a canceled check. I have to call my bank now to get the canceled check, to prove that I paid with this check. As opposed to in the past, he can walk up—I mean, it is just another step to have to go through.

Mr. FERGUSON. Well, it depends on what the services that the bank provides. If there is an individual who always wants to receive back canceled checks, then that would be the arrangement he would want to make with his bank, and the bank would send him his canceled checks if that is one of the services that they are offering. But all banks would offer the service of providing your canceled check or a substitute check, if that were required in order to handle this proof requirement.

Mr. CROWLEY. I am going to yield 30 seconds to my friend from Tennessee.

Mr. FERGUSON. Okay.

Mr. FORD. Real quick, just to follow up, Mr. Ferguson, regarding this expedited re-credit. I know we may have a little bit of a difference on it. You talked about the need for it in Congress, that Congress should assess whether there is a demand or need for some kind of remedy here. And you talked about the costs associated with this new provision or perhaps this new right. I was just curious, what would the cost be, just out of curiosity, to the extent you can give me some educated guess as to what the costs would be. Because I tend to think it is an important part of the legislation; and two, would even be willing to support expanding it because the harm done in the new bill would be the same harm done for all check writers. So I hear your point, and perhaps this is a conversation for another time and I would love to pursue it with you. Because I ask from this vantage point, I think this is not related to this hearing, but I think some of the credit bureaus, the formal or standard they use for placing on your report an error does not seem to be that tall or high, but the standard to remove something from your credit report once you prove there is a problem is incredibly high. Sometimes they have made the argument in the past that you have to show us where there is a real problem; we know that we make mistakes, but we correct them.

In this instance here, I understand your point about costs, and there is nothing that can be done in a vacuum. I did not go to Harvard, but I do know that there are people who when mistakes are made, whether you went to Harvard or Michigan where I went, if a mistake is made by a bank, you are $100 or $1,000 or $2,500 broker than you were before you wrote the check. So I am just curious as to what may be the costs and what added burden would that impose on the system that would create the kind of confusion or chaos or confusion that you mentioned.

Mr. FERGUSON. There are a couple of costs that come to mind immediately. One is that if you expand this right beyond individuals who receive their substitute checks back, you are going to be putting a burden on both the individual and their banks to go back through the process to see if there was ever a substitute check created. And it may well be that you will have a process in which a bank says, I do not want to receive substitute checks, but somebody down the line may have created a substitute check, and I have now got to go back and research through the process I have just laid out with two or three other banks, potentially, or a clearinghouse or something of that sort. So there is a process of getting information that actually would slow things down and would prove to be very costly.

The other side obviously is you increase, I believe—again, there are bad people out there—you increase the possibility of banks having to worry about fraudulent claims. It is one thing if someone already has a substitute check and they can show exactly what happened. If there is no substitute check in place whatsoever, then you go through this whole process of expedited re-credit and one of the reasons that there is a time frame associated with it is to make sure that you minimize the risk of a fraudulent requirement for re-credit. As soon as you expand the universe of individuals for whom that credit may apply, you by definition raise another kind of risk that is associated with it.

I also have some concern if you go much further down the path beyond what we had originally proposed, that you end up in the position where you are now creating a very heavy burden with respect to notices and notifications, and trying to explain what the rights are and how they might be different, and determining where you fall in this process. To be very clear, there are some risks for which the cost is worth bearing. As I have indicated many times, and you have heard me say it here, with a system that can be modernized but does not have a lot of these problems, and with the kinds of technology that underlay all of this, I do not think the risks are suddenly going to get much greater.

You also have the problem of then having, if you will, two kinds of check law. You have the check law for anybody who thinks they may have ever had a substitute check, and you have the check law for people who never had their check touched by a substitute check, and they know that because they get their original back. That cannot be, I think, a good use of societal resources, to have individuals trying to figure out what is the law under which I am now working. If you are going to try to create two kinds of check law, I would argue you should try to limit that new element of check law to a place where at least there is clarity around to whom it applies and when, which is what adding, for example, indemnities et cetera with respect to the physical substitute check might do. But if you go much beyond that, I think you are in an area where the risk of confusion goes up and the benefit that you are trying to get, if you will, frankly is not commensurate, I think, with the kinds of risks and costs that emerge.

So this has a lot to do with the way one thinks about legislation, for sure, but it also has a lot to do with the fact that what you are proposing is an important step towards improving a system that needs to be improved, but not a step that has lots of new inherent risk or takes us into completely uncharted territory, because there are institutions that you will see are doing some of this kind of thing already.

Chairman BACHUS. Thank you. We have actually gone over five minutes. Thank you.

Mr. Feeney?

Mr. FEENEY. Thank you, Mr. Chairman.

Mr. Ferguson, I am interested in one of the suggested advantages of this piece of legislation to reduce the float. If this legislation is enacted successfully and becomes law, I suppose that the expectations of check writers out there, especially for certain transactions of a larger size where the overnight float is meaningful, the

expectations will be that that float time will be dramatically reduced. Will there be some opportunities for mischief that will be legal under this legislation if enacted, for financial institutions or the Fed or other parties to take advantage of that are not currently available to them?

Mr. FERGUSON. I am not sure I get the gist of your question. Let me talk about what might happen in the float and see if I can get to your point. This law may allow for reduction in the float time, it is true.

Mr. FEENEY. I guess my question goes to the fact that use of this is permissive and not mandatory.

Mr. FERGUSON. Yes.

Mr. FEENEY. And so if people get a certain level of expectations about reducing the float time, financial institutions will still have some discretion and will they be able to basically take advantage of that discretion, to the disadvantage of consumers and check writers?

Mr. FERGUSON. I do not think to the disadvantage of consumers or check writers. We have an obligation under the Expedited Funds Availability Act to monitor what is happening in the world of availability, and to reduce the maximum allowable time, according to best market practice. So I think we have a role here to make sure that there are no banks that are outside of the realm of what appears to be acceptable or better practice—consistent again with this issue about checks being presented and then returned, which still will take a few days.

So I do not see mischief emerging from banks taking advantage of consumers, because as you observed, consumers are aware of this. As I have already indicated, there are a number of banks even now that offer better funds availability than is required, because of competitive pressure, a desire to hold on to consumers, because banks think of this area of checks as an important linkage to consumers, and for many of them an important source of revenue. So I think they have a real incentive to play fair, if you will, with consumers and not take advantage. We have an obligation under the Expedited Funds Availability Act to monitor what is happening and determine whether or not there is opportunity to reduce the maximum amount of time that one can have as a hold on a check. So I do not see new elements of mischief emerging here in that regard.

Mr. FEENEY. Okay. The second advantage of the proposal is to reduce transaction costs. Does the Federal Reserve currently incorporate the overhead that is used in running check transportation between different institutions into the prices it charges banks for that transportation service? And would the Federal Reserve be opposed to disclosing all of its associated costs with transportation or transporting checks?

Mr. FERGUSON. We have a unified service of check clearing, which is what I would describe as end to end, if you will. And that has all of our operations associated with it; all the overhead. With respect to the actual transportation, we do not have our own transportation force. We put that out for bid, and there are a number of firms that we use to provide that. When we do re-pricing, one of the obligations that we have under the Monetary Control Act,

when we set our overall pricing under the Monetary Control Act, we have an obligation to, generally speaking, in not every specific service, but in general services and broad categories of services, to recover our cost. And we often combine costs together.

So what we do, I think, is one, consistent with the Monetary Control Act; two, already relatively quite transparent. There is no new disclosure that I would want to give. We disclose to the public our check transportation costs, for example, to respond to your question. So I do not think there is any mystery about either what our cost structure is or what our pricing is, and I do not think there is any reason to use this Act to try to micro-manage what the Federal Reserve does in this area, because we offer already a full range of services and we think we offer them quite efficiently.

Mr. FEENEY. So you are not anxious to, in this Act at least, disclose specifically the costs associated for transporting checks.

Mr. FERGUSON. We already disclose to the public our check transportation costs. There is nothing new that we do not already disclose. So there is nothing that the Act needs to do with respect to transparency of the Federal Reserve in the world of check and check clearing.

Mr. FEENEY. Thank you.

I yield back the balance of my time, Mr. Chairman.

Chairman BACHUS. Thank you.

The gentlelady from New York?

Mrs. MALONEY. Thank you, Mr. Ferguson, and thank you for your work on check truncation and for your testimony today.

I would like to follow up on some of the questions of Mr. Feeney. I have had, as you know, a long time interest in the payment system, and especially in the role of the Federal Reserve as a provider of services to the industry, and simultaneously as a regulator. The 1980 Monetary Control Act says the Federal Reserve has to have the revenue to match the costs when it competes with the private sector, the idea being that the Federal Reserve should not be able to use its status as a large governmental entity to undercut private industry. I just would like to know, what percentage of the nation's checks does the Fed transport today through the air?

Mr. FERGUSON. Through the air?

Mrs. MALONEY. Yes, that you fly.

Mr. FERGUSON. I can tell you the percentage that we clear. I cannot respond based on my knowledge—I am not sure the staff knows exactly the number we transport through the air as opposed to ground transportation?

Mrs. MALONEY. Yes.

Mr. FERGUSON. We transport checks by truck and through the air as well.

Mrs. MALONEY. Through the air, with the fleet.

Mr. FERGUSON. Do we know? We will have to get back to you. I do not know the exact percent that we transport only through the air, as opposed to ground, and there are some checks that have both, by definition. Where you put them in a truck, take them to an airport, and fly them somewhere. And so to answer your specific question——

Mrs. MALONEY. Okay, but if you could get back to me. You said earlier that you let it out to bid for the transportation of the system. You do not own the planes.

Mr. FERGUSON. No, we do not own the planes.

Mrs. MALONEY. But what about the Check Relay in Atlanta—is that a private concern or is that a——

Mr. FERGUSON. Check Relay is the name they give to the whole operation, but we do not own a plane. If we did, I would not fly.

[Laughter.]

Mrs. MALONEY. But you competitively bid that.

Mr. FERGUSON. I am sorry?

Mrs. MALONEY. You competitively bid that.

Mr. FERGUSON. We competitively bid it. We bid it in what we believe to be the interests of the country, which is that we bid it based on every route, and we try to find the best provider route by route, and we have managed to do that, and we believe it is, one, consistent with the Monetary Control Act; and two, in the long term and indeed I would say the day to day short term interest of the U.S. economy.

Mrs. MALONEY. And you do not think that you in any way undercut the private sector when you do this?

Mr. FERGUSON. Absolutely not. We cannot, because as you well know, because you have followed the Monetary Control Act quite accurately and quite aggressively, we have got to put in not just the recovery of our basic costs, but also as you know very well, the so-called PSAF, or private sector adjustment factor, which includes the kind of return that an institution would get in check, or in their broad operations, since it is hard to get the return in check per se, so we look at the return for a large number of bank holding companies. So we have to mirror what the private sector does by having this profit component added in and price towards that. We disclose whenever we think about any changes with respect to the PSAF, for example. We have a public comment period. GAO has looked at it and has commended us for it. They have recommended a few changes, which we have undertaken. So there is no way in which we are undercutting the private sector. It would be unlawful because it would violate the Monetary Control Act. It would be, I think, inappropriate in places where we compete, for us to do that. And we do not do it.

Mrs. MALONEY. Okay. I would like to read an excerpt from testimony in answer to a question from Representative Tiberi, from my hearing that we had last year, from Joel Biggerstaff, the CEO of AirNet Systems. And he said, and I quote, "the Fed system and our system are basically duplicative at this time, operating from the same points of origin and serving the same end points at the same time. With capacity availability in both systems, it would be very easy for a single management structure to create significant efficiency and improve services of the system. I found it interesting earlier that I think the percentage of checks cleared overnight is 93 percent, as mentioned by the Federal Reserve. For those checks that flow through our system, we consistently average in excess of 98 percent in terms of on-time delivery and subsequent clearance of those financial instruments."

My question is, what percentage of checks does the Fed clear overnight, and given that this bill will facilitate increased presentment of checks electronically, at what point does the Fed anticipate to no longer operate aircraft through bid or whatever form for check clearing and leaving this business to the private sector?

Mr. FERGUSON. First, let me be clear, the Federal Reserve is the only system that provides national service. If one wanted to talk about one very highly utilized route from one big city to another, and that is the service you provide, that is fine, but we provide national service. To answer your question, we clear well over 90 percent of our checks every night to remote end-points—up-state New York as well as New York City. To my friend from Vermont, I mentioned St. Albans. There are banks there and I am sure we clear checks to them as well.

Secondly, we believe it is in the interest of the country to have a variety of different approaches for flying checks around. We, as I have said, put out our routes for bid. We choose the best bidder. There are people who do not win, because that is the way competition works. I do not think it is very wise to try to micro-manage the Federal Reserve's processes here for the benefit of an individual or a company that wants to attempt to monopolize something, and we are really trying to provide a broad national service. We think we do it extremely well. We have an obligation to compete fairly under the Monetary Control Act, and we will continue to do that. But I do not think you or anyone wants to have the Federal Reserve's day to day decisions about to whom we put out these contracts——

Mrs. MALONEY. I did not say that, and since my name was mentioned, I said competitively bid.

Mr. FERGUSON. We do competitively bid.

Mrs. MALONEY. I think it should be competitively bid. I am not promoting any company. I support competitively bidding.

The second part of my question is electronically—when will the Fed move to electronically clearing checks? Is that in your plans?

Mr. FERGUSON. We already present—let me get the facts here for you. We present electronically 21 percent of the check volume that we have. We truncate about 5 percent. We image about 8 percent. So I think we are already actively in the business of electronically presenting checks. We would like to do more. We have introduced a new service with respect to imaging, for example. So we are very much in the business of electronics, as well as flying paper checks around in the usual fashion.

Mrs. MALONEY. So at some point, do you think that everything will be done electronically, and therefore there will be no need for any check clearing whatsoever with the aircraft—that it will be done electronically completely?

Mr. FERGUSON. I cannot say that. I think it depends very much on this law, for example, passing, and how it evolves over time. I think there will be some individuals who will want their paper check, either the substitute check or the original. It would not surprise me to see some institutions, some banks that arise that focus on that segment. I think we will have more electronics, without question, but I do not know at what point we will have exclusively electronic, and I do not know if there will ever be a point at which

we have exclusively electronics because there may be individuals that continue to want to have either a substitute check or some other form of check, but they will be able to get their substitute check.

Mrs. MALONEY. Do you have a sense of how many banks are electronically processing checks now? Is it a large percentage or just a small percentage?

Mr. FERGUSON. It depends on how you mean "electronically processing." All banks are electronically processing in the sense that they——

Mrs. MALONEY. Not moving the checks electronically, though.

Mr. FERGUSON. I have an estimate of the percentage of checks where there is some form of imaging, and I have seen different ranges for that number. All credit unions do that now. We estimate that perhaps as many as 20 percent, but I have seen banks estimate as many as 30 percent of checks are already imaged. So there is a great deal of evidence that this works pretty well already.

Mrs. MALONEY. Thank you for your testimony. I will be supporting this bill.

Mr. FERGUSON. Thank you very much. We appreciate your support.

Chairman BACHUS. Thank you, Ms. Maloney.

Vice Chairman Ferguson, we have one other question I want to ask you for the record, because it was a subject of discussion at the Senate hearing. It has not been touched on today, and that is the comparative negligence standard that is provided in this legislation for indemnification and for other claims. Under this comparative negligence standard, how do you believe that consumer rights would be affected or altered, between the current protections and the protections if this legislation became law?

Mr. FERGUSON. I do not believe consumer rights would be affected at all. The reason that when we originally proposed this we put in a comparative negligence standard was not to adjust consumer rights at all, but rather to recognize that we put in warranties and indemnity language, and we wanted to make sure that the common law, well-established tort concept of comparative negligence that exists in the UCC today would also apply in exactly the same way to the warranty and indemnity provisions here. So I believe that it will keep things unchanged and would guarantee that the new obligations, warranty and indemnity that are embedded in this bill, would exist in a world of comparative negligence, this as the UCC currently does, but I see no changes whatsoever.

Chairman BACHUS. Thank you.

At this time, there are no further questions. Mr. Ferguson, you are dismissed.

Mr. FERGUSON. Thank you.

Chairman BACHUS. Our second panel we will call at this time. We are not going to take a break at this time. We anticipate that at some time there may be votes, and we will take our break at that time.

Ms. Hart is going to chair the beginning of the second panel. I have to be on the floor for a speech. She will take over the chair at this time.

Ms. HART. [Presiding.] Okay, I would like to begin with panel two. Beginning with panel two we have six panelists and they are all ready, it looks like. Mr. C.R. Cloutier, President and CEO of MidSouth Bank, NA, ICBA Chairman on behalf of the Independent Community Bankers of America and America's Community Bankers. Thank you for joining us. Mr. Grant Cole, Senior Vice President and Senior Change Management Executive, Transaction Services, Bank of America, on behalf of the American Bankers Association, Consumer Bankers Association, the Electronic Check Clearing House Organization and the Financial Services Roundtable. Thank you for being here. Mr. Dale Dentlinger, Director of E*TRADE Access, E*TRADE Bank. Thank you for joining us as well. Ms. Janell Mayo Duncan, Legislative and Regulatory Counsel for the Consumers Union. And Mr. Joseph Kniceley, Vice President, Payment Solutions, for NCR Corporation. Thank you. And Ms. Celia Woodham, Director of Operations, Chartway FCU, on behalf of the Credit Union National Association. Without objection, your written statements will be made part of our record. You will each be recognized for a five-minute summary of your testimony. And now I will begin by recognizing Mr. Cloutier for your statement.

STATEMENT OF C.R. CLOUTIER, PRESIDENT AND CEO, MIDSOUTH BANK, NA, ICBA CHAIRMAN, ON BEHALF OF INDEPENDENT COMMUNITY BANKERS OF AMERICA AND AMERICA'S COMMUNITY BANKERS

Mr. CLOUTIER. Chairman, Ranking Member Sanders and members of the committee, my name is Rusty Cloutier. I am Chairman of the Independent Community Bankers of America and President of MidSouth Bank, NA, a $394 million community bank located in Lafayette, Louisiana. I am pleased to appear today on behalf of the Independent Community Bankers of America and America's Community Bank to share with you our views on H.R. 1474. We strongly support the efforts to increase the efficiency of the nation's payment systems. We believe that through the proposed legislation Congress can create a significant cost savings and efficiencies that will benefit both consumers and financial institutions. I would also point out to the committee that the financial services trade associations are united in support of this legislation, which is a testament to the needs that this bill addresses for the entire industry and its consumers. I would first like to address the check clearing process in today's environment. Research conducted by the Federal Reserve Board shows that American consumers make more than 70 billion non-cash retail payments each year, and even though the number of transitional paper checks has been steady declining since the mid-1990s, they remain the non-cash payment of choice in the USA today. Processing checks has become extremely costly and highly burdensome for the nation's financial institutions. Current law generally requires that the original check move through the entire clearing process from the bank of first deposit to the paying bank. This is a labor intensive process of handling, sorting and physically transporting checks. Check truncation and electronic processing would significantly reduce this cost and burden. However, a major impediment is the legal requirement that a bank customer consent to not receiving their original check back after it is processed. Cur-

rently, the paying bank can truncate checks with the consent of its customers. However, because the first bank of the first deposit does not have a relationship with the paying bank's customer, it is prohibited from truncating the customer's check through electronic processing and it is forced to incur the cost of processing and transporting the paper check to the paying bank. This legislation will remove this impediment and facilitate check truncation and electronic check processing. Additionally, the proposed legislation authorized the use of a substitute check, which is a paper reproduction of the original check suitable for automated processing.

We have concerns that the existing definition of substitute check, which requires banks to include all MICRA line information on the original check, will create a number of technological challenges and dramatically slow down the implementation of the processing models envisioned under this legislation.

As an alternative, we suggest a requirement that a substitute check contain MICRA information as prescribed by generally applicable industry standards.

The imagining technology that will be promoted by this legislation will speed processing and improve services to customers.

Many consumers are already enjoying the benefits and conveniences associated with check imaging. For example, rather than dealing with bundles of canceled checks, consumers receive convenient summaries of their transactions.

It is important to note that this legislation does not mandate the processing or receipt of checks in electronic form. However, over time an increased number of financial institutions will recognize the benefits of electronic processing and will see less physical transportation, handling and sorting.

Critics of the legislation have expressed concerns over heavy reliance on check imaging. Yet, the experiences of my institution and other community banks that offered image check statements demonstrate that these concerns are unfounded.

MidSouth Bank implemented check imaging in June 1999 because we felt it would streamline the delivery of products and services to our customers, keep us competitive and generate a return on our investment. The benefits have been enormous. For the customer, we have improved the quality of statements, we are able to expedite statement delivery, account reconciliation has been simplified, and we can respond to inquires in minutes instead of hours. For the bank, imaging has led to significant cost reductions and we have simplified statement preparation, experienced improved productivity in item processing. Our customers' response has been overwhelmingly positive. But most importantly, since implementation, neither my bank nor account holders have been caused any losses.

Consumer groups argue that the consumers need protection beyond what is required today because they would be disadvantaged if they receive substitute checks rather than originals. However, these substitutes they cite in support of this argument have existed for years without adverse consequences to the consumers. We believe existing laws provide adequate protection to consumers for substitute checks authorized in the proposed legislation. There have been no significant consumer issues relating to the receipt of

images or electronic representations of returned check items and there is no evidence to justify changing the existing law to provide for additional check protection.

Finally, I would like to address the proposed expedited re-credit provision, as you heard Vice Chairman Ferguson speak about this morning. We believe that the new re-credit provisions are complicated and would only serve to confuse customers, create an unnecessary burden for banks and expose banks to sophisticated fraud schemes.

In conclusion, we hope the committee will take this opportunity to approve the efficiency of the U.S. payment system by quick passage of the proposed legislation, which has broad support of the banking industry and the Federal Reserve Bank.

Thank you for the opportunity to appear here today. An appropriate time I will be happy to answer any questions.

[The prepared statement of C.R. Cloutier can be found on page 68 in the appendix.]

Ms. HART. Thank you, Mr. Cloutier.

Mr. Cole?

STATEMENT OF GRANT COLE, SENIOR VICE PRESIDENT AND SENIOR CHANGE MANAGEMENT EXECUTIVE, TRANSACTION SERVICES, BANK OF AMERICA, ON BEHALF OF AMERICAN BANKERS ASSOCIATION, CONSUMER BANKERS ASSOCIATION, THE ELECTRONIC CHECK CLEARING HOUSE ORGANIZATION, AND THE FINANCIAL SERVICES ROUNDTABLE

Mr. COLE. Thank you for inviting me to appear today in behalf of the Electronic Check Clearing House Organization, the Financial Services Roundtable, the American Bankers Association and the Community Bankers of America. My name is Grant Cole. I am a Senior Vice President at Bank of America in the Transaction processing division.

The organizations I represent thank Representatives Hart, Ford and Ferguson for introducing H.R. 1474, the Check Clearing for the 21st Century Act. While we would like to see some improvements to the Check 21 bill, we believe that this legislation will serve as an excellent basis for final check modernization legislation that will benefit consumers, businesses, financial institutions and the economy as a whole.

The check payment system relies heavily on an extensive network of physical check transportation. The Federal Reserve, depository institutions and third party vendors run multiple processing facilities throughout the country. This system is remarkably efficient given the large volumes and reliance on physical transportation of paper documents. However, I believe we are at a crossroads. For the 27 million Bank of America customers, checks are second only to cash as the most popular choice for making payments. However, Federal Reserve data indicates that the number of checks being written is declining, while the number of electronic payments is increasing. If this trend continues without check clearing modernization, it will dramatically change the cost structure of payments processing as checks will become more expensive to process. Promptly passing check modernization legislation is critical to protect the check payment system and allow those customers who

choose to write checks to continue to do so. Substitute checks, which are image copies of checks, give customers more information than they get from one or two lines of information shown on their statements for Reg E type of conversions.

The legislation will benefit consumers and businesses in many ways. First, the legislation will lead to streamlining of the collection and return processes. Consumers and businesses depositors will have information about fraudulent and NSF checks sooner. As a result, depositors will be better positioned to reduce the losses that they sometimes experience from bad checks.

With check imaging, customers can view checks just hours after the checks enter our banking system. Customers do not have to wait until the end of the month to see their paper checks, when they are returned to them in the mail. This helps customers and bankers identify and combat fraud. I should point out that the technology to provide check images to customers and to exchange the images between banks is highly secure. We use highly sophisticated firewalls and cryptology to deter hackers or other unauthorized persons from accessing customers' confidential check information. New fraud detection devices are being developed which will flag questionable items for further review as well.

This legislation will lead to even better customer service. Imaging allows banks to respond to customer inquiries more quickly. By providing a new value proposition for imaging, this legislation will make imaging more common, which will increase the reach of this consumer-friendly technology. Another consumer benefit is that customers will have more deposit options or extended deposit cutoff hours. For example, a greater number of remote ATMs will offer deposit-taking because electronic processing will allow banks to wait longer between physical pick-ups of those checks. This would be particularly beneficial in rural areas where frequent collection of paper checks is quite difficult.

While we support the concepts of H.R. 1474, we would like to point out several areas where we think this bill could be improved. First, we believe that the special re-credit rights included in section six are not necessary. Current check law, including regulation CC and the Uniform Commercial Code, already provide consumers with appropriate protections in the relatively few cases where consumers have problems with their checks. In the event that the committee and Congress leave the expedited re-credit section in the bill, it could be improved by lowering the amount of the re-credit from $2,500 per check to $1,500 per day. While most consumer checks are written for amounts well below $1,500, persons intending to commit fraud would be very aware of the maximum re-credit amount and take advantage of that.

Also, we strongly encourage the committee to change the definition of substitute checks to the definition in last year's bill. The addition of the language bears a micro-line containing all the information appearing on the micro-line of the original check would have the unintended effect of making it technologically impractical to process substitute checks. Our final suggestion would be to shorten the effective date of the bill from 18 months to one year. Having an effective date that is too long will unnecessarily delay the benefits the Act provides.

Our final suggestion, we strongly oppose expanding the scope of the Act to impose protections or requirements on other check electronification programs that do not involve substitute checks. The special protections for substitute checks in the Act should only apply to situations where the customer actually receives a substitute check.

Mr. Chairman and Ranking Member Sanders, thank you for inviting me to participate here today and allowing me to share my views and those of the views of the associations that I represent. Once again, I applaud the work of Representatives Hart, Ford and Ferguson and we look forward to working with the committee to enact this bill as soon as practical. I look forward to answering any questions that the committee may have.

[The prepared statement of Grant Cole can be found on page 76 in the appendix.]

Ms. HART. Thank you, Mr. Cole.

Mr. Dentlinger?

STATEMENT OF DALE DENTLINGER, DIRECTOR, E*TRADE ACCESS, E*TRADE BANK

Mr. DENTLINGER. Chairman and members of the subcommittee, thank you very much for the opportunity to testify on behalf of E*TRADE Financial today in support of H.R. 1474, the Check Clearing for the 21st Century Act. My name is Dale Dentlinger and I am president of E*TRADE Access, Incorporated. E*TRADE Access operates an independent network of more than 15,000 ATMs, making it the second-largest ATM network in the United States. E*TRADE Access and its parent, E*TRADE Bank are both subsidiaries of E*TRADE Group, Incorporated, a diversified financial services company that offers a wide range of financial products and services under the brand E*TRADE Financial.

E*TRADE Financial's core strategy is to leverage technology to provide customers with superior, value-added, brokerage, banking and lending products, delivered primarily through electronic delivery channels. While E*TRADE Financial's banking group offers a full suite of deposit and lending products, it differs from most other banks in that it does not have traditional brick and mortar branch offices. Instead, our customers transact their banking business with us on the telephone, through the Internet, and at any of our many ATMs, which are located in all 50 states, including the top 20 major metropolitan areas in the U.S. This model allows us to operate efficiently and pass savings on to our customers.

E*TRADE Bank's branchless structure and already-existing experience with check truncation and digital imaging give us a unique perspective on the Act and its many potential benefits to consumers. E*TRADE Financial believes that the Act will foster significant increase in the usage by banks of digital imaging and other new check processing technologies. By removing existing legal barriers to check truncation and reducing the payment system's reliance on paper checks, we expect the Act will provide a number of significant consumer benefits, including the four that I will briefly discuss today.

Number one, this Act will increase consumer convenience by expanding the availability of deposit-taking ATMs. Today, only 56 or

our 15,000 ATMs accept deposits because of the costly burden of deposit pickup and processing. Without the expense of daily courier pickups, E*TRADE Financial will be able to provide consumers many more choices and much greater convenience in terms of where, when and how they make bank deposits.

Number two, this Act will increase consumers' confidence that checks deposited at ATMs will be accurately credited to their accounts. With electronification technology, when a customer utilizes an ATM to make a deposit, the check that is deposited will be scanned and read, with an image appearing on the screen for customer verification and a reduced image printed on the receipt. With these additional assurances, we expect more consumers will find making deposits at an ATM to be a viable time-saving alternative to going to a teller's window at a bank's branch office.

Number three, this Act will give consumers quicker access to funds deposited into their accounts. As Vice Chairman Ferguson of the Federal Reserve Board and a number of others have already observed, enabling banks in the settlement process to transmit digital images of checks, rather than the original checks, will produce a much more efficient payment system in this country. We anticipate that this faster check presentment and collection, as well as competitive pressures, will cause many banks to further reduce check hold times and give consumers even more rapid access to their funds.

Number four, this Act will provide consumers with new cutting edge products and services such as real-time access to digital images of third party checks deposited into their accounts. Today, E*TRADE Bank customers receive images of their checks in their monthly statement, as well as the ability to view these images through the bank's Web site. With third party checks deposited into an account available as well through these same electronic channels, our customers will more easily be able to confirm transactions, spot and correct errors, and detect possible fraudulent transactions at their convenience.

E*TRADE Financial strongly supports H.R. 1474, the Check Clearing for the 21st Century Act, and commends Representatives Hart, Ford and Ferguson for their leadership on this important piece of legislation, because it will lead to the widespread use of digital imaging and other innovative check truncation technologies that will benefit consumers in many important ways. This legislation will enable us to better meet the needs of our customers by increasing the number of deposit-taking ATMs in our network, giving customers quicker access to funds deposited in their accounts, and providing them with new value-added products and services.

Thank you again for inviting me to testify. I welcome any questions that you or other members of the subcommittee may have.

[The prepared statement of Dale Dentlinger can be found on page 91 in the appendix.]

Ms. HART. Thank you, Mr. Dentlinger.

Ms. Duncan?

STATEMENT OF JANELL MAYO DUNCAN, LEGISLATIVE AND REGULATORY COUNSEL, CONSUMERS UNION

Ms. DUNCAN. Good afternoon to the chair and other members of the subcommittee. Thank you for providing me the opportunity to come before you today. I am Janell Mayo Duncan, Legislative and Regulatory Counsel for Consumers Union. My testimony today on the Check Clearing Act for the 21st Century Act, H.R. 1474, is supported by the Consumer Federation of America, the U.S. Public Interest Research Group, and the National Consumer Law Center.

The legislation will create a new negotiable instrument called the substitute check. It will authorize a new dual-processing of checks, where a check may be converted in and out of paper form during processing. The anticipated benefits include cost savings for banks and possible enhanced services for consumers. The potential risks include the double-processing of a single check or errors in reading the amount of or account number on a check, possibly resulting in losses to consumers.

I appear before you today to comment on the consumer protection provisions in the legislation. First, we commend the sponsors of the legislation for including re-credit, a non-litigation remedy available to consumers to resolve disputes with their banks over funds debited from their account. However, we believe that re-credit should be available to all consumers because they are identically situated relating to potential risks involved in the dual electronic and paper processing of the check information.

Second, consumers unable to seek re-credit from banks are covered by state Uniform Commercial Code provisions and indemnity and warranty provisions in the legislation. We believe these remedies are inadequate because they require a lawsuit to enforce. Third, consumer protections in the legislation should be strengthened because they are weaker than protections that already exist for other types of electronic consumer transactions. Finally, the comparative negligence provisions should be eliminated because they are broader than in the current UCC law and could give banks an unfair ability to deter, delay or reduce consumers' claims for damages.

The bill contains a loophole. Although section six of the legislation requires a bank to put up to $2,500 in disputed fund back into a consumer's account if the matter is not settled within 10 days, it would allow consumers to seek re-credit only if they receive a substitute check from their bank. Banks could prevent consumers from having the right of re-credit simply by not issuing them a substitute check. We believe that the re-credit provision should be mandatory and extended to all consumers regardless of whether or not he or she receives a substitute check.

Consumers unable to seek re-credit would not be adequately protected because they would have to seek redress under weaker UCC provisions in State law, which do not require a bank to redeposit disputed funds and would require a lawsuit to enforce. This is too expensive and time consuming for most amounts likely to be at issue. Although the added warranty and indemnity provisions provide some protection, they would also require a consumer to sue his or her bank. Because consumers, all of them, are equally suscep-

tible to harm from processing errors, the re-credit loophole in the bill should be closed and the right extended to apply in every case.

Anti-fraud provisions. One argument made against extending the re-credit protections to all consumers involves concerns that wider availability of re-credit protections increases the exposure of banks to fraudulent claims. We believe the strong anti-fraud provisions in the legislation should minimize, if not eliminate, concerns relating to fraudulent claims. Under the legislation, a bank may delay re-credit of funds until it confirms that a claim is valid, up to 45 days for new accounts, accounts with repeated overdrafts or negative balances, or when the bank has a reasonable basis to believe the claim is fraudulent. In addition, a bank can remove re-credited funds without prior notice if it concludes that a re-credit was made unnecessarily.

Regulation E. Currently, consumers engaging in other electronic funds transfers, for example ATM cards or direct debits, are protected by Regulation E, which includes a 10-day right of re-credit with no dollar limit. We believe that protections in the legislation should be expanded and see no justification for having protections in the legislation that are weaker than those in Regulation E.

Lastly, comparative negligence provisions. The bill contains comparative negligence provisions that would allow banks to reduce the amount of damages a consumer can recover by asserting that the consumer was somehow at fault. It is unlikely that a consumer could contribute to improper check processing and this provision could unfairly allow a bank to deter or delay a consumer's claim by asserting that the consumer was partly responsible. We therefore believe the comparative negligence standards should be removed from the bill.

In our view, these are modest improvements that would go a long way towards improving and balancing this legislation.

I thank the Chair and other members of the subcommittee for the opportunity to testify, and I look forward to answering any questions.

[The prepared statement of Janell Mayo Duncan can be found on page 100 in the appendix.]

Ms. HART. Thank you, Ms. Duncan.

Mr. Kniceley?

STATEMENT OF JOSEPH KNICELEY, VICE PRESIDENT, PAYMENT SOLUTIONS, NCR CORPORATION

Mr. KNICELEY. Madam Chairwoman and members of the subcommittee, my name is Joe Kniceley. I am the Vice President of the Americas region for NCR Corporation's payment solution business. I thank you for your invitation to offer testimony this morning.

Dayton, Ohio-based NCR Corporation has provided solutions to process financial transactions for American consumers since our inception in 1884. Our corporate slogan, "Transforming Transactions Into Relationships," summarizes the value we bring to our clients. We do this by automating financial transactions that occur at an ATM, bank branch teller, at the retail store point of sale, or by processing a mail check payment.

Madam Chairwoman, NCR is also honored to be part of a larger consortium of information technology companies, including IBM,

Unisys, EMC and EDS. We have worked closely with American National Standards Institute to ensure that the check image information will be secure and easily shared. ANSI Standard X9.37 defines the format and rules for electronic exchange of checks. This standard has a provision for applying digital signatures with each image being exchanged. This allows the receiving bank to validate the signature and determine that the image has not been altered. ANSI Standard X9.90 defines the image replacement document, and it is clear in its intent to maintain a high quality image, even after multiple image reproductions. It also requires the original check MICR lines to be printed on the image replacement document.

Our coalition of IT companies can state that we wholly support H.R. 1474 without reservation or qualification. We believe the bill is well-crafted, providing adequate protections for consumers, financial institutions and other entities engaged in check acceptance, presentment and clearing. As a result, we believe that the nation's end-to-end payment systems will be much more efficient and reliable. Today, a check that is written at a grocery store or deposited at a bank may be handled more than 20 times before it reaches the bank upon which it is drawn. If the account has insufficient funds, the check has to be returned, repeating the process in reverse. This takes several days without the store owner being paid for the goods sold.

This costly, error-prone, fraud-ridden process started decades ago and the reengineering and improvement of this process has not kept up with advancements in technology. The application of H.R. 1474, used in conjunction with proven technology, will streamline these key financial transactions to benefit all parties involved. With this legislation, funds can be transferred within minutes, not days or weeks. Digital checks can be archived for seven years, and researched online by simply accessing the bank's Internet Web site. The elimination of moving paper checks around the country minimizes the impact of weather and logistics problems, not to mention the unforeseen crisis like the grounding of the nation's commercial air fleet during the events of 9-11.

Consumers stand to benefit in many ways. Business and bank branch hours can be expanded when the window for clearing checks is not tied to a courier deadline. ATM users who make check deposits will be provided superior service by obtaining a receipt of their deposits that include a digital picture of each deposited check. These electronic deposits will be processed quickly, while the paper check still resides in even the most remote ATM location. A big benefit to the consumer will be the early availability of deposited funds and the convenience of having more efficient deposit-taking ATMs on every street corner. Imaging technology will allow financial institutions to eliminate the constraints of paper, improve customer service, lower check fraud losses and significantly lower costs associated with physically transporting paper from coast to coast.

Our technology coalition is pleased to inform the committee that the IT industry is ready, willing and able to help our banking system deal with the realities of coast-to-coast consumer transactions. Check imaging was first put in production in the late 1980s. Most major banks, credit unions and nearly 50 percent of community

banks have been using check imaging in one or more forms for many years. It is now time to bring the check clearing process into the 21st century. Our current rules for processing checks in the banking system were written at a time when items were cleared across town, not across the country. Over the past several years, banks have expanded to national scope, creating a paper check clearing logistics nightmare. Good business practice and the American consumer's ever-increasing demand for convenience, require us to free our banking system from the needless constraints of paper.

I would like to commend Governor Ferguson and his staff at the Federal Reserve for their efforts on this legislation. Through digital imaging technology and the proposed legislation, an American institution we call the checking account can now provide consumers, businesses and financial institutions new and improved benefits not previously enjoyed.

Madam Chairwoman, thank you for the opportunity to testify this morning. I would be happy to answer any questions that you have.

[The prepared statement of Joseph Kniceley can be found on page 119 in the appendix.]

Ms. HART. Thank you, Mr. Kniceley.

Ms. Woodham?

STATEMENT OF CELIA C. WOODHAM, DIRECTOR OF OPERATIONS, CHARTWAY FCU, ON BEHALF OF CREDIT UNION NATIONAL ASSOCIATION

Ms. WOODHAM. Congresswoman Hart and members of the subcommittee, I thank you for the opportunity to provide comments on H.R. 1474, the Check Clearing for the 21st Century Act, and on how check truncation has been working at credit unions for three decades. I am Celia Woodham, director of operations at Chartway Federal Credit Union in Virginia Beach, Virginia. I am testifying before you today on behalf of the Credit Union National Association.

We would like to share with you information on the experience of credit unions' check truncation techniques and how it impacts fraud and privacy, and on the affect this legislation will have on the payment systems, credit unions and consumers.

Sixty-four percent of credit unions currently offer checking accounts. Of those credit unions, 91 percent truncate share drafts or checks. Among the credit unions that offer checking accounts, 7.1 percent also include images of checks within the statements that their members receive. Credit unions tend to truncate checks at the last step in the check collection process by not returning the original share draft to their credit union members.

Credit unions, like other financial institutions, have seen check fraud escalate dramatically in recent years by over 200 percent. This broad increase in check fraud is not related to truncation, but it is more likely related to the ease with which people steal and counterfeit paper checks. At Chartway Federal Credit Union, most of our check fraud stems from stolen checks. At Chartway, we protect our members against check fraud by having tellers examine checks and educating our members on identify theft.

There is a concern that double debits could be a result of this legislation if a paying financial institution receives a substitute check and an electronic file for the same item and posts both. Chartway Federal Credit Union has never received an electronic check and the paper check from its processing Federal Reserve Bank. We are confident that increased truncation will not raise the frequency of double debits. If it does, it can quickly be resolved by the consumer protection in the legislation.

H.R. 1474 would help the payment system by removing legal barriers that currently discourage truncation. A financial institution currently cannot send electronic checks to another financial institution without a prior agreement. With this legislation, financial institutions would be able to send electronic checks without prior agreement. As a result, the increase in check truncation and electronic check processing would likely quicken the collection and return of checks, reduce the cost of processing checks, eliminate the need to physically transport checks, and reduce the susceptibility of our check system to attacks that affect our transportation networks.

Increased truncation will save money for credit unions also, but our savings will be passed on to our members as we have done in the past. At credit unions, truncation combined with check imaging has allowed some credit unions to post images online and increase the access their members have to their used checks. This allows credit union personnel to investigate complaints and resolve disputes more quickly.

As a result of this bill, consumers would probably not receive their original checks back, yet the experience of credit unions is that our members rarely request or need originals from truncated share drafts or checks. In an informal survey in 2001, we found that of 1.1 billion checks, only about 480,000 requests or .04 percent, were made for an original check. In almost all cases, a good quality clear image of the check satisfies the member's needs.

Moreover, H.R. 1474 would provide sufficient consumer protections to ensure that consumers are not disadvantaged. The bill provides specific expedited re-credit rights for those consumers who assert that the bank charged their account improperly. The re-credit procedure gives the member's credit union 10 days to investigate the claim before being required to re-credit the member, and 45 calendar days for certain unique circumstances. This section provides sufficient protections for consumers and the credit union. It allows a consumer to receive a re-credit quickly and it gives the credit union time to investigate the consumer's claim to avoid fraud losses.

In conclusion, most credit unions truncate their share drafts or checks and have done so for decades. This legislation will increase electronic check processing that produces benefits for financial institutions and consumers. We look forward to working with the subcommittee, the Federal Reserve, and consumers in further strengthening the proposal.

Thank you for this opportunity to comment, and I will be glad to answer any questions.

[The prepared statement of Celia C. Woodham can be found on page 126 in the appendix.]

Ms. HART. Thank you, Ms. Woodham. I appreciate your testimony as well, and thanks to the entire panel.

I would like to start questioning with Mr. Cloutier, since your institution has had success already with this process of check processing and imaging. I am interested in your customers, if you have had a reaction from the customers specifically regarding this at all. It sounds like they are happy with the system. Has there been any problem with losing customers or concerns about the technology from your customers—concerns about perhaps feeling like they must move to online banking or any concerns that have been expressed to the management regarding interaction with the institution under the new system? Anything like that?

Mr. CLOUTIER. Ms. Hart, I will tell you from my personal experience with my bank, and believe me I am in a very competitive environment—there are about 21 banks in Lafayette—we have about six of them that are offering imaging checks. We have not lost any customers. They are very excited about it. The only problem we had early on was that at first we were printing 16 to a page; we went very quickly to eight to a page for people, as myself, who do not have great eyesight. We made that change very quickly. The customers have been extremely happy with it. It also has given them the advantage now that they can pull up their checks online. We do Internet banking and I know one of the members asked this morning about how long does it take to get a copy of the check. In my bank, you can pull it up and look at it and print it if you want and have it right there and available to you.

So this technology is not new. As many consumers have told me, they appreciate it because they said for years their credit card bills, they have not been receiving back their original copies. They have been getting either images, as you get with American Express, or just the account numbers on Visa and whatever. So it has been very well received. To my knowledge, and we do a lot of focus groups and a lot of work with our customers, and we have not lost anyone due to image checks.

Ms. HART. I am glad to hear that. We had a couple of meetings with industry groups, some obviously representing you or organizations like you. They averred to us the same thing. Was the process for you of switching to the system—was it cumbersome or did it take a long period of time?

Mr. CLOUTIER. It did not really take a long period of time. We went through an education process with our consumers who asked for it. I will tell you, less than 2 percent came into the bank and said, could you explain to me how this works and how do I use it. But we had CSRs, customer service representatives ready to talk to them and the process took very little time to implement. I will tell you, I think most people—I know I would personally—would have a great problem going back to dealing with paper checks and trying to find them. You know, when that bill is disputed, it is always about six months after you write the check and it is much quicker to get it.

I would also mention it has been a big help to the government in us fulfilling subpoenas that we have gotten, as in example, divorce cases. Usually when that comes about, they want the records for the last two years and copies of all the checks. What used to

take us two months to fulfill on the subpoena, we now can do in two hours.

Ms. HART. It is hard to argue with that.

I want to get to Ms. Duncan on an issue discussed in your testimony. You seek to include provisions related to electronic funds transfers as far as the legislation. It deals with negotiable instruments that rely heavily on well-settled check law. I do not see this legislation as dealing with electronic transfer of funds, but rather with the movement of negotiable instruments, which is made easier by removing the paper and allowing that to be done electronically. You seem to think that we are doing more than that, or we should do more than that. Why do you think Congress should tamper with the good law that relates to checks and check processing? This is very specific.

Ms. DUNCAN. Well, what we are looking at is the legislation as it is currently drafted. It does include a re-credit provision, which is reminiscent of Regulation E. The specific point that we were making is re-credit under Regulation E applies to all consumers. It is also 10 days. It also has no dollar limit, and that is not exactly what we are even speaking about or asking for. We are looking at the re-credit provision in the legislation and saying that if it is going to apply to some, it should apply to all consumers. So that is where that perspective comes from.

Ms. HART. Okay. So you actually have it just for one provision of the law.

Ms. DUNCAN. The specific part of Regulation E that I referred to was to the re-credit provision and the fact that it applies to all consumers, and I did refer that there is no re-credit dollar amount limit, but the concern is in the legislation, it does not apply to all consumers, and all consumers will be similarly situated under the legislation, so it should apply to all consumers regardless of whether or not they receive a substitute check.

Ms. HART. Thank you. I am sorry. I see my time is up.

Mr. Ford?

Mr. FORD. Thank you, Ms. Hart.

Let me ask just a couple of questions also, specifically for Mr. Cole and Mr. Cloutier, on this matter. Concerns have been raised about consumers who did not receive substitute checks, who are not eligible for the new expedited re-credit. What does current law say about how soon disputes have to be resolved and when funds have to be re-credited? Either of you, Mr. Cloutier or Mr. Cole—it does not matter. Anyone on the panel can address that. I would be interested in hearing one of you.

Mr. COLE. I will tell you from my experience, I am not a Harvard lawyer so I probably do not know the legal answer to it, but in my experience the Uniform Commercial Code does not require any specific time frame for re-credit to a consumer's account. However, that has not been necessary, if you will take a look at what our consumers are saying, and the complaints that have been included, or the lack of complaints that have been included in the testimony that you have heard today and, indeed, in our experience at the bank.

It is a fact that banks are very competitive, and part of that competition is in customer service. We pride ourselves in reacting very quickly to exceptions.

Mr. FORD. What is your process for resolving disputes? I hope you see where I am trying to go here, because I think some of the concerns that are being raised are legitimate ones, but I think they are ones that some of them might be addressed outside of the context of this hearing. I would appreciate Mr. Ferguson responding as he did, and I hope that perhaps we can sit and sort of talk through it a bit. But I am curious as to what steps do, or what processes did Bank of America have for resolving disputes? Are funds usually re-credited to consumers when a dispute has been resolved? How long does that ordinarily take?

Mr. COLE. It depends on what the dispute is. On a dispute that is as common as, I wrote the check for $10 and it paid for $100——

Mr. FORD. Notwithstanding the fact that my good friend Mr. Davis pays too much for pizzas, but I understand what you are saying.

[Laughter.]

Mr. COLE. We do not know that that check was written for pizza until we look at it. That is not part of our database, so we do not know that. We do do in our fraud department some early detection of checks that are written outside of the normal pattern for a consumer. But to answer your question more specifically, when a consumer brings that kind of an issue to us, historically we went to our microfilm archives and got a picture of that item to be able to say, yes indeed, it was an error; that error can occur anywhere in the collection process, not only at the paying bank. That in the past took anywhere from two to five days, to go back in the archives and find a microfilm image.

We are totally image-enabled now, and I am happy to say that 70 percent of the calls for information or for error resolution that used to require us to go back to the microfilm archives can now be handled on a single phone call because we are able in our call centers and in our customer service centers to be able to pull an image of that check up and verify it right on the spot that indeed that check was paid for the wrong amount.

Mr. FORD. There is no explicit right requiring you to do that right now. I mean, I understand there is liability on the bank's part for mistakes that are made, but there is no law requiring that you do that. You do that out of——

Mr. COLE. There is no law except the law of competition and the ability to provide customer service.

Mr. FORD. Right. That is it exactly.

Mr. COLE. That is right. But we do not make money that way, and so it is in our best interest to be able to return that money as well, because if we did not do it as quickly as we were able to understand the issue and resolve the problem, the liability mounts very quickly.

Mr. CLOUTIER. Mr. Ford, I could give you a good example. Friday morning I got a call from a district judge in Lafayette who claimed that in his election account, his money that he runs for every four years——

Mr. FORD. I am familiar.

Mr. CLOUTIER. ——had a deposit in it that he did not make, and he was very concerned about that. I will tell you, within 45 minutes we were able to resolve it. The bank did make a mistake. They put money in his account that was incorrectly put in there, and we got it moved back out. And you are very familiar with it—he wanted a letter stating that the bank made an error and then sent it on to the State so that there would not be any questions in the future. We have in our bank a department that deals with these questions very quickly. It can happen both ways. This was an example of a deposit being put in an account where it should not be. We do not say we do not make mistakes. I think a bank could be wrong in saying that, but we deal with them very quickly. It is competitive. But there are also good laws on the books now that we have to deal with re-crediting, and we do, as quickly as possible.

Mr. FORD. One last comment—I know that my friend Mr. Sanders raised the point about the 80-year-old who is accustomed to receiving checks a certain way. I guess one of my concerns is that we preserve the ability of people to continue writing checks. I think some have commented how it is becoming more expensive to process checks. As we make this shift away from checks and toward electronic payments, what effect will that have on consumers, and particularly that example used by my colleague, Mr. Sanders—prolonging the ability to actually write checks or to continue making payments in that way?

Mr. COLE. I think checks are going to be around for a long time. People like them a great deal. To the extent that we can keep them from getting more expensive than the other payment mechanisms, those people that choose to use them I think will be able to use them for a long time to come. In terms of what our customers will see on the back end of this, the reason I believe that we did not suggest or that the Federal Reserve did not suggest that we just mandate check electronification was to be able to provide a piece of paper to a customer who wants to have it. Our bank provides that opportunity right now. With the electronification of some of those items under Regulation E, there is no paper returned. I would think that would be a bigger problem because the consumer still believes that they wrote a check. In the check truncation scenario or the transaction under this bill, the consumer can require that that bank in that account send them back that piece of paper that shows them a picture that has all the information on that piece of paper that was on the original item when they wrote it.

Mr. CLOUTIER. Mr. Ford and Ms. Hart, I would just like to mention, you all asked me a question about our response from our consumers—customers that we dealt with when we put in the imaging. It was not the senior citizens who had a problem. I was amazed at how technologically advanced they are. It was the younger people who had more of a problem of understanding the substitute checks. So that is just kind of an interesting little footnote. I was amazed—75, 80, 85 year-old people, how well they do on the Internet.

Ms. HART. There is intransigent youth for you.

Thank you, Mr. Ford.

Mr. FORD. Thank you, Ms. Hart.

Ms. HART. Mr. Davis?

Mr. DAVIS. Thank you, Ms. Hart.

Ms. Cloutier, I am tempted to say that only in Louisiana do judges check their campaign accounts every few days to note that kind of thing.

[Laughter.]

I do not have any constituents in Louisiana.

Let me try to make sure that I understand Ms. Duncan's argument and the points that she was making earlier. Ms. Duncan, is it your concern that under the re-credit provision that is currently drafted that the only way the provision can be triggered is if someone has a substitute check, ergo, if you do not have a substitute check in your possession, you cannot take advantage of it? Is that your concern in a nutshell?

Ms. DUNCAN. Yes, that is our concern in a nutshell.

Mr. DAVIS. All right. Now, I guess what I am trying to get a sense of, I would be probably a little bit more persuaded by that concern if there were a predictable kinds of bias that were built into the system in terms of some classes of consumers being more likely to have substitute checks, and other classes of consumers being less likely to have them. Is it your theory that there are some kinds of consumers who are typically disadvantaged and that they do not have access to substitute checks? Or would you think it is just more of a random thing in terms of who gets them and who does not?

Ms. DUNCAN. Well, actually our focus really more is on what the protections are and who they apply to, and is there a good justification for not letting them apply to everyone. I mean, if we talk about the whole system—we are talking about the future. We have heard a lot of talk today about the present and imaging technology. When we look toward the future and the increased electronification of consumer check information, we also have to look towards the changes that banks might make in the electronic processing of information. There may be problems in those electronic transfers. So we are not looking to a specific class of consumer who might be more likely to get the substitute check. Instead, we are looking at the entire class of all consumers whose information will begin to be processed more in electronic form.

Mr. DAVIS. Let me tell you what I suspect that your colleagues on the panel would probably say in response to that. I assume that they would say that the whole thrust of the re-credit provision is that it catches up with the technology, in effect. Now that we have these substitute checks, the re-credit provision takes advantage of their ready access to enable people to resolve a dispute with their bank in terms of how a check was cut. So therefore, if the substitute check is not part of the process, if somebody does not have the substitute check in their hand, you really do not have that kind of an issue.

Second of all, without the substitute check, you have really lost about the only verification means that you would have. As I guess someone pointed out earlier, if you typically call your bank and you say, I just called the 1-800 number and they are saying I wrote a check for $2,500 and I only wrote a check for $250, I would imagine there might be some scenarios in which your bank would say, Okay, that is fine; we will fix it if you are related to the bank presi-

dent, or something like that. But absent that scenario, they are going to ask you for some verification. They are going to want something written from you, and the best evidence will obviously be ultimately that canceled check.

So given that likelihood, I guess I am trying to get a sense of how this works in the real world. If you do not have a substitute check to facilitate resolution of the dispute, how can we expect the bank really to act within the 10-day period anyway?

Ms. DUNCAN. We would expect the bank to use whatever best evidence they have of the transaction that takes place. I would say that if banks are not keeping track of the transactions that are taking place, it would be a very big problem.

Mr. DAVIS. If that is the case, though, presumably again the substitute check—the fact that the provision requires people to have a substitute check in their hands—I am trying to get a sense of whether they are really bests-off or worse-off under this scenario. Because if they have to have a substitute check in their hands, is your concern that somehow they would be able to get something quicker if they did not have to have the substitute check? Is that the heart of your concern? Because if your theory is that they could simply call the bank and they could simply say to the bank, go check this, look at your microfilm, and the bank would say we have looked at our microfilm and you are right—I am trying to get a sense of how the substitute check fits into this. For example, are you suggesting that under this statute that if someone called a bank and said, I do not have a substitute check, but would you go and check your system to see if this check appears to be written for this amount, and they did that, and they agreed with you—are not suggesting that a bank would say, no, until we get that substitute check, we are not going to fix it. Or are you suggesting that a bank might say that?

Ms. DUNCAN. Well, what I am suggesting is that there are some very positive things in the re-credit provision and we would like them to apply to all consumers. So regardless of whether you have a substitute check, if you have a problem you go and you trigger a 10-day period in which the bank needs to start checking.

Mr. DAVIS. Well, let me just quickly in the limited time—we have got to ask some other people on the panel for reaction to that. Those of you who run banks, if someone called you under this statute and said, look, I do not have a substitute check, but would you please look in your microfiche or your database, whatever you want to look in, and look at this amount. You made that kind of an inquiry; you agreed with the consumer. Would any one of you suggest that you would not honor the consumer's request at that point? Would any one of you stand on the requirement of a substitute check?

Mr. DENTLINGER. Certainly not. You would be out of business.

Mr. DAVIS. Pretty quickly, I would think.

Ms. DUNCAN. I would like to make a quick point, and that would be, one of the issues here is, we are talking about the best evidence. Sometimes if we are talking about the reconversion of checks in and out of paper form, that bank will not have the best evidence. That is what the indemnity and warranty provisions are. They are going to have to go back up the process to see if they can

find the best copy of that check in order to solve the consumer's problem. So that would be the difference under this scenario. The bank will not just look in their own records. They might have to go back further to find it out. This would just place the burden on the bank, not the consumer.

Mr. DAVIS. Is there any best evidence superior to the substitute check in this kind of a scenario though?

Ms. DUNCAN. If the original check has been kept, that would be best evidence. But what we are also talking about is if you are reconverting a check from electronic form to paper form—I will just do an analogy. Say you are printing it out—I mean, maybe somebody down here did not do such a good job and it is not quite as clear. So if you look at the warranty provisions, it also establishes between banks that if I come back looking for my better evidence or my better copy of the check, you need to provide it to me. So that is what we are talking about—that time delay that you might have moreso than you have under the current system.

Ms. HART. The gentleman's time has expired.

Mr. Ford, do you have additional questions?

Mr. FORD. I want to ask as follow-up, but let me yield to my friend Mr. Davis.

Ms. HART. I will. I just want to give you an opportunity to ask questions.

Mr. FORD. Sure. Just to follow-up, I see where my colleague is going. I guess this might be something we can discuss afterwards, because after listening to Vice Chair Ferguson, he raised the two points of whether or not there is a need here and whether or not we create more confusion with what we are doing. And based on what some of the witnesses have said, I am sensitive to what Ms. Duncan is proposing here, but it sounds as if there are few laws that sort of work to prevent this. Number one, most prevailing would probably be the power of the law of competition. And two, the notion of confusion being created here I think is a powerful point. After thinking long and hard about it, I see why earlier on I was not more adamant about the idea of making this apply to everyone, and not just on the substitute check side.

That being the case, it might be an opportunity for us to deal with this outside of the context of this legislation. It might be important to figure out how, if it is important to actually create an explicit new set of rights here, and if so perhaps work with the banks and financial institutions, because I am not persuaded that creating a new set of rights will actually solve the problem. Part of what I was asking—how many complaints have you gotten over, say, the last five years, Mr. Cole, that would be affected by this provision of the bill in terms of disputed funds? Because according to Ferguson, there have not been many over the last several years. So what are we talking about in terms of need and solving a problem a here?

Mr. COLE. In terms of not responding to a request for a re-credit to a customer on a mis-encoded item or an item that was double-posted, we have not had any complaints that I am aware of that we took too long to resolve the problem. Obviously, we do not use substituted documents today, but in terms of problem resolution, there has been no testimony or any evidence that I have seen in

the last two years presented to say that there is a problem here. In my 32 years of banking, I have never heard that complaint—that we did not comply with re-crediting a customer on an item that was posted twice, or one that was mis-encoded.

Mr. FORD. In fact, do you think under the new legislation that we might discover faster if there is a problem, and actually adopt a problem solution strategy much quicker than we would under current law?

Mr. COLE. To the extent that this makes imaging of checks more ubiquitous in our industry, the ability to——

Mr. FORD. That is a Harvard word, I might add—ubiquitous.

[Laughter.]

Mr. COLE. Thank you.

To that extent, it provides great access to those images much more quickly. As I said, we can take a look at a customer's check and indeed the customer can, sometimes hours after it enters into the system. Whereas if I have to go find the original—we process 9.5 billion checks a year, so there are a lot of checks out there—and finding the original or going back to the old antiquated microfilm takes five times as long, at least.

Mr. FORD. I yield to my colleague, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Ford.

Let me follow-up, Mr. Cole, on what I think Ms. Duncan is getting at. Let me ask you a fairly basic question. Do you or Mr. Cloutier or anybody else on the panel think that the substitute check is an important instrument in resolving a dispute between a consumer and the bank, or resolving some issue as to the amount of how much a check was written for? Do any of you think that a substitute check is a necessary part or even a very helpful part in getting to the bottom of that kind of a question?

Mr. COLE. Only to the extent that that is what is presented to our bank—if that is the evidence that we have. Now, we will also have that on microfilm, so it is very unimportant, actually. We will be using the records.

Mr. DAVIS. So presumably what Ms. Duncan is saying is that obviously if someone walks in with a substitute check, that is a very strong argument in their quiver. But if they do not walk in with a substitute check, there are any number of other means for determining a dispute. That is presumably what she is saying. Now, given that, why isn't she correct? If the substitute check is not necessary to get to the bottom of a dispute between a consumer or customer and the bank, why should we differentiate between people who have a substitute check and those who do not with respect to the re-credit provisions?

Mr. CLOUTIER. Mr. Davis, I would add that we already do a lot of business electronically. We ACH a lot of payrolls. We do a lot of ACH work. We do a lot of stuff that is—let me give you a good example. If you ever went to the store and they just took your check and handed it back to you—they took the MICR off of it and gave it back to you, and turned that into an electronic document. Banks do a very good job of tracking things. We are in the business of tracking money. We watch it very carefully. So I can tell you that we will be very forthright in watching what we do and looking into this. Sometimes when the customer comes in with a dispute,

I have a very large audit department that works these things very carefully, because we want to make sure that we do not have an internal problem within our bank also. So these things get very high coverage very quickly, and re-crediting to figure out where the money went or did not go becomes very important to us very, very quickly. So I would tell you that we will work very hard to make it work.

Mr. DAVIS. Right. But I guess, given that that is the case, Mr. Cloutier, why isn't Ms. Duncan right? If banks have any number of capacities to get to the bottom of this kind of dispute almost instantaneously, why should there be any distinction in the re-credit provision whatsoever between someone who has got one of these things in his or her hand and someone who does not?

Mr. COLE. I would like to say that I agree with you—there should not be any difference, and the current law takes care of the problem.

Mr. DAVIS. Okay.

Mr. CLOUTIER. We agree with that.

Mr. DAVIS. Just to make one final point, if I could, Ms. Hart. Current law takes care of the problem, but I suppose Ms. Duncan's response to that would probably be you have got to go out and file some kind of a claim under current law to take advantage of it if your bank is recalcitrant; whereas the re-credit provision creates a non-litigative remedy that enables you to immediately get to the bottom of it. Is that your position, Ms. Duncan?

Ms. DUNCAN. That is our position, yes.

Mr. DAVIS. Okay. All right. I do not have anything else.

Ms. HART. All right. I thank the gentleman.

The chair notes that some members may have additional questions for the panel, including the members here, which they may wish to submit in writing.

Mr. FORD. Madam Chair, can we make a point to try to work with Ms. Duncan, perhaps the three of us in particular, or at least the two, and I imagine Mr. Davis is interested, if his comments are any indication. Perhaps we can work to try to, outside of the context of this hearing and this legislation, to try to address some of the concerns to the extent they can be addressed. Maybe even work with Mr. Cole and Mr. Cloutier and some of the others, because I think they are legitimate points.

Ms. DUNCAN. We would welcome the opportunity.

Ms. HART. That would be fine, Mr. Ford.

Mr. FORD. Thank you, Ms. Hart.

Ms. HART. Other members who are not present may also wish to submit questions. Without objection, the hearing record will remain open for 30 days, so that members can submit written questions to these witnesses and to place their responses on the record.

I would like to thank the panel.

This hearing is adjourned.

[Whereupon, at 1:00 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 8, 2003

OPENING STATEMENT OF
CHAIRMAN SPENCER BACHUS
HEARING OF FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE ON H.R. 1474, THE "CHECK CLEARING FOR THE 21ST CENTURY ACT"
APRIL 8, 2003

The Subcommittee meets today for a legislative hearing on H.R. 1474, the Check Clearing for the 21st Century Act or "Check 21" introduced by two distinguished members of this Subcommittee, the gentle lady from Pennsylvania, Ms. Hart and the gentleman from Tennessee, Mr. Ford. I am also a proud cosponsor of this legislation, as is full Committee Chairman Mike Oxley.

This is the second hearing the Subcommittee has held on this important topic. As with our hearing last year, we are fortunate that the Vice Chairman of the Federal Reserve, the Honorable Roger W. Ferguson, Jr., has joined us to discuss the Federal Reserve Board's views on this issue. We are also joined by a group of distinguished private sector witnesses that will share their views with us.

The Check 21 legislation is intended to modernize the nation's check clearing system by providing an interim step towards allowing banks to exchange checks electronically rather than in paper form. Electronic check imaging and the ability of financial institutions to exchange checks electronically is the first major innovation in the check handling and processing since the invention of the magnetic ink character recognition line in the 1950's.

The consumer and economic benefits that will accrue from this technology are immense. Perhaps the most dramatic example of the need for this legislation was demonstrated in the week after the September 11th terrorist attack. As everyone remembers, for approximately one week after September 11th, planes were not allowed to fly. As a result, the check clearing system suffered from severe disruptions, as the planes that transport checks could not carry the paper checks to the financial institutions on which they were drawn. Bad weather also disrupts the check clearing system on a regular basis.

While the September 11th tragedy provides perhaps the most dramatic illustration of the need for the Check 21 legislation, the legislation is important for many other reasons. Consumers, in particular, will benefit because the legislation will enable depository institutions to offer their customers a host of new products and services. For example, consumers in rural areas may be offered extended deposit hours because financial institutions will be able to transmit the images of the check through the check clearing process, rather than having to send couriers out to remote branches or ATM's to pick up the deposited checks. In addition, consumer and business customers will benefit from quicker collection and return of checks.

Other indirect benefits will occur as well. The Check 21 Act will create a new value proposition for check imaging technology, which will encourage depository institutions to implement check imaging and exchange. Financial institutions that

have already implemented check imaging have learned how pleased their customers are that they can now have instant access to copies of their checks when they visit branches, speak on the phone with customer services representatives, or view pictures of their checks on the Internet. Moreover, this legislation will empower customers to better manage their finances and detect and prevent fraud against their accounts because they are provided move information about their transactions in a shorter time period.

In conclusion, let me acknowledge the work of all of the persons who have contributed to H.R. 1474. First, my thanks go to Chairman Oxley for making this legislation one of the Committee's top priorities. I also want to thank Vice Chairman Ferguson and the Board staff, who first presented the Committee with draft legislation in December 2001, following years of work by the Federal Reserve Board. Also, I commend Ms. Hart and Mr. Ford for introducing this bipartisan legislation and Congressman Mike Ferguson, who sponsored similar legislation with Mr. Ford during the last Congress. Finally, I appreciate all the input that the banks, thrifts, credit unions, technology providers and consumer groups have provided to the Congress on this important issue.

The chair now recognizes the Ranking Member of the Subcommittee, Mr. Sanders, for any opening statement he would like to make.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit
"Check Clearing for the 21st Century Act" – "Check 21"

April 8, 2003

I want to thank Chairman Bachus for holding this important hearing on Check 21, the bipartisan legislation introduced last month by Representatives Melissa Hart and Harold Ford Jr. This hearing continues the work we began late last Congress in the Subcommittee, and I am confident that this year we will succeed in getting a bill to the President's desk that truly modernizes the payments system. I would also like to thank the panel of witnesses who have come to testify and give their insights into this legislation. I look forward to your thoughts and comments on the effect Check 21 will have on the domestic payments system.

After the September 11th terrorist attacks, domestic flights were suspended, preventing millions of checks from physically moving through the payments system. While the system was stalled, float built up in the payments system and the Federal Reserve was forced to take emergency action to continue the movement of checks around the country. This Committee responded to the terrorist attacks with legislation aimed at eliminating terrorist financing, getting our financial markets open and operating, and providing businesses with protection from future losses from terrorist attacks. Check 21 is another effort by this Committee to protect the payment system in times of national emergency by ensuring that checks will continue to be processed through the payments system with limited interruption.

The technology exists to provide electronic check presentment while combating fraud and improving service. Today millions of Americans can go online and examine their accounts, pull up images of their checks and determine if the proper amounts were debited. Now, there is no need to wait until the end of the month to reconcile your accounts; it can be done on a daily basis. Americans without internet access will benefit from this technology through expedited processing and will still receive images of their checks in the mail. There is little need for original paper checks in today's payments system, and we should not mandate they be retained if they are not useful.

We must ensure that our banking system operates as efficiently as possible while preserving safety and soundness. Check 21 achieves these goals by improving our payments system and encouraging the electronic movement of checks across the country. At the same time, this bill protects consumers by ensuring that they have the ability to retrieve improperly debited funds and are given information on the operation of this new system. I am hesitant to burden this bill with additional and unnecessary provisions aimed at creating new rights not already available under the current law of negotiable instruments. Check 21 grants banks useful tools to improve the delivery of services to their customers and expedite the flow of funds through the system. We must ensure that the efficiencies achieved are not reversed by excessive regulatory intervention. The laws governing checks have not changed much over the past several decades, and by all estimates the system has worked very well. Consumers are well-protected through existing check law in the UCC and other regulations. This bill does nothing to reduce these protections, and actually provides enhanced provisions for consumers.

I expect that we will achieve broad bipartisan support to move this proposal through the Committee and to the floor for consideration. We have the technology and the ability to make current check processing more efficient, less costly, and more consumer-friendly. Let's take advantage of it.

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Congressman Harold Ford, Jr.

Financial Institutions Subcommittee

Hearing on HR 1474, the Check Clearing for the 21st Century Act

April 8, 2002

I want to thank Chairman Bachus and Ranking Member Sanders for holding today's hearing.

Last month, I joined my colleagues Ms. Hart and Mr. Ferguson in introducing legislation intended to modernize the nation's check payment system.

Check 21 builds upon the goals set forward by the Federal Reserve in its draft Check Truncation Act. Those goals were

> facilitating check truncation;
>
> fostering innovation in the check collection system *without mandating the receipt of checks in electronic form*;
>
> and improving the overall efficiency of the nation's payments system.

Check 21 seeks to modernize our payments system and bring the benefits of technology to more consumers. Under the system that exists today, millions of paper checks are physically transported every night, by ground and by air. Checks move from the bank to which they are deposited, to any number of intermediary banks, check processors, and/or the Federal Reserve, then are sent to the paying bank, and finally, in some cases, back to the person who wrote the check.

One of the vulnerabilities in the current system was exposed last September 11th. When the nation's aviation system was grounded in the hours and days after the terrorist attacks, millions of checks could not reach their destination. The nation's payment system ground to a temporary halt.

The subsequent anthrax mailings, which shut down mail delivery in several areas of the nation, highlighted another potential weak link in a system that relies on the physical delivery of paper checks. Other obstacles or potential obstacles include inclement weather, natural disasters, or plane crashes.

Check 21 seeks to strengthen our check payment system by facilitating check truncation. Through check truncation, paper checks are rendered into digital messages which can move through the payments system at digital speeds.

Check 21 facilitates check truncation without mandating the receipt of checks in electronic form. It does this by establishing a negotiable instrument, a "substitute check," with the same legal status as original checks. These substitute checks would contain an image of the

original check, include the magnetic code at the bottom for electronic processing, and conform to standards for size, paper stock, and the like. These substitute checks can be used by banks and consumers in the same way as original checks.

The substitute check is a solution to the challenge of facilitating check truncation without requiring that banks accept checks in electronic form. Nor does our bill require banks to create substitute checks. Each bank can decide whether to truncate checks or produce substitute checks.

We believe that Check 21 is a strong pro-consumer bill. Consumers benefit in multiple ways.

First, Check 21 will promote efficiency in the banking system by lessening reliance on the physical transportation and presentation of checks. Consumers will benefit through lower costs and expedited services. The Fed has found that check truncation is "generally more efficient, more cost effective, and less prone to processing errors."

Second, this streamlined system will reduce the disruptions caused by bad checks. By speeding up the check clearing system, individuals will be notified faster if their check -- or checks written to them -- have not cleared. This will reduce the likelihood that a single bounced check will result in a "chain reaction" of bounced checks.

Third, more customers will be able to benefit from new products and services, such as online access and review of check images. Millions of consumers already enjoy these services, which give consumers instant access to information about their checks, day or night. Also, if a consumer makes an inquiry about a check, his or her bank's customer services representatives will be able to access and review the check instantly. This can sharply reduce the time for customer inquiries. Consumers may also benefit from more deposit options. Because electronic processing could eliminate the need for daily physical pick-up of checks, consumers could enjoy extended deposit cutoff hours or deposit services at more ATMs in remote locations.

Finally, Check 21 establishes a new consumer right, an expedited recredit for contested substitute checks. If a substitute checks is not properly charged to a consumers' account, banks must recredit the consumer for the amount of the check, up to $2,500, within 10 business days. This is a new and important consumer protection established by this bill.

In conclusion, I am proud to have joined Ms. Hart and Mr. Ferguson in introducing Check 21. I look forward to each of our witnesses' testimony. I am committed to working with each of you on a bill that benefits consumers, improves efficiency, and strengthens our nation's financial system.

April 8, 2003

Opening Statement for Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit
Hearing to consider HR 1474, the "Check Clearing for the 21st Century Act"

Thank you, Mr. Chairman, for holding this hearing to consider this important modernizing legislation. As we all observed in the days following September 11th, systems dependent on the movement of time-sensitive materials nationwide must be prepared if the steady flow of air and ground transportation is interrupted.

Our committee has taken the lead on this issue with its hearings held during the 107th Congress and, with today's discussion, makes clear its commitment to negotiate the best way to end our financial system's dependence on paper checks that must be physically transported. I am glad to see that the Federal Reserve has already conducted a study on this issue and has expressed their support for increased electronic truncation to bring these procedures into the 21st century.

I am happy to be an original cosponsor of this legislation and feel it strikes a positive balance between the need for modernization and the ability of small institutions to adapt to a new system within the timeline provided, as not all banks nationwide are currently equipped to accept electronic check transmissions. The substitute check proposal is very important in this regard and I am glad to see it included in the proposal.

Again, I thank Chairman Bachus for his leadership on this issue and look forward to an informative dialogue.

Opening Statement Congresswoman Melissa Hart
April 8, 2003
Hearing on H.R. 1474, the "Check Clearing for the 21st Century Act"

Thank you Chairman Bachus and Chairman Oxley for your leadership and foresight and for holding today's hearing on this important legislation to modernize our nation's check processing system. I also want to thank Congressman Ford and Congressman Ferguson for joining me in introducing H.R. 1474, the "Check Clearing for the 21st Century Act" or our truncated name "Check 21". Finally, I want to thank the many members of this committee who have already joined as co-sponsors of this important legislation.

The Federal Reserve estimates that over 40 billion checks are written annually, resulting in $39.3 trillion in payments. Today a check is processed numerous times before it is eventually paid. Each step of this process relies on the physical transportation of the check – resulting in billions of checks being driven or flown across the country every day. But, under current law, unless a bank has an agreement with another bank to receive payment by electronic means, the banks must physically present and return the original checks to receive payment. Today there are over fifteen thousand banks, thrifts and credit unions -- negotiating separate agreements with each of these institutions would be an impossible task for even the most diligent financial institution. I can only imagine the cost to consumers of this cumbersome and anachronistic process.

Building upon the Federal Reserve's check truncation proposal and legislation introduced in the last Congress, H.R. 1474 will end the requirement to physically move paper checks by removing existing legal barriers that prevent the banking industry from incorporating advances in technology, such as digital imaging, to improve check processing efficiency and to provide improved services to customers.

This legislation allows banks to technologically progress into the 21st century, as well as benefit consumers in many ways. Financial institutions may have the ability to provide new and improved services to their customers – such as later deposit cutoff hours, expanded access to enhanced account information and check images through the Internet, and the ability to resolve customer inquiries more easily and quickly by reviewing check images. In addition to these, consumers will benefit from a new expedited right of re-credit for amounts up to $2,500. Most importantly, banks will be better able to stop and detect fraud early in the check process – another great benefit for the customer.

I thank the witnesses for their testimony this morning and look forward to hearing your suggestions on ways we can build upon or improve the bill.

OPENING REMARKS OF THE HONORABLE RUBEN HINOJOSA
ON
H.R. 1474, THE CHECK CLEARING FOR THE 21ST CENTURY ACT
HOUSE FINANCIAL SERVICES COMMITTEE
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE
APRIL 8, 2003

Chairman Bachus and Ranking Member Sanders,

I want to thank you for holding this important and timely hearing on H.R. 1474, the Check Clearing for the 21st Century Act introduced by Congresswoman Melissa Hart and Congressman Ford. I cosponsored virtually identical legislation last Congress sponsored by Congressman Ford and Congressman Ferguson, and I am glad to be an original cosponsor of H.R. 1474 this year.

Under current law, a bank may clear checks electronically only if it has entered into an agreement with another bank. H.R. 1474 would facilitate the use of check truncation by removing this requirement.

This legislation authorizes, but does not mandate, banks to create an electronic image of a check, which can then be sent to another bank, eliminating the physical transfer of the original check. Recognizing that not all banks have the ability to accept electronic transmission of a check, H.R. 1474 authorizes the creation of substitute checks for payment. This substitute check would be used in place of the original paper check, and it would be a negotiable instrument. Banks that create an electronic check will be able to create a substitute check and use that for presentment to a bank that has not upgraded its system to accept electronic checks.

This legislation recognizes that there are several levels of consumer protections already. However, the bill would establish warranty and indemnification provisions to protect against any losses involved with the use of substitute checks. A consumer could make a written claim for re-credit within thirty days of the date of receiving a periodic statement or the date the substitute check is made available to the customer, whichever date is later. The customer could also submit a warranty claim on the substitute check if the production of the original check or better copy of the original check is necessary to determine the validity of a disputed claim. To its credit, H.R. 1474 would require banks to provide to existing customers and new account holders a brief notice about the use of substitute checks and a description of the consumer's right to re-credit for improper payment.

There are many more provisions of this legislation which I would like to point out, but I will refrain from doing so in order to hear the testimony of our witnesses. It is my understanding that the majority of the financial services associations support the legislation, but some consumer groups have some concerns with certain provisions of the bill. I look forward to working with both industry and the consumer groups to resolve any differences and to pass this bill this session of Congress.

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Statement of Congressman Steve Israel
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
Hearing on H.R. 1474, the
"Check Clearing for the 21st Century Act"
April 8, 2003, 10:00 a.m.

Mister Chairman, thank you for holding this hearing. I want to start by thanking our many witnesses for coming in this morning to give us their perspective on "Check 21."

Most consumers do not know what happens to their checks once they drop their bill in the mailbox. And the fact is, because our system is so strong, they do not have to know. Americans bank in the full confidence that our system works. When they send a check, their account with the company is credited and their bank account is debited. On the rare occasion when a link in the process breaks down, the consumer can look forward to some inconvenience, but he or she is almost certainly going to have the problem resolved.

Make no mistake, this is a key and fundamental strength in our economy. It ensures that capital flows efficiently and that routine transactions stay routine. There are countries in the world where this is not the case. We are fortunate, and we need to continually work to make sure that our systems are as modern and innovative as possible.

The legislation before us today, commonly known as "Check 21," will help improve our check clearing system. Paper checks flying around the world from bank to bank and back to the consumer is not appropriate in every case. Truncating the check clearing system will result in very real savings for financial institutions, savings that can be passed onto the consumer.

While I think that keeping our system modernized is a net positive, there are indeed millions of consumers who receive their paper checks back every month. I am concerned about how this bill will impact consumers, particularly elderly Americans who may not be as quick to adapt to new systems. I commend the

sponsors of this legislation, Ms. Hart of Pennsylvania and Mr. Ford of Tennessee, for anticipating problems and for making consumer protection a key focus of the bill. I know that one of our witnesses from Consumers Union, representing a broad range of consumer groups, will discuss these issues further. I look forward to her testimony in particular.

Mr. Chairman, again, thank you for this hearing. I look forward to hearing the Federal Reserve's perspective on this bill, as well as those of consumer groups and industry.

Opening Statement
Congressman Ed Royce (CA-40)
8 April 2003
Check Clearing Act (Check 21) Hearing

Thank you, Chairman Bachus, for holding today's hearing on Rep. Hart's proposed legislation, H.R. 1474 -- The Check Clearing for the 21st Century Act. I appreciate the Chairman's efforts to bring attention to this proposed reform, which enjoys a broad base of support from institutions of all sizes throughout the financial services industry.

Under current law, banks are required to present and to return checks physically. To comply with this legal requirement, batches of checks must be transported manually from bank to bank all over the country -- a process that has proven to be both costly and inefficient. This antiquated system of communication between banks is being increasingly left behind as the financial services world becomes more automated and digitized both at home and abroad, and the time has come to bring it up to date.

Rep. Hart's proposed legislation builds on a previous Federal Reserve proposal to modernize the nation's check payment system by allowing banks to exchange checks electronically. It also provides the framework for building a new financial infrastructure that is quicker and less susceptible to fraud, while allowing financial institutions of all sizes to serve their consumers with better financial products at a lesser cost.

Finally, by eliminating America's dependence on a check payment system that relies upon transportation networks for its operation, this legislation will help our financial infrastructure to continue to operate smoothly in the wake of a weather crisis, natural disaster or terrorist attack. It is of the utmost importance that America defends its financial infrastructure against the continuing threat of terrorism, and this legislation will put us further down the path toward accomplishing that goal.

I look forward to hearing our witnesses' testimony today about how this legislation will affect both financial institutions and consumers. I thank Chairman Bachus and Chairman Oxley for their leadership and foresight on this issue, and I yield back the balance of my time.

Testimony of

Independent Community Bankers of America
America's Community Bankers

on

H.R. 1474
Check Clearing for the 21st Century Act

before the

Subcommittee on Financial Institutions
and Consumer Credit

of the

Financial Services Committee

of the

United States House of Representatives

on

April 8, 2003

C.R. (Rusty) Cloutier
President
MidSouth National Bank
Lafayette, Louisiana

and

Chairman
Independent Community Bankers of America
Washington, DC

Mr. Chairman, Ranking member Sanders, and members of the Committee, my name is Rusty Cloutier. I am Chairman of the Independent Community Bankers of America ("ICBA"), and President of MidSouth National Bank, a $394 million community bank located in Lafayette, Louisiana. I am pleased to appear today on behalf of the Independent Community Bankers of America, and America's Community Bankers, ("the banking trade associations") to share with you our views on H.R.1474, Check Clearing for the 21st Century Act, generally referred to as Check 21.

On behalf of the banking trade associations, I would like to extend our appreciation to Chairman Bachus for holding this hearing, as well as to Congresswoman Hart and Congressmen Ferguson and Ford for introducing this legislation. Our appreciation also extends to the Federal Reserve Board of Governors for bringing this issue to the attention of the House Financial Services Committee. Lastly, we appreciate the outstanding efforts of the staff of the House Financial Services Committee and the Federal Reserve Board ("Board") who worked tirelessly to address the concerns of the banking industry, consumer groups, and others in moving this legislation forward.

We strongly support the efforts to increase the efficiency of the nation's payments system, and we believe that through this proposed legislation, Congress can create significant cost savings and efficiencies that will benefit both consumers and financial institutions. Although we are not representing all of the banking and financial services trade associations today, we ask that the Committee duly note that the associations representing small and large banks and credit unions are united in support of this legislation. We believe that this united support is a testament to the needs that this bill addresses for the entire industry and its customers.

The Check Clearing Process Today

Today, most consumers have a variety of alternatives available to them to make non-cash retail payments. These include debit cards, credit cards, ACH debit, as well as traditional checks. According to the Board, American consumers make more than 70 billion non-cash retail payments each year. Board research also noted that the number of paper checks has been steadily declining since the mid 1990s, and that this decline is expected to continue. Yet, while the number of electronic payments continues to increase, traditional paper checks remain the non-cash payment of choice in the U.S. today.

Processing traditional paper checks in today's environment has become extremely costly and highly burdensome for the nation's financial institutions. Current law generally requires the original physical check to move through the entire clearing process from the bank of first deposit to the paying bank. This is a labor-intensive process involving handling, sorting and physically transporting checks. The logical solution to eliminating the cost and burden of processing physical checks is electronic processing. However, the primary impediment to a bank's adoption of electronic processing is the legal requirement that bank customers consent to not receiving their original check back after it is processed. Checks can currently be truncated at the paying bank because the paying bank can negotiate such an agreement with its customers. The bank of first deposit, however, does not have a relationship with the paying bank's customer. Therefore, it cannot obtain the requisite consent, and is thus prohibited from truncating the check at deposit to permit electronic processing, and must incur the costs of processing and transporting the paper check to the paying bank. There are rare exceptions, however, where banks have negotiated private agreements, namely very large banks with significant check volumes. This legislation would open the door for all financial institutions, and eliminate the requirement of the negotiated agreements, thereby facilitating the adoption and implementation of

check truncation and electronic check processing.

Many banks have already streamlined their check clearing process. An increasing number of consumers do not have their original checks returned to them. Informal industry assessments estimate that more than thirty percent of all checks drawn by bank customers, and nearly all checks drawn by credit union customers are not returned to the check writer. Depending on the financial institution's check safekeeping strategies, many consumers receive detailed information about their check transactions in their monthly account statement rather than receive their original checks. Some customers also receive images of canceled checks, and/or have the ability to access their check images online. Contrary to the concerns raised by the representatives of consumer groups, there is no evidence to support the argument that those consumers who do not receive their original checks back are disadvantaged in any way. The available detailed check transaction information and check images satisfies virtually all of the consumer's needs. Check images are routinely used and accepted, for example, as proof of payment, for tax records, etc., and the consumer rarely requests original items.

The removal, or truncation of paper checks from clearing, processing, and settlement activities is a growing trend for banks able to manage multiple unilateral relationships or agreements with other banks, and will continue regardless of whether this legislation is enacted. This environment, based on individual bank-to-bank agreements, would be far too onerous for my bank and the majority of the nation's smaller financial institutions. However, passage of this legislation will remove existing legal impediments, and facilitate the industry's progression towards more efficient check processing to the benefit of all participants without such agreements.

H.R. 1474 –The Proposed Check Clearing for the 21st Century Act

In response to the significant costs and inefficiencies associated with check processing, the Board's Payments System Development Committee sought input from the banking industry, consumer groups, check clearinghouses, processors, and others in developing a proposed legal framework to remove the barriers to the wide scale use of truncation and electronic processing. The Fed's efforts served as the foundation for H.R. 1474, Check Clearing for the 21st Century Act.

The proposed legislation facilitates check truncation, and authorizes the use of "substitute checks," a paper reproduction of the original check that is suitable for automated processing in the same manner as the original check. The legislation mandates that the substitute check: (1) accurately represents all information on the front and back of the original check including all required MICR line information, and all prior endorsements (whether in electronic or paper form); (2) conform to industry standards; and (3) contain a legend stating "This is a legal copy of your check. You can use it the same way you would use the original check." In addition, the substitute check must identify the bank creating the substitute check, known as the reconverting bank.

The legislation creates a warranty structure to protect against the risk of loss that may be associated with the use of substitute checks. The warranties are intended to protect against situations in which a substitute check does not meet the standards for legal equivalence, or in which a party receives a duplicate request for payment after the substitute check has been paid. The reconverting bank and each subsequent bank that handles the substitute checks grants these warranties.

There is also an indemnity structure that is designed to address losses that may result solely because a substitute is presented rather than the original. These losses could occur due to a breach of warranty or

other circumstances such as forgery. Like the warranty, the indemnity, is given by the bank creating a substitute check and by each subsequent bank that handles the item. The provision is specifically intended to put parties in the same position as if the original check had been processed.

Moreover, in instances where additional follow-up is needed to resolve claims, the legislation appropriately requires the indemnifying bank to provide the original check or a copy. We applaud granting the indemnifying bank the flexibility to either provide the original check or a copy of the original sufficient to resolve the claim.

The legislation will open the door for the banking industry to use electronic images to process and clear checks, but does not mandate the processing or receipt of checks in electronic form. Physical transportation, handling and sorting would phase out over time as financial institutions of all sizes and types recognize the benefits of not moving the paper. No longer would my bank have to transport a check drawn on a New York bank halfway across the country for clearing, processing and settlement. Checks could be processed and transmitted electronically in lieu of the original paper check. More importantly, the proposed legislation does not require the banking industry to adopt a fully electronic check clearing system; rather it provides the flexibility, on a bank-by-bank basis, to adapt to electronic check clearing over time without interfering with the existing paper check process.

We strongly support a proposed effective date of eighteen months from Check 21 enactment. This period should provide sufficient time for the banking industry to adopt standards, procedures, and products to comply with Check 21 requirements. We do, however, have concerns that the existing definition of "substitute check" requiring banks to include all the MICR line information on the original check would create a number of technological challenges dramatically slowing down implementation of the processing models envisioned under the legislation. Our concerns would be addressed by an alternative requirement that a substitute check contain MICR line information as prescribed by generally applicable industry standards, which require all of the MICR line information important to check processing.

Check Truncation and Imaging

The banking trade associations believe that removing the legal impediments to the expanded use of electronics for check clearing and settlement will, over time, improve the efficiency of our nation's payments system, and provide benefits to consumers as well as banks. Expanding the use of electronics in check processing will help streamline the collection and return of checks, reduce processing costs, and minimize the effect of unexpected disruptions to air and ground transportation systems.

This legislation will also promote imaging technology that can help speed processing and improve service to customers. Many consumers are already enjoying the benefits and conveniences associated with check imaging. Rather than dealing with bundles of canceled checks, consumers receive concise and convenient summaries of their transactions, which simplify account reconciliation. Moreover, reducing the dependency on the physical presentment of original items will, over the long term, result in expedited check collection, expedited funds availability and statement delivery, better quality statements and less fraud. These benefits go beyond simple consumer conveniences. The ability to access check images on the Internet helps consumers to quickly and conveniently verify their transactions, identify potential errors, and detect fraudulent transactions sooner by reviewing their check images online. Identifying errors and potential fraud as soon as possible helps banks minimize

customer inconvenience, control potential losses, and gives law enforcement an advantage in tracking down perpetrators. Current check imaging applications will expand with the additional application of check truncation.

Finally, it is important to note that this legislation will provide real benefits to community banks and their customers. Critics of this legislation have expressed concern over relying too heavily on check images. The experiences of my institution and of many others who have been offering imaged check statements for a number of years demonstrate that these concerns are unfounded. MidSouth Bank implemented check imaging in June 1999 because we felt that check imaging would streamline the delivery of products and services to our customers, keep us competitive and generate a return on our investment. The cost of the software was approximately $105,000 and the hardware was approximately $373,000. The benefits have been enormous. For the customer, we are able to expedite statement delivery along with improving the quality of the statements. Account reconciliation has been simplified, and we can respond to inquiries in minutes instead of hours. For the bank, imaging has led to significant cost reduction, particularly in postage expenses. We have experienced improved productivity in the item processing area, simplified statement preparation, and improved statement storage.

Our customer response was overwhelmingly positive. We did not give any of our customers the choice of opting out of receiving imaged checks in lieu of their original checks. The first month of implementation, we sent 17, 941 statements and received 48 customer calls, representing a quarter of one percent of our checking account customer base. The number one complaint was with the size of the images. Initially, we printed 18 images per page, but subsequently changed this to 12 images per page. As of last week, neither my bank, nor my accountholders (4,956 commercial, and 17,474 personal) have incurred a loss due to the bank's implementation of check imaging.

We occasionally receive customer requests for copies of checks in instances where proof of payment is needed or where they have misplaced their bank statements. Frequently, requests are fulfilled while the customer is still in the bank. Most requests are fulfilled within the same banking day. We also keep our image disks under lock and key consistent with our commitment to protecting the privacy and confidentially of our customers' information.

Moreover, a survey of the ICBA's membership reveals community bank use and interest in image check processing. According to the ICBA/InFinet Resources *2002 Community Bank Technology Survey*, 47% of the respondents have deployed image check processing, and another 41% are planning to evaluate the technology within the next twelve to eighteen months. Anecdotal information from the industry regarding consumer acceptance and monetary losses is comparable to the experiences of my bank.

Post Check 21 World

My staff and I are very excited about a post Check 21 world where end-to-end electronic check processing, clearing, and settlement is commonplace. At this time, we have not identified the cost of implementing such a processing environment, but we are confident that the benefits, over the long term, will far outweigh implementation costs. We will soon begin work to determine the best processing environment for our bank. We do know that the Federal Reserve and numerous private-sector providers will have competitive product offerings that support a post Check 21 world. For the banks that cannot afford to move to an end-to-end imaging system, we are confident that competitive

marketplace solutions from the Federal Reserve and the private sector will be available to support a staggered image environment or substitute check processing.

Existing Consumer Protections for Checks are Adequate

The banking trade associations believe that existing law provides adequate protection to consumers for the substitute checks authorized under the proposed legislation. Banks and consumers have an established history of dealing with truncated checks and image documents. There have been no significant consumer issues relating to the receipt of images or electronic representations of return check items, and there is no evidence to justify changing the existing law to provide for additional consumer protections. Further, Board staff has indicated that a review of the consumer complaints filed with all of the banking regulatory agencies reveals no significant consumer issues relating to the timely resolution of check complaints, including instances where the checks are not returned to the accountholder.

Under the Uniform Commercial Code, a bank is liable to its customer if it charges its customer's account for a check that is not "properly payable." This includes checks that are not authorized by the consumer, checks containing a fraudulent endorsement or signature, and other erroneously posted checks. A bank that improperly debits a customer's account is liable to the customer not only for the amount of the improper debit, but also for the amount of any damages that are caused by any checks that are returned due to insufficient funds resulting from the improper debit. Additional protections and funds availability schedules are provided under the Board's Regulation CC, which implements the Expedited Fund Availability Act. For example, under Regulation CC returning banks warrant to the bank customer to whom the check is being returned that they have returned the check in accordance with the requirements of applicable law, that they are authorized to return the check, and that the check has not been materially altered. These laws ensure check-related disputes are handled appropriately, and they apply whether the original check, an image, or a statement notation is involved.

Proposed Expedited Re-credit Provisions Are Unnecessary and Will Promote Fraud

We believe that the complicated new re-credit procedures would only serve to confuse customers, create unnecessary burden for banks, without commensurate consumer benefit, and expose banks to potential new sophisticated fraud schemes. Most importantly, the Board has now concluded that the expedited recredit provisions it originally suggested are not necessary, according to testimony given by Federal Reserve Board Vice Chairman Roger W. Ferguson, Jr. before the Senate Committee on Banking, Housing, and Urban Affairs, on April 3, 2003.

The proposed legislation establishes a complicated expedited re-credit and reversal of re-credit structure for consumers and banks that will promote fraud. Section 6 provides that consumers may make claims for expedited re-crediting if they assert that the bank charged the account for a substitute check that was not properly charged and that production of the original check or better copy of the original check is necessary to determine the validity of the charge. The bank then must either produce the original check or better copy and show that the account was properly charged or re-credit the consumer account for the amount of the check up to $2,500 within 10 business days. The remainder must be re-credited within 45 calendar days following the business day of the claim. Funds must be available the business day after re-crediting. However, banks may delay availability under certain circumstances -- the account is "new;" the account has been repeatedly overdrawn or the bank has reasonable cause to believe that the claim is fraudulent. Accordingly, we strongly recommend

eliminating the expedited re-credit provisions, retaining current check law, and relying on the new warranty and indemnity provisions in the proposed legislation.

Consumer groups are demanding that the expedited re-crediting provisions extend to all truncated checks, including those provided today with the customer's consent. Existing check law has a long, proven record of success in the truncated environment. If a single consistent rule is adopted, it should be based on current law, rather than new law that will arguably promote fraud and impose new burdens on banks without commensurate customer benefits.

Representatives of consumer groups also argue that consumers need protections above and beyond what is required today because they will be at a disadvantage if they receive substitute checks rather than originals. However, the situations they cite in support of this argument have existed for years in the truncated environment, supported by older technologies, without adverse consequence to consumers. As noted earlier, millions of bank customers receive check images with their statements. Generally, banks that have adopted check imaging destroy the original checks within 30 to 90 days. My bank destroys all original checks after 90 days. In many cases, by the time the consumer requests the check, it has already been destroyed, and only a copy is available. Thus, the environment under the proposed legislation will differ very little from the environment of today.

Conclusion

The banking trade associations strongly support Check 21's general principle of facilitating check truncation and fostering innovation in the payments system without mandating electronic processing of checks. Removing the legal impediments to the expanded use of electronics for check clearing and settlement will improve the efficiency of our nation's payment system to the benefit of both banks and consumers. We also believe that the body of law and regulations that has developed around the existing check clearing processes is both effective at protecting consumers and minimizing the banking industry's exposure to fraud. The demands by consumer groups for additional consumer protections are unfounded. The banking industry and consumer experience with existing check safekeeping and truncations processes demonstrate that existing law and regulations work.

We urge members of the committee to consider changes to the proposed legislation that will preserve existing law with respect to substitute checks. In addition, we urge modifying the "substitute check" definition so that the marketplace can flexibly respond to changing technologies and processing models through the modification of generally applicable industry standards rather than seeking statutory revisions. We hope members will also take this opportunity to improve the efficiency of the U.S. payments system by quick passage of the proposed legislation, which has the broad support of the banking industry and the Federal Reserve Board.

Represented Organizations

Independent Community Bankers of America
ICBA is the nation's leading voice for community banks and the only national trade association dedicated exclusively to protecting the interests of the community banking industry. We aggregate the power of our members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

ICBA has 5,000 members with branches in 17,000 locations nationwide. Our members hold nearly $511 billion in insured deposits, $624 billion in assets and more than $391 billion in loans for consumers, small businesses, and farms in the communities they serve. ICBA members employ more than 231,000 people.

America's Community Bankers:
America's Community Bankers represents the nation's community banks of all charter types and sizes. ACB members, whose aggregate assets exceed $1 trillion, pursue progressive, entrepreneurial and service-oriented strategies in providing financial services to benefit their customers and communities.

Testimony of

Grant Cole

Senior Vice President, Bank of America

on behalf of

American Bankers Association

Consumer Bankers Association

The Electronic Check Clearing House Organization

and

The Financial Services Roundtable

before the

Financial Services Subcommittee on

Financial Institutions and Consumer Credit

of the

U.S. House of Representatives

on

The Check Clearing for the 21st Century Act

April 8, 2003

Chairman Bachus and Ranking Member Sanders, thank you for inviting me to appear before the Financial Institutions Subcommittee today on behalf of the American Bankers Association, the Consumer Bankers Association, the Electronic Check Clearing House Organization and The Financial Services Roundtable (collectively, the "Associations").* My name is Grant Cole. I am a Senior Vice President for Bank of America in the transaction processing division of Bank of America.

The Associations thank Representatives Hart, Ford, and Ferguson for introducing H.R. 1474, the Check Clearing for the 21st Century Act. While the Associations would like to see some improvements to the "Check 21" bill, we believe that this legislation will serve as an excellent basis for final "check modernization" legislation that will benefit consumers, businesses, financial institutions, and the economy as a whole.

Overview of the Industry and the Act

Let me start by providing a brief overview of the existing check clearing process. Today, most paper checks are physically delivered between the institution that the check is deposited at, called the depositary bank, and the institution the check is drawn on, called the paying bank. Oftentimes, a third party such as a private that receives checks from one or more depositary banks and sorts and handles the checks on their behalf before physically transporting each check to the paying bank on which it is drawn.

Obviously, this current check payment system relies heavily on an extensive network of physical check couriers, who transport the check from location to location. Additionally, this system has required extensive capital investment, where the Federal Reserve, depositary institutions, and third party vendors run multiple processing facilities throughout the country. This system is remarkably efficient given the large

* Appendix I of this testimony further describes each of the organizations represented by this testimony.

volumes and reliance on physical transportation of paper documents. However, we are at a crossroads.

Let me explain. At Bank of America, we have approximately 27 million customers. For those customers, checks are second only to cash as the most popular choice for making payments. In fact, for all depositary institution customers, the number of checks written exceeds all forms of electronic payments combined. However, Federal Reserve data indicates that the number of checks being written is falling, while the number of electronic payments is increasing. If this trend of decreasing check volumes continues, as is expected, it will dramatically change the cost structure of payments processing. Checks will likely soon become more expensive to process than other forms of payments such as credit or debit cards. To some extent we have already seen the effects as decreasing check volumes has resulted in the Federal Reserve choosing to close several check processing sites and cut back operations at others. Many private sector companies involved in check clearing are contemplating or have made similar changes. Passing check modernization legislation will create new efficiencies and help mitigate this effect. In fact, passing check modernization legislation as soon as practical is critical, if Congress is interested in protecting the check payments system and allowing those consumers that choose to write checks to continue to do so.

Benefits of Check Modernization Legislation to Consumers and Businesses

We believe that check modernization legislation will benefit consumers and businesses in a variety of manners.

First, we believe that check modernization legislation will lead to streamlining the collection and return processes, thus providing a new value proposition for investments in check imaging technology. This will lead to consumer and business depositors having information about fraudulent and non-sufficient funds checks

sooner. As a result, depositors will be better positioned to collect from check writers, thus reducing the amount of losses that depositors experience from bad checks. At Bank of America and many other large and small financial institutions, customers can view check images just hours after the check enters our banking system. Fraud can be thwarted by allowing customers to examine check images once checks are received by the bank without having to wait until the end of month for the paper check to be returned to them in the mail. Additionally, employees in branches, call centers, and operations departments that are authorized to view check images can do so as well. These employees can use this technology to identify and combat fraud and help customers avoid losses as well.

I should point out the technology to provide check images to customers, and to exchange images between banks is highly secure. Institutions such as Bank of America and our image archive vendor use highly sophisticated firewalls and cryptography to deter hackers or other unauthorized persons from accessing customers confidential check information.

Check modernization legislation will also lead to even better customer service. The use of imaging has allowed depositary institutions such as Bank of America to respond to customer inquires regarding checks in a much more timely manner because customer service personnel can oftentimes view check images immediately rather than having to wait while a researcher searches for the original paper check or finds a microfilm copy. By providing a new value proposition for imaging, check modernization legislation will make imaging more common, which will increase the reach of this consumer friendly technology.*

Another consumer benefit that would come out of check modernization legislation is that financial institutions could offer consumer and business customers a broader

* Appendix II of this testimony includes quotations by real Bank of America customers extolling the benefits of check imaging.

variety of deposit options or extended deposit cutoff hours. For example, a greater number of remote ATMs could offer deposit taking because electronic processing is more economically feasible compared to having to physically pick up the checks at the ATMs. This would be particularly beneficial in rural areas where frequent collection of paper checks is quite difficult.

Let me make another point that, in my opinion, the industry has not effectively made. The point is simply this: check modernization legislation will help preserve customer payment options, or said another way, check modernization legislation will protect the check as a payment option for those customers who like to write checks. Earlier I indicated that checks are the second most popular payment option for Bank of America customers, and for financial institution customers as whole. Without check modernization legislation, consumers may increasingly find that they are being encouraged not to write checks, even if it would be their preferred payment choice. For example, it must be noted that the cost of check fraud has encouraged a number of businesses not to accept customer checks. In many circumstances, customers are being migrated away from checks to electronic payments such as so-called "Reg. E" conversions that provide customers with less information on their statements than they would with substitute checks. The decrease in fraud that will result from adoption of check modernization legislation may encourage businesses to accept checks as a form of payments. This benefits customers by increasing customer choice in payments.

Benefits to the National Economy

In addition to the direct benefits that will accrue to consumers and businesses, check modernization legislation will benefit the economy as a whole. Perhaps the most important of these benefits is that passing check modernization legislation will reduce the dependence of the check payment system on physical transportation networks. Unexpected disruptions to the nation's check transportation system will be better

avoided, whether natural disaster, bad weather, or terrorist attack cause the disruption. Bank of America, as well as other institutions, has had the unfortunate circumstance where bundles of checks that were deposited or drawn on our bank have been destroyed when a plane carrying our checks has crashed. Check modernization legislation, by taking physical transportation out of the check clearing equation, would create efficiencies and avoid delays and problems for customers that occur when the physical documents are unexpectedly destroyed.

Additionally, check modernization legislation will eventually lead to a lower cost payment system. By allowing financial institutions to redeploy resources currently devoted to the transportation, storage, and processing of paper checks, institutions will have more capital available to serve our customers.

Concerns with the Act as Introduced

While the Associations support the concepts of H.R. 1474, I would be remiss if did not point out several areas where we believe the bill could be improved.

First, the Associations believe that the special recredit rights included in Section 6 are not necessary because current check law already provides consumers with appropriate protections in the relatively few cases where consumers have check problems. Under the proposed Section 6, a customer's depositary institution would be required under certain circumstances to recredit the account of the customer by up to $2,500 by the end of the 10th business day following receipt of a customer's notice that a substitute check was not properly charged to the account. It is important to recognize that even if the recredit right included in Section 6 were to be removed from the Act, customers who receive substitute checks would continue to have all the rights and protections provided under Federal Reserve Regulation CC and the Uniform Commercial Code to the same extent as if the customer had been provided the original check. The UCC

imposes liability on depositary institutions that charge a customer's account for a check that is not "properly payable."

The Associations are concerned that the recredit provision in Section 6 could open up their member institutions to fraud, where customers falsely make a claim, receive the recredit and withdraw the funds before the depositary institution resolves the investigation. In the event that the Committee and the Congress leave the expedited recredit section in the bill, it could be improved by lowering the amount of the recredit from $2,500 per check to $1,500 per day. While most consumer checks are written for amounts well below $1,500, persons intending to commit fraud will be well aware of the maximum recredit amount, which provides them the opportunity to earn greater returns for their fraud and create greater exposure for financial institutions.

Also, the Associations strongly encourage the Committee to change the definition of Substitute Check in Section 2, paragraph 17 of the bill. This definition, which has been changed from the definition in last year's bill, requires that a substitute check "...bears a MICR line containing all the information appearing on the MICR line of the original check..." This change could have the unintended effect of making it technologically unfeasible to process substitute checks, thus preventing institutions from being able to take advantage of the Act. The concern is that in order to be able to identify a substitute check from an original check, or one substitute check from another, the MICR line on the substitute check might have to be changed slightly from the MICR line on the original check. This is referred to in the industry as the "position 44" issue, because the industry plans to change the 44th position on the MICR line to indicated when a check has been truncated. The MICR line of certain returned substitute checks also will need to be slightly modified to appropriately identify the substitute check as a return item. If the entire MICR line from the substitute check has to be included on the original check, it might be impossible to distinguish originals from substitutes and thus impossible to process substitute

checks. Changing the definition back to the definition in the version of Check 21 introduced in the 107th Congress would solve this problem.

Another concern with the bill is the provision in Section 6(d)(3) that prohibits a bank from imposing overdraft fees with respect to checks drawn by a customer on a recredited amount on which availability is delayed as permitted by the bill for five day from the date the notice of the delay is provided to the customer. This provision creates significant regulatory burden and operational costs as depositary institutions would need to create a process for determining when an overdraft resulted from delayed availability of the an expedited recredit. Many institutions' systems would have to be significantly altered to create an automated system for this to occur. A better approach would be to revise this provision to reflect the approach included in Section 229.16 of Regulation CC. That section of Regulation CC prohibits banks from assessing overdraft fees if the bank fails to provide a consumer with appropriate notice of delayed check availability. We believe that this is analogous to the issue of notice to consumers regarding the recredit.

Another suggestion would be to amend Section 11 of the bill, which requires customer education, to provide the Federal Reserve Board with the authority to waive the requirements of this section if the Board makes a finding that it is no longer necessary. While the Associations agree that the customer education notice is important to promote acceptance of substitute checks, there may come some time in the future where these checks are commonly recognized or no longer being used. At this time, it would make sense for the Board to have the authority to waive the customer education requirement.

One final suggestion would be to shorten the effective date of the bill from 18 months to one year. While the Associations applaud the change from last year's bill to 18 months, we believe that it is practical to have a more immediate effective date. Having an effective date that is too long will unnecessarily delay the Act's benefits to

consumers, businesses, and the entire economy. Further, because the bill is optional for truncating institutions, an earlier effective date will not force any institutions to begin imaging or truncating if they so not wish to do so. Because the substitute check will be able to be processed as a paper check and is the legal equivalent of the paper check under the Act, an early effective date will have little impact on paying banks and their customers. Also, one year should give the Federal Reserve sufficient time to promulgate the rules that they are authorized to issue under the Act. Additionally, the longer the delay in implementation, the more likely it will be that customers will be encouraged to move to alternate payments systems other than checks, reducing their payments choice and denying them the benefits of the Check 21 Act.

Concerns with Certain Proposed Changes

I also would like to point out several areas where the Associations strongly disagree with suggestions for changes to the Act. The Associations do not support modifying the Check 21 Act so that certain classes of checks are not eligible to be truncated and turned into substitute checks (*i.e.,* a "carve-out"). From a technological standpoint, it would be very difficult for institutions to identify which checks are eligible to be truncated and which are not. Even if this could be accomplished however, including a "carve-out" for certain checks would severely undermine the benefits of the Act by requiring that institutions continue to maintain the physical infrastructure for processing and transporting originals while simultaneously operating electronic image exchange programs.

Likewise, the Associations strongly oppose expanding the scope of the Act to impose protections or requirements on check safekeeping, check truncation, check image or other check electronification programs that do not involve a substitute check. The special protections for substitute checks in the Act should only apply to situations where the customer actually receives a substitute check. The Act is designed to address a specific limited scenario - where the customer has not agreed to accept an

image or other electronic representation of the original paper check in lieu of the original paper check, and is being compelled by the Act to accept a substitute check. There is no justification for providing the new protections or requirements where the customer has agreed to accept images or some other electronic representation of the original check.

As evidenced by bank regulator and financial institution complaint records, the millions of customers today that have agreed to receive records of their check transactions via check image or check safekeeping programs are satisfied with this service. According to separate studies by financial services trade associations, approximately 30 percent of all checks written by commercial bank customers, literally billions of checks for millions of customers, are not returned to these customers in their monthly bank statements. The number of checks that are safekept would be even higher if credit union checks were included because credit unions, with a few limited exceptions, generally do not provide the original checks back to their member customers. The evidence is that these customers are experiencing virtually no problems when receiving images or other electronic representations of their checks instead of their original checks.

Expanding the scope of the Act to other arrangements not involving substitute checks would impose additional fraud loss and other costs on banks participating in these check electronification programs, thus discouraging bank participation in these programs, precisely the opposite result that the Act is intended to promote.

Conclusion

Mr. Chairman, Ranking Member Sanders, thank you for inviting me to participate here today and allowing me to share my views, and the views of the American Bankers Association, the Consumer Bankers Association, the Electronic Check Clearing House Organization and The Financial Services Roundtable. Once again, I

applaud the work of Representatives Hart, Ford, and Ferguson, and we look forward to working with the Committee to enact this bill as soon as practical. I look forward to answering any questions that the Committee may have.

APPENDIX I

American Bankers Association

The American Bankers Association brings together all categories of banking institutions, including mutually-chartered savings banks and savings associations, to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

Bank of America

One of the world's leading financial services companies, Bank of America is committed to making banking work for customers and clients like it never has before. Through innovative technologies and the ingenuity of its people, Bank of America provides individuals, small businesses and commercial, corporate and institutional clients across the United States and around the world new and better ways to manage their financial lives. The company enables customers to do their banking and investing whenever, wherever and however they choose through the nation's largest financial services network, including approximately 4,400 domestic offices and 13,000 ATMs, as well as 30 international offices serving clients in more than 150 countries, and an Internet Web site that provides online banking access to 4 million active users, more than any other bank.

Consumer Bankers Association

The Consumer Bankers Association is the recognized voice on retail banking issues in the nation's capital. Member institutions are the leaders in consumer finance (auto, home equity and education), electronic retail delivery systems, bank sales of investment products, small business services, and community development. CBA was founded in 1919 and provides leadership and representation on retail banking issues such as privacy, fair lending, and consumer protection legislation/regulation. CBA

members include 85% of the nation's largest 50 bank holding companies and hold two-thirds of the industry's total assets.

Electronic Check Clearing House Organization

ECCHO is a not-for-profit nationwide bank clearing house that is 100 percent owned by its financial institution members. There are currently 19 member financial institutions of ECCHO, and these financial institutions hold approximately 60% of total U.S. bank deposits. Any depositary financial institution, regardless of size, is eligible for membership in ECCHO.

ECCHO was created in 1990 by banks and other financial institutions to promote the electronification of the paper check collection process. Over the past twelve years, ECCHO has been deeply involved in almost every aspect of check electronification across a broad spectrum of banking institutions and organizations, regulators, service providers and check law initiatives. During 2001, ECCHO member institutions exchanged approximately 2 billion checks totaling approximately $3.0 trillion under one of the ECCHO check electronification programs.

Financial Services Roundtable

The mission of The Financial Services Roundtable is to unify the leadership of large integrated financial services companies in pursuit of three primary objectives: to be the premier forum in which leaders of the United States financial services industry determine and influence the most critical public policy issues that shape a vibrant, competitive marketplace and a growing national economy; to promote the interests of member companies in federal legislative, regulatory, and judicial forums; and to effectively communicate the benefits of competitive and integrated financial services to the American public.

APPENDIX II

Comments by Bank of America Customers About Check Image Technology

Bank of America receives hundreds of unsolicited comments about our check imaging service. Here are a few samples of comments that we have received from real customers:

"How great it is to be able to see the image of the check now on online banking? I just discovered it and will now stop receiving my checks in my statement. Thanks!"

"I just clicked on a check (that was posted on my internet statement) and it came up and showed me a copy of the check. THAT IS THE COOLEST THING IN THE WORLD… IT IS THE TYPE OF THING THAT MAKES ME LOVE MY BANK."

"I think this is a really good thing to be able to view checks written. It makes it easier to know what it was made for in case there was every any fraud to detect."

"Hello. I just wanted you to know I am so impressed with the service from Bank of America. I just did the "view check" and I feel this is a great service you are offering. I feel you have gone beyond the call of duty to you customers. Thank you."

"Just wanted to let you know that I LOVE this feature of being able to look at the checks. Thank you so much for making my banking life so easy!!!"

"I was surprised and pleased to see my check image on my online statement. [With] this new process, I see no need to have my checks return[ed] each month… This is great."

"OK, I know how these comment areas go. People use them to moan, moan, moan. Not this time. THE VIEW OF THE CHEQUES IS AWESOME."

"Bank of America is the best (bank in the neighborhood and a-far). I needed a copy of a check and there it was. THANKS."

"Dear Customer Service: I was surprised and pleased to see my check image on my online statement. If this is the new process, I see no need to have my checks returned each month. I can just print the ones I may need. This is great."

"Availability of check images is a Godsend."

"WOW! The new feature you added to view checks is totally awesome! Thanks for this new feature."

"Having the image of the check to verify is a GREAT enhancement to the services [you provide]. CONGRATULATIONS on this one!"

"Hip! Hip! Hooray! What fantastic news!!! [Check imaging] is the greatest thing you have done in a long time! Thank you!!!"

"I never thought I would love a bank. But I love you guys. It seems that every time I log on the check my account, pay bills, or make a transfer you have made an improvement to an already wonderful site. This time it's the feature that allows me to see checks and deposit slips. You don't know how much I wish you'd teach other companies how to treat a customer."

"I just wanted to let you know I'm THRILLED about the check image feature! I work for the back office of a bank, and every day I take requests for check copies for clients. It seems so inefficient and inconvenient to the client. I really appreciate this convenient feature."

"I applaud Bank of America for making it so that a check can be viewed immediately, as opposed to having to order one which take over a week. Sometimes I forget to write down a check, and by being able to view it on the spot, I can balance my checkbook right then and there. Keep on making these wonderful enhancements."

Thank you for now offering a scan of a written check. You make my online banking life wonderfully easy! I access this about once a day. When you have a business account, it is so important to be on top of the incoming and outgoing."

"WAY COOL! Thanks for adding the function where I can view the front and back of my checks. WAY TO GO!"

"PRAISE!!!! I really like the new feature of viewing a copy of the actual check you write. I always forget who I write a check to. This is a wonderful feature…This has really helped my husband and I get our finance on track."

"I absolutely love the fact that I can within seconds pull up copies of the FRONT and BACK of checks that have been cashed on my account! It makes life SO much easier! No hassles!"

"What AMAZING benefits!!! I am so pleased to see this new feature of viewing your check—it's great! …I am pleased to do business with you!"

"This is outstanding – no more of "what was that check for" – a real value added enhancement."

"I really like the check imaging on the screen. It will be easier to get a canceled copy and proof that I paid. Thank you."

Testimony of

Dale Dentlinger

President, E*TRADE Access, Inc.

on the

Check Clearing for the 21st Century Act

before the

Subcommittee on Financial Institutions and Consumer Credit

of the

Committee on Financial Services

United States House of Representatives

on

April 8, 2003

Chairman Bachus, Ranking Minority Member Sanders, and Members of the Subcommittee, thank you very much for the opportunity to testify on behalf of E*TRADE Financial today in support of H.R. 1474, the Check Clearing for the 21st Century Act (the "Act").

My name is Dale Dentlinger, and I am the President of E*TRADE Access, Inc. E*TRADE Access operates an independent network of more than 15,000 automated teller machines (ATMs), making it the second largest ATM network in the United States. E*TRADE Access and its parent E*TRADE Bank are both subsidiaries of E*TRADE Group, Inc., a diversified financial services company that offers a wide range of financial products and services under the brand "E*TRADE Financial."

E*TRADE Financial's core strategy is to leverage technology to provide customers with superior, value-added brokerage, banking and lending products, primarily through electronic delivery channels. While E*TRADE Financial's banking group offers a full suite of deposit and lending products, it differs from most other banks in that it does not have traditional brick and mortar branch offices. Instead, our customers interact with us via the telephone, the Internet and at any of our ATMs, which are located in all 50 states, including the top 20 major metropolitan areas in the U.S. This model allows us to operate efficiently and pass savings on to our customers.

Summary of Testimony

E*TRADE Bank's "branchless" structure and our already extensive experience with check truncation and digital imaging give us a somewhat unique perspective on the Act and its many potential benefits to consumers. E*TRADE Financial believes that the Act will foster a significant increase in the usage by banks of digital imaging and other new check processing technologies. By removing existing legal barriers to check truncation and reducing the payment system's reliance on paper checks, we expect the Act will:

- increase consumer convenience by expanding the availability of deposit-taking ATMs;
- provide consumers with quicker access to funds deposited into their accounts;
- increase consumers' confidence that checks deposited at ATMs will be accurately credited to their accounts; and
- provide consumers with new, cutting-edge products and services such as real-time access to digital images of third party checks deposited into their accounts.

Accordingly, E*TRADE Financial strongly supports the Act and commends Representatives Hart, Ford and Ferguson for their leadership on this important piece of legislation.

Current Law Limits the Ability of E*TRADE Financial's Customers to Make Full Use of Our ATM Network

The 15,000 ATMs in E*TRADE Financial's network are located in stores, restaurants and retail venues. They enable consumers to conveniently withdraw funds and allows E*TRADE Bank customers to transfer funds between accounts and view account balances. However, only 56 (or 0.4%) of our ATMs accept deposits.

We have not deployed more deposit taking machines because current regulations require us to send couriers to make daily pickups of the checks deposited at each of these ATMs. Under current law, original paper checks must be presented for payment unless the banks on which the checks are drawn have agreed to accept checks electronically. This courier cost makes it economically prohibitive for us to give full deposit-taking functionality to all but a handful of our highest volume machines.

The Act Is Likely to Increase the Number of Deposit-Taking ATMs by Making It Less Expensive for E*TRADE Access And Other Financial Institutions to Operate Them

The Act does not mandate check truncation but greatly facilitates it by allowing the first bank that accepts a check for deposit to truncate (or convert) the check into electronic data that can be used in the collection process. For those banks that still desire to receive paper checks as part of the collection process, the Act authorizes the delivery of paper substitute checks in lieu of the original checks. In E*TRADE Financial's case, this means that we will no longer need to incur the expense of daily courier pickups at our

deposit-taking ATMs. Instead, through the use of digital imaging technology installed at a machine, we will be able to convert a check deposited by one of our customers and use either the digital image or a substitute check to process the funds. The original checks can then be either periodically collected and stored for safekeeping or destroyed.

Without the expense of daily courier pickups, E*TRADE Financial will be able to add deposit-taking capabilities to many more ATMs in its network. Other financial institutions could be reasonably anticipated to increase the number of their own remote location ATMs that accept deposits as well, as the expenses associated with operating their deposit-taking ATMs will also decline. It is even possible in the future that networks of independently owned ATMs that accept deposits for customers of many different financial institutions will be organized. Thus, we expect the Act to give consumers many more choices and much greater convenience in terms of where, when and how they make deposits to financial institutions.

Electronic Check Processing Facilitated by the Act Is Likely to Give Customers Quicker Access to Funds Deposited into Their Accounts

As Vice Chairman Ferguson of the Federal Reserve Board and a number of others have already observed, enabling banks in the settlement process to transmit digital images of checks rather than the original checks themselves will produce a much more efficient payment system in this country. E*TRADE Financial also believes that, as a result of more widespread check truncation, checks consumers deposit into their bank accounts are likely to clear more quickly.

We anticipate that faster check presentment and collection will cause many banks to further reduce check hold times and give consumers even more rapid access to their funds. In practical terms, this means that consumers will be less likely to have checks returned due to insufficient funds in their bank accounts, less likely to be assessed fees by their banks for such returned checks and less likely to experience the inconvenience and credit concerns that oftentimes result from having an overdrawn account.

Digital Imaging Technology Will Increase Consumer Confidence in Using ATMs to Make Deposits

One of the concerns consumers have traditionally had about using an ATM to make a deposit is that they feel they are unable to prove they have actually placed a physical check in the machine. Also, consumers may be concerned that there is no assurance that a deposit, once made at the ATM, will ultimately reach the appropriate bank with the correct amount being credited to their account. While we have experienced very few actual problems when customers make deposits at our ATMs, we believe these concerns have limited consumers' use of the deposit taking function at ATMs.

Consumers who make ATM deposits today usually are provided with a printed receipt. However, since the deposit amount on the receipt only shows the number the customer enters on the ATM terminal display, the receipt is of little help should a dispute with the bank later arise. Also, since checks a consumer may deposit into his or her account are frequently government checks or checks drawn on large corporate accounts, it is often

difficult if not impossible for the consumer to ever obtain a copy of a third party's cancelled check (or some other physical evidence that the deposit had been made) from the entity that wrote the check.

We believe, as increasing number of financial institutions are encouraged by the Act to utilize digital check imaging technology, the kinds of consumer concerns discussed above will be alleviated. With electronification technology, when a consumer utilizes an ATM to make a deposit, the check that is deposited will be scanned and read, an electronic image of the check will be displayed on the ATM monitor, and the customer will be able to verify the accuracy of the check amount that is shown as being deposited. Also, once the deposit transaction is completed, the ATM will print out a receipt for the customer showing a reduced-size image of both sides of the deposited check.

We believe that visual displays and printouts will greatly increase consumers' confidence that checks deposited at an ATM will be accurately credited to their accounts. Customers will have confidence knowing that should any questions arise with respect to checks deposited to their bank accounts, they will have tangible evidence in the form of the check image on their receipt to support their claims. Having seen an on-screen image of the deposited check, they will also have greater certainty that the correct information regarding their deposit will be transmitted electronically to the bank's payments processing center. With these additional assurances, we expect more consumers will find making deposits at an ATM to be a viable, timesaving alternative to making a deposit at a bank's branch office.

Digital Imaging Technology Will Enable Banks to Provide Better Products and Services to Their Customers

Another benefit of banks' increased use of digital imaging technology is the ability to offer customers new value-added products and services. By way of example, for sometime now, E*TRADE Bank has been imaging its customers' own checks and providing monthly statement that contain images of checks paid that prior month. Customers with their questions about checks can go to the Bank's website and access a digital image of the check online or can call one of our customer service representatives (CSRs), who can be able to retrieve and view the customer's check image.

Since check images are available through the Bank's website and CSRs within a very short period of time after payment, check truncation enables our customers to easily confirm transactions, spot and correct errors or detect potential fraudulent transactions at their convenience. It also allows our CSRs to handle and resolve customer inquiries without the need for a second phone call – much quicker than if we needed to track down the original check or a copy on microfiche in order to respond.

Once our Bank is able to truncate not only our customers' own checks but also third party checks that our customers deposit into their accounts, we will be able to provide our customers and our CSRs with access to the digital images of those third party checks as well. As a result, our customers will be empowered to keep better track of their finances,

and our CSRs will have an additional tool that will help them to provide better customer service. We believe this kind of online deposit viewing feature, as well as many other innovative deposit-related products and services, are certain to evolve as check truncation becomes more widespread among financial institutions in this country.

Conclusion

E*TRADE Financial strongly supports H.R. 1474, the Check Clearing for the 21st Century Act, because it will lead to the widespread use of digital imaging and other innovative check truncation technologies that will benefit consumers in many important ways. The legislation will enable us to better meet the needs of our customers by increasing the number of deposit-taking ATMs in our network, giving customers quicker access to funds deposited in their accounts, and providing them with new value-added products and services.

Thank you again, Mr. Chairman for inviting me to testify, and I welcome any questions that you or other Members of the Subcommittee may have.

Testimony of

Janell Mayo Duncan

Legislative and Regulatory Counsel

Consumers Union

Also Supported by

Consumer Federation of America

U.S. Public Interest Research Group

National Consumer Law Center

On the

Check Clearing for the 21st Century Act

Before the

House Financial Services

Subcommittee on Financial Institutions and Consumer Credit

April 8, 2003

Good morning, Chairman Bachus, Ranking Member Sanders, and Members of the Subcommittee. Thank you for providing me the opportunity to come before you today. I am Janell Mayo Duncan, Legislative and Regulatory Counsel for Consumers Union[1]. Consumers Union is the nonprofit publisher of *Consumer Reports* magazine. Our mission at Consumers Union is to test products, inform the public, and protect consumers. Today I offer this testimony on H.R. 1474, the Check Clearing for the 21st Century Act as part of our consumer protection function. My testimony today is supported by the Consumer Federation of America, U.S. Public Interest Research Group, and The National Consumer Law Center.[2]

If this legislation is enacted into law, it would have a significant impact on an estimated 45 million consumers who receive their original paper checks in the mail every month.[3] It would enable banks, thrifts, and credit unions (collectively referred to in this testimony as banks) to convert original paper checks written by consumers into electronic form so they can be sent by banks to other banks that agree to accept them. Consequently, original paper checks would be "truncated," or stopped by one of the first banks in the system to process a consumer's check. Banks refusing or unable to accept electronic check information would receive a paper "substitute check." During the check return process under the legislation, a check could be

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[1] Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide consumers with information, education and counsel about goods, services, health, and personal finance. Consumers Union's income is solely derived from the sale of *Consumer Reports*, its other publications and from noncommercial contributions, grants and fees. In addition to reports on Consumers Union's own product testing, *Consumer Reports* with approximately 4.5 million paid circulation, regularly carries articles on health, product safety, marketplace economics and legislative, judicial and regulatory actions that affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

[2] Consumer Federation of America is a non-profit association of almost 300 pro-consumer organizations, founded in 1967 to advance the consumer interest.

U.S. Public Interest Research Group (U.S. PIRG) serves as the national lobbying office for state PIRGs, which are non-profit, non-partisan public interest advocacy groups with 400,000 members in states around the country.

The National Consumer Law Center is a nonprofit organization specializing in consumer issues on behalf of low-income people. The Center's experienced attorneys work with thousands of legal services, government and private attorneys, as well as community groups and organizations, from all states who represent low-income and elderly individuals on consumer issues.

[3] At an August 2002 meeting, bank representatives stated that approximately 60% of consumers east of the Mississippi River, and 30% of consumers in the West receive their original checks back. Since approximately 90% of the 105 million U.S. households have a bank account, usually a checking account, this means that approximately 45.8 million U.S. households get back their paper checks.

repeatedly transferred in and out of electronic and paper substitute form. Thus, the consumer's bank would receive either an electronic image or a "substitute check," but would not receive back the consumer's original paper check. Likewise, the consumer could only get back a "substitute check" but not the original.[4]

Financial institutions already process consumer transactions electronically. In addition, they currently use check imaging technology. However, the full potential impact of this legislation on consumers cannot be forecasted. It will create a new negotiable instrument -- not currently in existence -- called the substitute check. It would authorize a new "dual processing" of checks where a check may be converted in and out of paper form. There will be new benefits and risks associated with this new way of processing consumer checks. The anticipated benefits include costs savings for banks, and possible enhanced banking services for consumers. Potential risks associated with reconverting check information between paper and electronic form include the double processing of a single check, or errors in reading the amount of or account number on a check -- possibly resulting in losses. The legislation clearly recognizes the possibility that something might go wrong, and provides adequate protections for banks.

I appear before you today to comment on the consumer protection provisions in the legislation. First, we commend the authors of the legislation for including recredit, an easy non-litigation remedy available to consumers to resolve disputes with their banks over funds debited from their account. However, we believe that recredit should be available to <u>all</u> consumers whose check information is processed electronically -- because they are identically situated

[4] Today many bank and credit union customers do not receive their checks back in the mail monthly; however, a credit union creates an image of the customer's check at the end of the process, after the check has made its way through the check-clearing process. In contrast, a "substitute check" is a reconstituted version of the consumer's check. Because not all financial institutions will transmit the check in electronic form, the substitute check may contain errors arising during the transmission process. In addition, if the consumer needs the original check due to a claim of improper amount, forgery or alteration (which may require handwriting evidence) the original check will now be in the custody of someone other than the consumer's own bank, and so it would take longer to find and retrieve.

relating to potential risks involved in the dual electronic and paper processing of their check information. Second, although consumers that cannot seek recredit from banks are covered by state Uniform Commercial Code (UCC) provisions, and indemnity and warranty provisions in the legislation, these remedies are inadequate because they require a lawsuit to enforce. Third, consumer protections in the legislation should be strengthened because they are weaker than protections that already exist for other forms of consumer transactions conducted electronically. Finally, the comparative negligence provisions should be eliminated or restricted as to consumers because they are broader than under current UCC law, and could give banks an unfair ability to deter, delay, or reduce consumers' claims for damages.

Loophole in Legislation Relating to "Recredit" of Disputed Funds

If the proposed legislation were enacted into law, consumers would need additional protections to address any errors or disputes that occur when their check information is dually processed. In an effort to provide protections, Section 6 of the proposed legislation, among other duties, would require a bank to put up to $2500 in disputed funds back into a consumer's account if the matter is not settled in 10 business days -- called "recredit."[5] However, the proposed language would allow consumers to seek recredit of disputed funds only if they receive a "substitute check" from their bank.

This is a significant loophole because a bank could avoid giving account-holders these rights simply by refusing to return substitute checks to them. Nothing in the bill requires the bank to provide consumers with a substitute check. If a bank does not give a substitute check to

[5] We believe that this amount should not be limited to $2500. Recredit amounts are not limited for consumers who conduct electronic transfers. In addition, although the majority of consumer checks written are below this amount, improper debits may be in excess of the average consumer check amount -- for example, the improper placement of a decimal point that could raise an incorrect debit by a factor of 10.

its account-holder, the customer loses the right to recredit, and is left with weaker UCC remedies found under state law (UCC Articles 3 and 4) which govern negotiable instruments, including checks.[6] UCC liability provisions are not comparable to recredit because, although they provide rules for liability, they lack a non-litigation remedy. In addition, UCC provisions do not set a specific time period to resolve disputes, and do not require a bank to redeposit disputed funds. If a bank delays or declines to solve the problem, the only way for the consumer to get his or her money back under the UCC is to sue, which is too expensive and time consuming for most disputes relating to modest amounts.

The warranty and indemnity provisions in Sections 4 and 5 of the legislation establish responsibilities and liabilities for banks that improperly create or process substitute checks -- leading to harm. However, in order to obtain a remedy for losses due to an improperly processed check under the warranty and indemnity provisions, consumers (as well as banks) would be forced to sue. While these indemnity and warranty provisions in the legislation may be appropriate as they relate to disputes between banks, they are inappropriate for a consumer dispute with a bank because of unequal bargaining power, and because they require a lawsuit to enforce. As discussed earlier, this is an expensive and cost-prohibitive prospect for most amounts likely to be in dispute. We therefore believe that the non-litigation recredit provision is appropriate because during any delay in resolving a dispute, consumers could be denied access to rightful and necessary funds. Recredit properly places the burden of delay on the bank rather than the consumer, and should be extended to all consumers, regardless of whether or not he or she receives a "substitute check." This would be a modest change to the bill that would improve it significantly.

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[6] Presumably, a substitute check also will be governed by the UCC. The legislation states that it "shall be the legal equivalent of the original check for all purposes, including any provision of any Federal or State law, and for all persons . . . ." See Section 3(b). However, under the legislation, the UCC shall apply only to the extent that it is not "inconsistent with this Act. " See Section 12, "Effect on Other Law."

Anti-Fraud Protections in Legislation are Broad, Discretionary, and More than Adequate

One argument made against extending the recredit protections to all consumers involves concerns that broad availability of the recredit protections increases the exposure of banks to fraudulent claims. The legislation contains strong anti-fraud provisions that should minimize, if not eliminate concerns banks have if the recredit provisions are made available to all consumers. The legislation grants banks broad discretion to delay a consumer's recredit, and even reverse recredit (without notice) where it has been granted unnecessarily. Under the anti-fraud provisions, a bank may delay recredit of funds until it confirms the claim is valid (or 45 days after a claim is submitted) for 1) new accounts; 2) accounts with repeated overdrafts; or 3) when the bank has a reasonable basis to believe the claim is fraudulent.[7] Further, even if the bank has already recredited consumer funds, it can remove them -- without prior notice -- if it concludes that a recredit was made for properly debited amounts.[8] We believe that these provisions provide more than adequate fraud protections for banks. As such, concerns that may be expressed about potential fraud do not provide a credible reason to deny the consumer recredit protections to an entire class of consumers -- those who do not receive a substitute check.

Protections Afforded to Consumers in Legislation are Weaker Than Those Afforded for Other Types of Electronic Consumer Transactions

Currently, consumers engaging in other electronic funds transfers (e.g. using debit or ATM cards or allowing funds to be debited directly from their accounts) are protected by Regulation E,[9] which includes a 10 day right of recredit, and has no dollar limit. Although the proposed legislation would allow all banks to turn consumer paper check processing into

[7] See Section 6(d)(2).
[8] See Section 6(e).

electronic transmissions of check information, the recredit section fails to give consumers protections equivalent to those governing other types of electronic funds transfers. Again, the protections in the legislation are inadequate because they do not apply to all consumers. In addition, the risks associated with the substitute check may be greater than those in purely electronic transactions, because the substitute check system may be complicated by the potential multiple conversion of consumer check images and information in and out of paper form. We see no justification for having protections in this legislation that are weaker, than those in Regulation E.

Comparative Negligence Provisions Grants Banks Greater Defenses Than Current Law

The proposed legislation contains provisions that would make it harder for consumers to seek damages from banks for improperly paid checks.[10] These comparative negligence standards in Sections 5(c) and 9(b) of the proposed legislation would allow banks to reduce the amount of damages a consumer can recover by asserting that the consumer was somehow at fault (*i.e.*, comparatively negligent). Despite the creation of this defense, it is highly unlikely that a consumer could actually contribute in any way to the double processing of his or her checks, or to a processing error. This provision would unfairly enable a bank to deter a consumer's claim, or make any litigation longer and more expensive by asserting that the consumer was somehow partly responsible for check processing errors.

The legislation's comparative negligence provisions are much broader than those currently governing consumer check transactions under the UCC. Although the UCC imposes a

[9] 12 C.F.R. Part 205.

[10] Under Section 9(b) of the legislation, a bank could raise a comparative negligence defense with respect to every claim by a consumer that his or her account had been improperly debited (*i.e.*, a "warranty claim"). See Section 9(b). Similarly, the legislation also would allow banks to raise a comparative negligence defense if a consumer seeks indemnity for harm caused by the unavailability of the original check. See Section 5(c).

comparative negligence standard, it does so only relating to fraud.[11] The legislation therefore would give banks greater protections than exist under current law by extending a bank's ability to claim a defense of comparative negligence beyond situations where there has been a loss to the consumer due to fraud or forgery. This expansion would make it harder for consumers to collect judgments against banks responsible for processing errors. We therefore believe that the comparative negligence standards in Sections 5(c) and 9(b) of the proposed legislation are inappropriate to resolve harms suffered by consumers due to processing errors, and should be removed.

Recommendations

We recommend the following changes to the legislation to more properly balance the benefit of increased check processing efficiencies with necessary consumer protections:

1. Because all consumers are identically situated relating to potential risks involved in the dual electronic and paper processing of their check information, the recredit loophole in the legislation should be closed. The right of recredit should therefore be expanded to all consumers in every case where a check may have been improperly charged to a consumer's account; and
2. A comparative negligence standard is inappropriate to resolve harms suffered by consumers due to processing errors. Banks should not be able to use this standard to avoid liability, or to delay a consumer's action for improperly paid checks that result from processing errors. Therefore, as it relates to consumers, the language

[11] The first instance relates to fictitious payees or imposters [3-404(d)], the second involves where a consumer's negligence contributes to a loss due to a forged signature or alteration [3-406(c)]. Finally, under the UCC, an account-holder has a duty to be diligent in reviewing his or her monthly statement, and report any item paid that was improperly altered or contains an unauthorized signature. If the consumer fails to examine his or her statement and discover and report such indications of fraud, then he or she may lose the ability to assert a claim against the bank for wrongful payment [4-406].

relating to a comparative negligence standard should be removed from the proposed legislation.

We believe that these two elements are the most important changes to be made to the bill in order to create more balanced legislation.

I thank the Chairman, Ranking Member Sanders, and the Subcommittee for the opportunity to testify, and I look forward your questions.

For release on delivery
10:00 a.m. EDT
April 8, 2003

Statement of

Roger W. Ferguson, Jr.

Vice Chairman

Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions and Consumer Credit

of the

Committee on Financial Services

U.S. House of Representatives

April 8, 2003

I would like to thank the subcommittee for inviting me to discuss H.R. 1474, the Check Clearing for the 21st Century Act. This bill, which is similar to a proposal that the Board sent to Congress in late 2001, removes existing legal barriers to the use of new technology in check processing and holds the promise of a more efficient check collection system. The Board commends the subcommittee for holding hearings on this very important legislative initiative.

Technological Advances in Check Processing

Check processing is far more efficient than it once was. Less than fifty years ago, clerks hand-sorted millions of checks each day. In the 1960s, the banking industry began to use mechanical high-speed check-processing equipment to read and sort checks, which had been redesigned for automated processing. Today, banks, thrifts, and credit unions, which I will collectively refer to as banks, process about 40 billion checks that consumers, businesses, and the government write each year.

Typically, after a check has been deposited at a bank's branch or ATM, the bank transports the check to a central operations center. The check is then usually sent to one or more intermediaries--such as a Federal Reserve Bank or a correspondent bank--or a clearinghouse for collection before it is ultimately delivered for payment to the bank on which it is drawn. At each step, the check must be physically processed and then shipped to its destination by air or ground transportation. Some checks, however, are removed from the collection or return process, and the payment information on the checks is captured and delivered electronically. This process, which is commonly referred to as check truncation, reduces the number of times that the checks must be physically processed and shipped. As a result, check truncation is generally more efficient, more cost effective, and less prone to processing errors.

Today, however, check truncation can only occur by agreement of the banks involved because existing law requires that, in the absence of an agreement, the original paper checks be presented or returned. Further, given the thousands of banks in the United States, it is infeasible for any one bank to obtain check truncation agreements from all other banks or even a large proportion of them. As a result, the check system's legal framework, which has not kept up with technological advances, has constrained the efforts of many banks to use new electronic technologies, such as digital check imaging, to improve check-processing efficiency and to provide improved services to customers. Therefore, legal changes are needed to facilitate the use of technologies that could improve check-processing efficiency and lead to substantial reductions in transportation and other check-processing costs. H.R. 1474 makes such changes.

Check Clearing for the 21st Century Act

The Check Clearing for the 21st Century Act solves a long-standing dilemma--how to foster check truncation early in the check collection or return process without mandating that banks accept checks in electronic form. Currently, under typical check truncation arrangements, electronic information about a truncated check, rather than the original paper check, is presented to the bank on which the check is drawn. The act facilitates check truncation by creating a new negotiable instrument called a "substitute check," which would permit banks to truncate the original checks, to process the check information electronically, and to print and deliver substitute checks to banks and bank customers that want to continue receiving paper checks.

A substitute check, which would be the legal equivalent of the original check, would include all the information contained on the original check--that is, an image of the front and back of the original check as well as the machine-readable numbers that appear on the bottom of the check. Under this act, while a bank could no longer demand to receive the original check, it

could still demand to receive a paper check. Banks would likely receive a mix of original checks and substitute checks. Because substitute checks could be processed just like original checks, a bank would not need to invest in any new technology or otherwise change its current check-processing operations.

Banks could use the new authority provided in this legislation in a number of different ways. For example, a bank would no longer need to send couriers every afternoon to each of its branches and ATMs to pick up checks that customers have deposited. Instead, digital images of checks could be transmitted electronically from those locations to the bank's operations center, where substitute checks could be created and forwarded for collection. Not only would this be quicker and more efficient, but it could also permit banks to establish branches or ATMs in remote locations more cost effectively and to provide their customers with later deposit cut-off hours.

Moreover, the act would give a bank the flexibility to transmit checks electronically over long distances, and create substitute checks at locations near their ultimate destination, for example, near the bank on which the checks are drawn, substantially reducing the time and cost associated with physical transportation. The banking industry's extensive reliance on air transportation was underscored in the aftermath of the September 11 tragedy, when air transportation came to a standstill and the flow of checks slowed dramatically. During the week of the attacks, the Federal Reserve Banks' daily check float, which is normally a few hundred million dollars, ballooned to over $47 billion, or more than a hundred times its normal level. Had the legislation been in effect at that time and had banks been using a robust electronic infrastructure for check collection, banks would have been able to collect many more checks by transmitting electronic check information across the country and presenting substitute checks to

paying banks. In addition, today bad weather routinely delays check shipments, and check shipments have been destroyed in plane crashes. By enabling the banking industry to reduce its reliance on physical transportation, the act would reduce the risk that checks may be lost or delayed in transit, thereby reducing check float in the banking system.

Finally, many banks hope to use the authority provided by this legislation to streamline the processing of checks that they must return unpaid. Today, after a bank processes its incoming checks and determines which checks to return, it has to reprocess all of the incoming checks to pull out the less than one percent of checks that are to be returned unpaid. Many banks have indicated to us that they would find it more cost effective to use their image systems to generate substitute checks for return rather than having to reprocess all of their physical checks.

Both individual and corporate bank customers would also benefit from the legislation. As I noted earlier, as banks restructure their branch and ATM networks, they could offer customers broader deposit options or extended deposit cutoff hours. Such changes could result in some checks being credited one day earlier and interest accruing one day earlier for some checks deposited in interest-bearing accounts. In addition, banks might allow some corporate customers to transmit their deposits electronically. Because the legislation would likely encourage greater investments in image technology, banks might also be able offer their customers new and improved services. For example, banks might be able to provide customers with access to on-line images of deposits and payments before the delivery of paper statements or provide printed copies of checks deposited at ATMs on ATM receipts. The same investment in image technology might also enable banks to provide better customer service by using check images to resolve customer inquiries more easily and quickly than today. Further, as banks reduce their operating costs, the savings will be passed on through a combination of lower fees to

their customers and higher returns to their shareholders. Banks have indicated that they expect cost savings to be substantial.

The act is designed to provide banks with additional flexibility in processing checks by requiring banks to accept substitute checks in place of original checks. The act does not, however, require banks to accept checks in electronic form nor does it require banks to use the new authority granted by the act to create substitute checks. This market-based approach permits each bank to decide whether to make use of this new authority based on its business judgment about the costs and benefits of doing so.

We believe the market changes arising from these revisions to check law will result in substantial cost savings. Clearly, because substitute checks can be processed in the same manner as original checks, recipients of substitute checks should incur little or no additional processing costs.[1] It is difficult, however, to estimate the overall cost savings. Different banks will take different approaches toward using the new authority granted by the act. Each bank's use of the new authority will depend on its technology infrastructure and strategy, its physical infrastructure, and its customer and business profiles. Thus, the magnitude of the cost savings, which will depend on the rate at which banks begin using the new authority, is difficult to determine.

Customer Protection Provisions

While there is a fairly broad consensus on the desirability of the act's underlying concepts that permit the use of substitute checks, the issue of customer protections has been the subject of much debate. The Board has had an opportunity to further reflect on the views that

[1] The extent to which banks that receive substitute checks incur additional administrative and compliance costs will depend largely on whether the legislation, as enacted, includes expedited recredit and disclosure requirements and, if so, the form of these requirements.

have been expressed by both consumer advocates and the banking industry and has concluded that expedited recredit provisions are not necessary for the successful implementation of the act. We recognize that the issue of customer protections is the most challenging policy issue in the act and that Congress might arrive at a different conclusion as it considers whether to include expedited recredit provisions in this act. I would like to discuss briefly consumers' rights under existing check law, additional rights granted under the act's new warranty and indemnity provisions, and why we believe the expedited recredit provisions are not needed.

Existing Customer Protections

Long-established check law protects bank customers if checks are improperly charged to their accounts. The act would apply existing check law, including the Uniform Commercial Code (UCC) and the Federal Reserve Board's Regulation CC, to substitute checks as though they were the original checks, to the extent such law is not inconsistent with the proposed legislation.

Specifically, a bank may only charge a check that is properly payable to a customer's account.[2] A check is properly payable if it has been authorized by the bank's customer and complies with any agreement between the customer and the bank. Thus, if a bank charges a customer's account for a check that is not properly payable, such as when a check has been forged, altered, or duplicated, the customer has a claim against the bank for an unauthorized charge to the customer's account. For example, if a bank pays a counterfeit check, the bank could be liable to its customer for the amount of the unauthorized charge, interest on that amount, and consequential damages for the wrongful dishonor of any subsequently presented checks. This potentially large liability provides a strong incentive for the bank to resolve a claim

[2] U.C.C. §4-401(a)

for an unauthorized charge as expeditiously as possible. Over the years, no pattern of problems has emerged to suggest that existing check law is inadequate in protecting bank customers against unauthorized charges.

Moreover, as part of its analysis, Board staff reviewed the consumer complaint databases of the five agencies of the Federal Financial Institution Examination Council. That review found no pattern of problems associated with the timely resolution of check processing errors, including problems related to accounts where the checks are not returned with the monthly statements.

Additional Customer Protections under the Act

In addition to the protections provided in current check law, the act requires banks to provide new warranties for substitute checks and to indemnify customers for losses resulting from the receipt of a substitute check instead of the original check. Specifically, customers whose checks have been converted to substitute checks receive a warranty that the substitute checks are legally equivalent to the original checks and that a check will not be paid more than once from a customer's account. Banks must also indemnify customers for losses they incur due to the receipt of substitute checks rather than the original checks. Taken together, these warranty and indemnity provisions provide customers with additional protections against losses related to the use of substitute checks.

Are Expedited Recredit Provisions Needed?

The act also includes expedited recredit provisions for consumers. (A companion section of the act includes interbank expedited recredit rules.) The expedited recredit provisions require a bank to recredit a consumer's account, within a specified time frame, if a substitute check was not properly charged to the consumer's account. The Board believes expedited recredit

provisions are unnecessary given the protections provided by existing check law and by the act's new warranty and indemnity provisions, which provide additional customer protections.

While it is true that the Uniform Commercial Code (UCC) does not provide a specified time frame within which a bank must act to resolve a claim, its provisions give the bank a significant financial incentive to resolve problems on a timely basis. The longer a bank takes to research and resolve a customer's claim, the longer the bank is exposed to liability for consequential damages arising from the wrongful dishonor of subsequently presented checks. These protections appear to have worked well for many decades.[3] Further, the Board believes that the significant compliance burdens imposed by expedited recredit provisions on banks that receive substitute checks would outweigh the small incremental benefits that the provisions would provide to consumers. Also, in the unlikely event that additional consumer protections are needed for substitute checks, the act grants the Board authority to adopt such protections by regulation. Therefore, the Board does not believe that expedited recredit provisions are necessary to successfully implement the act. Nonetheless, Congress may conclude that expedited recredit provisions for consumers are desirable. In that case, the Board believes that any expedited recredit provisions should be consistent with the act's basic purposes and should not go beyond the provisions originally proposed by the Board in 2001.

Conclusion

In conclusion, although an increasing number of payments are being made electronically, it is clear that checks will continue to play an important role in the nation's payments system for the foreseeable future. The Board believes that, over the long run, the concepts embodied in the

[3] In contrast, there was no established body of law governing the rights and liability of consumers regarding unauthorized electronic funds transfers when Congress was considering the Electronic Fund Transfer Act in 1978. Therefore, Congress decided to address consumer rights and liability in that act.

Check Clearing for the 21st Century Act will spur the use of new technologies to improve the efficiency and reduce the cost of the nation's check collection system and provide better services to bank customers. The legislation accomplishes this by simply permitting banks to replace one piece of paper, the original check, with another piece of paper, the substitute check, both of which contain the same payment information. Because the act should result in substantial cost savings, it would also be desirable to begin obtaining these savings as quickly as possible.

We look forward to working with you as you further consider this legislation. Thank you for your time and I would be happy to answer your questions.

Statement of Joseph (Joe) K. Kniceley,

Vice President, America's Region
Payment Solutions,
NCR Corporation

Testimony before the
U.S. House of Representatives
Subcommittee on Financial Institutions and
Consumer Credit

on

April 8, 2003

in

Rayburn House Office Building, Room 2128

at

10:00 A.M.

"Check Clearing for the 21st Century Act "
H.R. 1474

Chairman Bachus, and members of the Subcommittee, my name is Joe Kniceley. I am the Vice President of the America's Region for NCR Corporation's Payment Solution business. Thank you for the invitation to offer testimony today.

Dayton Ohio based, NCR Corporation, has provided solutions to process financial transactions for American consumers since our inception in 1884. Today, NCR is a leading manufacturer of automated teller machines, check image processing solutions and retail store automation systems. Teradata, a division of NCR is the world's leading provider of customer relationship management solutions. Our corporate slogan – "Transforming Transactions into Relationships" summarizes the value we bring to our clients. We leverage our core competencies to provide technology based solutions that enable our clients to better service their customers. We do this by automating financial transactions that occur at an ATM, Bank Branch Teller, at the Retail Store Point Of Sale (POS) or by processing a mailed check payment.

Mr. Chairman, NCR is also honored to be part of a larger consortium of Information Technology companies including IBM, Unisys, EMC, and EDS. The members of our technology coalition and other companies have developed products that work together in an open and interoperable manner. NCR along with

the IT vendor and banking community have worked closely with the American National Standards Institute (ANSI) to insure that check image information will be secure and easily shared. ANSI Standard X9.37 defines the format and rules for "Electronic Exchange of Checks" and has a provision for applying a digital signature with each image being exchanged. This allows the "Receiving Bank" to validate the signature and determine that the image has not been altered. ANSI Standard X9.90 defines the "Image Replacement Document (IRD)" and is clear in its intent to maintain a high quality image, even after multiple image reproductions and it requires the original check MICR Line data to be printed on the Image Replacement Document. Our technology has several other features that prevent fraud in the imaging and data transfer process. Data is stored in an image archive database, in a "Read Only" form, thus the original check image in the database cannot be changed and a comprehensive audit trail logs all data requests.

NCR and our coalition of IT companies can state that we wholly support H.R. 1474 without reservation or qualification. We believe the bill is well crafted providing adequate protections for consumers, financial institutions, and other entities engaged in check acceptance, presentment and clearing. As a result, we believe that the nations "end to end" payment system will be much more efficient and reliable.

Today, a check that is written at a grocery store may be handled more than 20 times before it reaches the bank upon which it is drawn. If the account has insufficient funds then the check has to be returned to that grocery store, repeating the process in reverse, thus taking several days without the store owner getting paid for the products sold. A check deposited at an ATM or at a bank branch teller may be handled over 15 times by personnel at the branch, courier company, bank check operations, clearing house and paying bank personnel. Again, if the "Paying Bank" returns the check for any reason, the process repeats itself in reverse. This costly, error prone, fraud ridden process started decades ago and the re-engineering and improvement of this process has not kept up with advancements in technology.

The application of the Check Clearing for the 21st Century Act used in conjunction with proven technology will streamline these key financial transactions which benefit all parties involved. With this legislation, funds can be transferred within hours not days or weeks to the store owner's bank account. Digital checks can be archived for 7 years and researched on-line by simply accessing the bank's Internet web site. Using this approach, a consumer making a deposit with checks drawn on a different bank to have earlier access to those funds, because the transaction is cleared electronically. The elimination of moving paper checks around the country

addresses weather and logistic problems, not to mention unforeseen crises like the grounding of the nation's commercial air fleet during the events of 9/11.

Consumers stand to benefit in many ways. Business and bank branch hours can be expanded when the clearing "window" for checks is not tied to courier deadlines. ATM users, who make check deposits, will be provided superior service by obtaining a receipt of their deposits that include a digital picture of each deposited check. These deposits will quickly be processed electronically while the paper check still resides in even the most remote ATM location. A big benefit to consumers will be the early availability of deposited funds and the convenience of having more efficient deposit accepting ATM's on every street corner.

Financial institutions will benefit by getting items through the clearing process much more quickly with less room for error, at a lower cost. Imaging technology used in conjunction with H.R. 1474, will allow institutions to eliminate the constraints of paper, improve customer service, lower fraud losses, and significantly lower costs associated with physically transporting checks from coast to coast. To give the committee a sense of scale for cost savings, consider the following. According to the North America Clearing House Association (NACHA), the Federal Reserve cleared nearly 17 billion of the 45 billion checks

written in 2001. Saving just a fraction of a penny, per item would significantly lower overall costs.

Our technology coalition is pleased to inform the committee that the IT industry is ready, willing, and able to help our banking system deal with the realities of coast to coast consumer transactions. The technology exists today, which can implement all facets of H.R. 1474. Check Imaging was first put in production in the late 1980s. Most major banks, credit unions and nearly 50% of community banks have been using check imaging in one or more forms for many years. It is time to leverage more recent advances in communications, and information storage technologies to bring the check clearing process into the 21st Century. These technologies are readily available, proven to be secure and reliable today.

NCR believes that H.R. 1474 is the next logical step needed in America's evolving payment system. Frankly, our current rules for processing checks in the banking system were written for the time when items were cleared across town, not across the country. Over the past several years, banks are expanding to a national scope and this is creating a paper check clearing logistics nightmare. Good business practice and the American Consumer's ever increasing demand for convenience require us to free our banking system from the needless constraints of paper.

NCR would like to commend Governor Ferguson and his staff at the Federal Reserve who worked on this issue for many years and we applaud their efforts with regard to this legislation. Through digital imaging technology and the proposed legislation, an American Institution called the "Checking Account", can now provide consumers, businesses, and financial institutions new and improved benefits not previously enjoyed.

Mr. Chairman, thank you for the opportunity to testify this morning, and I would be happy to address any questions you or the Subcommittee members might have.

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TESTIMONY OF

CELIA C. WOODHAM

DIRECTOR OF OPERATIONS

CHARTWAY FEDERAL CREDIT UNION

ON BEHALF OF

CREDIT UNION NATIONAL ASSOCIATION

BEFORE THE

HOUSE FINANCIAL SERVICES

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

APRIL 8, 2003

"The Role of Check Truncation at Credit Unions"

Good Morning, Chairman Bachus, Ranking Member Sanders, and members of the Subcommittee. Thank you for the opportunity to provide comments on H.R. 1474, the Check Clearing for the 21st Century Act, and on how check truncation has been working at credit unions for three decades. I am Celia Woodham, Director of Operations at Chartway Federal Credit Union in Virginia Beach, Virginia. I am testifying before you today on behalf of the Credit Union National Association (CUNA), which represents more than 90 percent of the nation's 10,000 state and federal credit unions. As you know, credit unions are cooperative non-profit financial institutions organized to provide individuals associated by a common bond with a place to save and a source of loans at reasonable rates.

I would like to share with you information regarding the following:

- The experience of credit unions with check imaging systems and check truncation techniques and what the credit union movement and my institution have done to protect themselves and their members from fraud and double debiting;
- The effect this legislation will have on the payments system and what benefits consumer may realize as a result;
- How this legislation will affect credit unions and impact the ability of credit unions to provide services to our members; and
- The ability of the consumer protections within the bill to protect consumers.

Credit Unions' Truncation and Imaging Systems & Fraud Protections

Credit unions have had extensive experience with check truncation for nearly three decades. When the National Credit Union Administration (NCUA) authorized all credit unions to provide share draft accounts in 1977, NCUA initially required truncation.[1] This followed a pilot program of check truncation underway since 1974. As a result, most credit unions that offer checking accounts truncate. Sixty–four percent of credit unions offer checking accounts, and of those credit unions ninety-one percent truncate share drafts or checks.[2] Among the credit unions that offer checking accounts, 7.1% include images of all checks within the statements that their members receive. Although only two thirds of credit unions truncate, nearly all credit union members have access to checking accounts. In fact, 96.1% of credit unions' members are in credit unions that offer checks.

Initially, the NCUA required all credit unions offering share draft accounts to truncate and NCUA defined truncation as when the original share draft was not returned to the credit union member. As a result, in the past and now, credit unions tend to truncate checks at the last step in the check collection process by not distributing share drafts to their credit union members. Under this system, there are two processes. In the first case, a credit union may receive the checks that a member writes against his or her account at

[1] Share draft accounts at credit unions are equivalent to checking accounts at banks.
[2] Share drafts are checks

the credit union, but the credit union does not pass those checks onto the member. In the second case, a credit union may have their members' checks truncated by a Federal Reserve Bank or a third-party processor, and the essential share draft information is transmitted electronically to the credit union for payment or dishonor. In this scenario, neither the credit union nor the member receives the original paper check. For all credit unions, each share draft or check is itemized on the statement that the member receives.

In turn, I would like to describe the experience of my credit union, which is a $852 million asset institution with 135,194 members and 68,310 share draft accounts. We do not image our share drafts since the Federal Reserve Bank in Richmond processes and truncates for us. We receive CDs with the check images for the checks processed each day. This allows us to produce good quality copies if the members request them for subpoena purposes. Last year we processed about 1.7 million checks drawn on other financial institutions worth over $1 billion. We have never had a member complain about receiving an image of the check rather than an original.

Credit unions, like other financial institutions, have seen check fraud escalate dramatically in recent years. It has been reported that check fraud for credit unions has increased at an astonishing rate of 200 percent over the past few years.

This broad increase in check fraud is not related to truncation, however, but is more likely related to the ease with which people steal and counterfeit paper checks. For example, there are reports of check fraud from thieves stealing mail or scouring garbage cans for canceled checks. At Chartway Federal Credit Union, most of the check fraud stems from stolen checks. The processing of checks provides these opportunities. Whereas the electronic system of check truncation cuts down on the transportation and availability of paper checks, which would probably leave fewer opportunities for those criminals to engage in check fraud.

In order to combat against check fraud generally, credit unions have engaged in several tactics to cut down on the number of bad checks. Many credit unions have increased teller awareness to detect common signs of check fraud, including, but not limited to: (1) checks that do not have MICR lines; (2) a routing code in the MICR line that does not match the individual's financial institution's address; (3) MICR ink that is shiny or raised; (4) check colors that smear when rubbed; (5) and a personal check that has no perforated edge. In addition, some credit unions have instituted newer technologies that can immediately detect a fraudulent check. Certain fraud prevention products can access a dial-up MICR reader to receive check verification within 10 seconds. At Chartway Federal Credit Union, in order to protect our members against check fraud we have the teller examine checks and we engage in member education regarding identity theft prevention.

There is a concern that double debits could be a result of this legislation if a paying financial institution receives a substitute check and an electronic file for the same item and posts both. The experience of credit unions generally and at Chartway Federal Credit

Union specifically, is that the check truncation programs used by credit unions do not present a greater opportunity for double debiting of checking accounts. For instance, Chartway has never received the electronic check and the paper check because a Federal Reserve Bank does our processing. Likewise, credit unions that process with corporate credit unions have not had a problem with double debits. In instances when Chartway Federal Credit Union has seen a duplicative posting it has been able to reverse it expeditiously, sometimes even before the member is aware that it has occurred. Otherwise, it is resolved as quickly as possible within the normal complaint processing. We are confident that increased truncation will not raise the frequency of double debits.

The Effect This Legislation Will Have on the Payments System and the Benefits Consumers May Realize As a Result

The Check Clearing for the 21st Century Act (H.R. 1474) that was introduced by Representatives Hart and Ford would encourage truncation by removing legal barriers that currently discourage truncation. Currently, financial institutions cannot send electronic checks to another financial institution without prior agreements beforehand to do so. With this legislation, financial institutions would be able to send electronic checks without prior agreements. Those institutions that did not want to receive an electronic check could still request a substitute check (a paper copy of the original) under the legislation. Therefore, it allows electronic check processing to be used by a number of institutions without requiring them to engage in the costly process of negotiating several individual agreements.

As a result, this legislation would increase check truncation among financial institutions and provide numerous advantages to the payments system. Electronic check processing would likely quicken the collection and return of checks, reduce the costs of processing checks, eliminate the need to physically transport checks, and reduce the vulnerability of our check system to attacks that affect our transportation networks.

At credit unions, truncation has provided numerous advantages to our members. For instance, some credit unions have combined check truncation programs with check imaging systems. Imaging checks has allowed some credit unions to post images online and increase the access their members have to their used checks. As a result, imaging and truncation have substantially reduced the time for some credit unions to retrieve a check for their member and make retrieval virtually instantaneous. Moreover, usage of imaging allows credit union personnel to investigate complaints and resolve disputes more quickly.

This Legislation Would Encourage Increased Truncation at Credit Unions and Enhance the Ability of Credit Unions to Provide Services to Our Members

In particular, this legislation would encourage increased truncation at credit unions because credit unions do not usually truncate all the checks that they process. For example, credit unions do not truncate the checks drawn on other financial institutions that their members deposit or use to make loan payments at the credit union. Credit unions process these checks manually as paper items. With this legislation, credit unions

would be encouraged to truncate these deposited checks as well. In other words, credit unions could keep those deposited checks and send an electronic check to the collecting or paying financial institution.

The ability of credit unions to truncate checks drawn on other institutions may help them enhance current services to their members. For example, electronic checks are usually returned faster than paper checks. Thus a credit union may be able to inform a member faster if an electronic check that the member deposited is not good.

The Ability of the Consumer Protections Within the Bill to Protect Consumers
As a result of this bill, consumers would probably not receive their checks. However, the experience of credit unions with check truncation does not indicate that this should disadvantage consumers. The experience of credit unions is that our members rarely request or need originals from truncated share drafts or checks. In fact, some credit unions never provide originals because they destroy the originals within 2-3 business days. An informal survey of corporate credit unions, credit unions that provide services for other credit unions, confirmed this. In 2001, corporate credit unions processed over 1.1 billion items in total check volume. Of those 1.1 billion checks, only about 480,000 requests were made for the original check, representing .04 percent of all checks. In almost all cases, the corporate credit union could make a good-quality, clear image of the check that satisfied the member's needs.

In addition, this bill impacts consumers because it encourages the electronic processing of checks, instead of paper processing of checks. For all the reasons mentioned above, this should improve efficiency within the payments system without compromising privacy. The accessibility of paper checks to transporters of checks and personnel make them much more of a privacy risk than electronic files, which often have greater security features such as password and encryption enhancements. Therefore, the increase in electronic processing should not negatively impact consumers.

Moreover, H.R. 1474 would provide sufficient consumer protections to ensure that consumers are not disadvantaged by this legislation. The bill provides specific expedited recredit rights for those consumers that assert that the bank charges the consumer's account improperly or that the substitute check was inaccurate, illegible, or violated a warranty. Consumers must show that they suffered a loss and that the production of the original or a better copy of the original is necessary to determine the validity of any claim. If a member suffered a loss because of the substitute check, the member's credit union under certain circumstances would be required to recredit the account of the member up to $2,500 by the end of the tenth business day following receipt of the member's notice that a substitute check was not properly charged to the account. This approach appears reasonable. The recredit procedure gives the member's credit union 10 business days to investigate the claim before being required to recredit the member and 45 calendar days for certain unique circumstances. These provisions provide sufficient protections for consumers and the credit union. For instance, the credit union's ability to investigate a consumer's claim prior to being required to recredit the consumer's account

is essential for the credit union to avoid fraud losses from the new expedited recredit procedure. Similarly, the expedited recredit procedure in the bill does not require the credit union to provide notice to the member before reversing a claim that is not substantiated. This allows a credit union to stop a fraud that is in progress.

Moreover, the consumer provisions found in H.R. 1474 appear to reflect the experience that credit unions have had with check truncation. The legislation allows an indemnifying financial institution to produce a copy to resolve a consumer's claim when it is sufficient for that purpose. The experience of credit unions is that at nearly all times a good quality copy is adequate to resolve disputes. The change is especially important because frequently the original will be destroyed within a few days and might not be available anyway.

We also support Section 7 in H.R. 1474 that provides ground rules regarding when a financial institution that has suffered a loss from a substitute check must be recredited by an indemnifying bank. Under Section 7, a claimant financial institution has 120 days to make a claim that it suffered a loss as a result of a substitute check. After that, the indemnifying bank must respond within 10 business days by giving the appropriate recredit, or a copy of the check showing that the claim is unfounded, or information why the bank does not need to provide either of those two responses. Placing a time limit on responses to claims among financial institutions protects smaller institutions and ensures that paying financial institutions do not disproportionately bear the burden for substitute checks that may have been mishandled earlier in the collection process by an indemnifying bank.

Conclusion

In conclusion, most credit unions throughout the country in addition to Chartway Federal Credit Union truncate their share drafts or checks, and have done so for decades. This legislation will increase electronic check processing that produces benefits for financial institutions and consumers. We look forward to working with the Subcommittee, the Federal Reserve and consumers in further strengthening this proposal.

Thank you for this opportunity to comment and I will be glad to answer any questions.

2002 System Summary Report

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EXPENSES OF THE FEDERAL RESERVE BANKS BY SERVICE LINE, 2001-2002

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Service Line	FOURTH QUARTER 2002	YTD 4 QTR 2001	YTD 4 QTR 2002	YTD Change Amount	YTD Change Percent
Monetary and Economic Policy	64,987,656	232,828,701	241,731,565	8,902,864	3.82
Direct	29,697,125	105,436,560	106,406,550	969,990	0.92
Internal Support	24,522,065	88,166,630	95,202,303	7,035,673	7.98
National Provided Support	6,444,432	24,661,507	27,455,122	2,793,615	11.33
Overhead	4,055,743	14,564,004	11,804,466	-2,759,538	-18.95
OEB Services	268,291	0	863,124	863,124	
Special Projects					
U.S. Treasury and Gov't Agencies	77,553,353	261,272,379	286,728,813	25,456,434	9.74
Direct	24,411,850	94,197,421	94,740,859	543,438	0.58
Internal Support	19,745,679	76,167,462	78,762,476	2,595,014	3.41
National Provided Support	27,710,698	72,357,151	96,396,731	24,039,580	33.22
Overhead	5,155,238	17,867,779	15,065,905	-2,801,874	-15.68
OEB Services	246,428	0	726,539	726,539	
Special Projects	283,460	682,566	1,036,303	353,737	51.82
Financial Institutions and the Public	158,464,355	580,435,904	603,385,492	22,949,588	3.95
Direct	70,793,210	265,749,305	271,487,228	5,737,923	2.16
Internal Support	61,217,737	224,899,972	238,738,379	13,838,407	6.15
National Provided Support	15,326,797	48,340,094	58,536,033	10,195,939	21.09
Overhead	10,526,383	41,446,533	32,572,154	-8,874,379	-21.41
OEB Services	600,228	0	2,051,698	2,051,698	
Special Projects					
Supervision and Regulations	124,345,821	443,482,505	463,349,113	19,866,608	4.48
Direct	80,247,454	284,522,579	300,711,192	16,188,613	5.69
Internal Support	26,750,854	100,935,874	104,955,275	4,019,401	3.98
National Provided Support	8,745,995	28,110,793	33,299,657	5,188,864	18.46
Overhead	7,767,987	29,913,259	21,717,331	-8,195,928	-27.40
OEB Services	833,531	0	2,665,658	2,665,658	
Special Projects					
Fee Based Service to Financial Insts	241,095,721	933,250,255	937,317,238	4,066,983	0.44
Direct	92,740,490	379,329,139	368,902,403	-10,426,736	-2.75
Internal Support	61,666,912	261,026,270	247,082,085	-13,944,185	-5.34
National Provided Support	72,049,044	228,273,505	266,234,709	37,961,204	16.63
Overhead	10,041,964	51,468,162	38,512,561	-12,955,601	-25.17
OEB Services	832,810	0	2,818,901	2,818,901	
Special Projects	3,764,501	13,153,179	13,766,579	613,400	4.66
TOTAL EXPENSES	666,446,906	2,451,269,744	2,532,512,221	81,242,477	3.31
LESS Reimbursements	82,933,597	285,888,419	308,816,978	22,928,559	8.02
NET EXPENSES	583,513,309	2,165,381,325	2,223,695,243	58,313,918	2.69
Memorandum					
ALL Output Service Lines					
Direct	297,890,129	1,129,235,004	1,142,248,232	13,013,228	1.15
Internal Support	193,903,247	751,196,208	764,740,518	13,544,310	1.80
National Provided Support	130,276,966	401,743,050	481,922,252	80,179,202	19.96
Overhead	37,547,315	155,259,737	119,672,417	-35,587,320	-22.92
OEB Services	2,781,288	0	9,125,920	9,125,920	
Special Projects	4,047,961	13,835,745	14,802,882	967,137	6.99

DETAILED REPORT

EXPENSES OF THE FEDERAL RESERVE BANKS BY OBJECT, 2001-2002

PAGE 2

Object	FOURTH QUARTER 2002	YTD 4 QTR 2001	YTD 4 QTR 2002	YTD Change Amount	YTD Change Percent
Salaries	315,914,918	1,211,293,967	1,265,253,913	53,959,946	4.45
Other Personnel	44,208,232	78,476,444	80,239,378	1,762,934	2.25
Retirement and Other Benefits	75,916,233	347,925,703	345,366,249	-2,559,454	-0.74
Personnel Subtotal	436,039,383	1,637,696,114	1,690,859,540	53,163,426	3.25
Equipment Purchases	11,178,203	29,515,003	26,321,185	-3,193,818	-10.82
Equipment Rentals	9,013,891	34,283,977	35,747,327	1,463,350	4.27
Equipment Depreciation	26,123,803	113,394,787	107,728,732	-5,666,055	-5.00
Equipment Repairs and Maintenance	22,596,055	90,745,111	92,788,478	2,043,367	2.25
Equipment Subtotal	68,911,952	267,938,878	262,585,722	-5,353,156	-2.00
Postage	1,462,349	7,652,880	6,340,444	-1,312,436	-17.15
Other Shipping Expense	20,674,795	79,276,882	79,840,780	563,898	0.71
Shipping Subtotal	22,137,144	86,929,762	86,181,224	-748,538	-0.86
Building Insurance	224,711	812,877	1,001,419	188,542	23.19
Taxes on Real Estate	5,944,205	32,005,155	29,309,741	-2,695,414	-8.42
Property Depreciation	19,857,812	72,704,708	78,989,662	6,284,954	8.64
Utilities	7,708,435	32,065,932	30,892,069	-1,173,863	-3.66
Rent	9,267,802	35,650,823	37,033,395	1,382,572	3.88
Other Building	9,322,955	30,333,096	31,015,228	682,132	2.25
Building Subtotal	52,325,920	203,572,591	208,241,514	4,668,923	2.29
Materials, Forms and Supplies	14,445,555	54,954,748	52,179,143	-2,775,605	-5.05
Travel	16,576,277	55,286,757	57,949,045	2,662,288	4.82
Communications	3,494,925	15,597,052	14,231,791	-1,365,261	-8.75
Miscellaneous Accounts	52,879,637	129,293,214	160,740,766	31,447,552	24.32
TOTAL	666,810,793	2,451,269,116	2,532,968,745	81,699,629	3.33

DETAILED REPORT

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EMPLOYMENT OF THE FEDERAL RESERVE BANKS BY SERVICE LINE AND SELECTED SERVICES, 2001-2002

AVERAGE NUMBER OF PERSONNEL

Service Line or Selected Service	FOURTH QUARTER 2002	YTD 4 QTR 2001	YTD 4 QTR 2002	YTD Change Amount	YTD Change Percent
Monetary and Economic Policy	863.70	884.50	856.19	-28.31	-3.20
U.S. Treasury and Gov't Agencies	1,257.44	1,384.22	1,291.24	-92.98	-6.72
Savings Bonds	540.41	576.81	548.27	-28.54	-4.95
Other Treasury	9.11	10.74	10.43	-0.31	-2.89
Food Coupons	40.51	70.64	47.50	-23.14	-32.76
Gov't Accounts	87.19	93.83	88.59	-5.24	-5.58
Gov't Check	117.25	156.21	137.35	-18.86	-12.07
Financial Institutions and the Public	2,796.61	2,819.30	2,847.98	28.68	1.02
Currency	1,654.11	1,699.67	1,679.49	-20.18	-1.19
Coin	141.28	124.51	148.07	23.56	18.92
Loans to Members and Others	125.61	128.62	128.45	-0.17	-0.13
Bank and Public Relations	513.07	489.45	517.15	27.70	5.66
Supervision and Regulations	2,606.07	2,574.05	2,603.54	29.49	1.15
Fee Based Services to Finan Insts	4,934.43	5,396.64	5,138.78	-257.86	-4.78
Commercial Checks	4,773.74	5,187.39	4,966.76	-220.63	-4.25
Transfer of Acct Balances	33.36	50.23	37.91	-12.32	-24.53
ACH Operations	70.81	101.98	77.20	-24.78	-24.30
Bookentry Securities	40.26	41.05	40.44	-0.61	-1.49
Internal Support Services	7,397.89	7,690.27	7,609.30	-80.97	-1.05
Data Services	2,134.83	2,449.62	2,227.44	-222.18	-9.07
General Administrative Services	3,351.52	3,122.22	3,366.19	243.97	7.81
Accounting Services	81.43	98.11	86.28	-11.83	-12.06
Personnel Services	564.97	640.39	593.60	-46.79	-7.31
Business Development Services	469.93	587.04	514.10	-72.94	-12.43
Legal	149.89	152.04	153.33	1.29	0.85
Audit	323.25	335.97	329.17	-6.80	-2.02
National Provided Support Services	1,918.14	1,585.96	1,811.41	225.45	14.22
FRIT Operations	694.00	712.71	715.00	2.29	0.32
Retail Payments	473.54	366.47	446.26	79.79	21.77
Wholesale Payments	59.22	50.20	59.83	9.63	19.18
Cash/Fiscal	144.59	93.32	130.60	37.28	39.95
Support Functions	77.19	86.77	67.63	-19.14	-22.06
Special Projects	18.91	14.48	13.66	-0.82	-5.66
Overhead Services	763.80	869.73	803.47	-66.26	-7.62
Centralized Service Providers Services	31.21	0.00	31.12	31.12	
TOTAL	22,569.29	23,204.67	22,993.01	-211.66	-0.91

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Economic Policy Determination - 1300	59,268,446	1,713,250	2,008,235	1,005,012	691,816
Economic Analysis and Research - 1303	42,901,088	661,663	1,265,954	657,871	566,118
Bank and System Initiated Data Reporting - 1305	11,038,125	142,314	375,256	103,700	38,111
Library - 1308	5,329,233	909,273	367,025	243,441	87,587
Open Market Trading - 1600	14,114,802	112,234	1,168,263	1,568,348	43,466
Open Market Trading - 1604	14,114,802	112,234	1,168,263	1,568,348	43,466
Banking and Financial Market Structure Studies - 1800	12,816,314	188,233	314,165	164,170	38,852
Financial Market and Structure Studies - 1801	12,816,314	188,233	314,165	164,170	38,852
Monetary and Economic Policy - 1000	86,199,562	2,013,717	3,490,663	2,737,530	774,134

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 68000
Economic Policy Determination - 1300	1,839,829	209,969	64,568	5,774,615	-71,595
Economic Analysis and Research - 1303	1,477,798	155,559	51,913	4,348,755	-12,019
Bank and System Initiated Data Reporting - 1305	232,535	37,770	3,254	300,664	-57,981
Library - 1308	129,496	16,640	9,401	1,125,196	-1,595
Open Market Trading - 1600	212,581	137,409	734	1,362,469	-7,401
Open Market Trading - 1604	212,581	137,409	734	1,362,469	-7,401
Banking and Financial Market Structure Studies - 1800	572,825	38,584	15,715	1,043,217	-2,574
Financial Market and Structure Studies - 1801	572,825	38,584	15,715	1,043,217	-2,574
Monetary and Economic Policy - 1000	2,625,235	385,962	81,017	8,180,301	-81,570

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES	INFO TECH SERVICES	GEN ADMIN SERVICES	ACCOUNTING SERVICES	PERSONNEL SERVICES
	61000	7115X	7140X	7162X	7163X
Economic Policy Determination - 1300	-1	11,129,169	58,016,529	3,313	3,280,550
Economic Analysis and Research - 1303		6,366,026	8,757,379	3,260	2,080,229
Bank and System Initiated Data Reporting - 1305	-1	3,311,809	2,438,858	53	828,841
Library - 1308		1,451,334	3,453,168		371,480
Open Market Trading - 1600		4,532,573	7,935,058		1,049,252
Open Market Trading - 1604		4,532,573	3,414,904		1,049,252
Banking and Financial Market Structure Studies - 1800		1,894,370	2,378,500		717,746
Financial Market and Structure Studies - 1801		1,894,370	2,378,500		717,746
Monetary and Economic Policy - 1000	-1	17,556,112	68,330,087	3,313	5,047,548

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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	INTERNAL SUPPORT SERVICES				LOCAL PROJECTS
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	7190X
Economic Policy Determination - 1300	1,207,848	14,042	601,378	422,044	234,300
Economic Analysis and Research - 1303	1,711	5,030	502,381	279,616	84,510
Bank and System Initiated Data Reporting - 1305	1,206,137	8,604	28,566	97,627	128,817
Library - 1308		408	70,431	44,801	20,973
Open Market Trading - 1600			593,681	530,771	
Open Market Trading - 1604			593,681	530,771	
Banking and Financial Market Structure Studies - 1800	9,737	674	603,509	27,973	19,286
Financial Market and Structure Studies - 1801	9,737	674	603,509	27,973	19,286
Monetary and Economic Policy - 1000	1,217,585	14,716	1,798,568	980,788	253,586

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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	FRIT SVCS 7316X, 7216X, 7218X	RETAIL SVCS 722XX	WHOLESALE SVCS 723XX	CASH/FISCAL SVCS 724XX	FSO 7251X, 7252X
Economic Policy Determination - 1300	9,790,465	121,802			544,036
Economic Analysis and Research - 1303	80,722				
Bank and System Initiated Data Reporting - 1305	1,023,723				
Library - 1308	3,884				
Open Market Trading - 1600	4,107,337	1,671			50,702
Open Market Trading - 1604	983,304				
Banking and Financial Market Structure Studies - 1800	1,328,560	13,368			25,845
Financial Market and Structure Studies - 1801	19,593				
Monetary and Economic Policy - 1000	15,226,362	136,841			620,583

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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	E-BUSINESS 7256X	FSPC 72601	CRSO 7261X, 7262X	SCRRM SVCS 7265X, 7266X	SUP & REG SVCS 7270X
Economic Policy Determination - 1300	18,356	25,215	2,507,999		2,703,040
Economic Analysis and Research - 1303					
Bank and System Initiated Data Reporting - 1305					
Library - 1308					
Open Market Trading - 1600			79,505		
Open Market Trading - 1604					
Banking and Financial Market Structure Studies - 1800			238,516		561,256
Financial Market and Structure Studies - 1801					
Monetary and Economic Policy - 1000	18,356	25,215	2,826,020		3,264,296

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	NPSS OTHER SVCS 7281X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS 01022, 01023	TOTAL CORPORATE OVERHEAD 01300
Economic Policy Determination - 1300	5,193,771	72,504,144	74,909,173	20,904,684	9,233,737
Economic Analysis and Research - 1303		52,074,700	18,080,142	80,722	
Bank and System Initiated Data Reporting - 1305		12,213,747	8,049,312	1,023,723	
Library - 1308		8,215,697	5,412,595	3,884	
Open Market Trading - 1600	180,724	18,712,905	14,641,335	4,339,939	1,380,012
Open Market Trading - 1604		18,712,905	10,121,181	983,304	
Banking and Financial Market Structure Studies - 1800	42,954	15,189,501	5,651,795	2,210,499	1,150,717
Financial Market and Structure Studies - 1801		15,189,501	5,651,795	19,593	
Monetary and Economic Policy - 1000	5,337,449	106,406,550	95,202,303	27,455,122	11,804,466

SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	TOTAL SPECIAL PROJECT	CENTRAL SVCS PROVIDERS ORB	TOTAL COST	REIMBURSABLE	NET EXPENSE
	8923X	73211		92000	
Economic Policy Determination - 1300		602,096	178,153,834		178,153,834
Economic Analysis and Research - 1303		425,269	70,660,833		70,660,833
Bank and System Initiated Data Reporting - 1305		130,021	21,406,803		21,406,803
Library - 1308		56,806	13,688,982		13,688,982
Open Market Trading - 1500		132,705	39,206,896	4,043,032	35,163,864
Open Market Trading - 1604		132,705	29,950,095		29,950,095
Banking and Financial Market Structure Studies - 1800		128,323	24,370,835		24,370,835
Financial Market and Structure Studies - 1801		128,323	20,989,212		20,989,212
Monetary and Economic Policy - 1000		863,124	241,731,565	4,043,032	237,688,533

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: MONETARY AND ECONOMIC POLICY SERVICE LINE - 1000

ACTIVITY	ACTIVITY PRODUCTION COST	PRODUCTIVITY STATISTICS
		AVERAGE NO OF PERSONNEL
	01015	93200
Economic Policy Determination - 1300	148,889,642	620.06
Economic Analysis and Research - 1303	70,576,323	396.04
Bank and System Initiated Data Reporting - 1305	21,277,986	150.22
Library - 1308	13,668,009	73.80
Open Market Trading - 1600	34,470,249	117.52
Open Market Trading - 1604	29,950,095	117.52
Banking and Financial Market Structure Studies - 1800	20,969,926	118.74
Financial Market and Structure Studies - 1801	20,969,926	118.74
Monetary and Economic Policy - 1000	204,329,617	856.32

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	DIRECT				
	PERSONNEL 05000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Consolidated Operations - Savings Bonds - 2130	**25,158,786**	**941,227**	**2,209,213**	**645,061**	**837,397**
Savings Bonds - Masterfile - 2131	462,357	10,812	20,842	5,439	16,923
Savings Bonds - Book-Entry - 2132	74,954	1,973	4,189	844	3,069
Consignment and Vault Operations - 2133	352,582	44,990	10,566	1,160	8,391
Savings Bond - EZ Clear - 2134	3,853,670	133,254	543,130	245,779	64,571
Centralized Savings Bond Payments - 2135	324,959	32,634	49,382	3,824	3,290
Redemption, Reissue and Exchange Transactions - 2136	7,775,898	172,291	355,581	104,265	266,972
Print and Mail Operations - 2137	981,761	278,333	441,085	62,802	12,641
Savings Bond Customer Service - 2138	5,065,078	117,427	246,295	65,298	243,496
Savings Bond - Original Issue - 2139	6,267,527	149,513	536,143	155,550	218,044
Other Treasury Issues - 2200	**1,235,799**	**6,871**	**33,021**	**128,915**	**2,938**
Commercial Tenders - 2204	1,235,799	6,871	33,021	128,915	2,938
Centrally Provided Treasury and Marketable Services - 2250	**11,353,350**	**463,002**	**1,620,367**	**249,772**	**245,392**
Registered Payments - 2251	67,308	2,790	5,452	251	653
Treasury Direct Central Systems Operations - 2252	1,494,779	249,433	389,720	35,100	17,341
Treasury Direct Secondary Market Sales - 2253	307,551	4,072	5,284	5	5,621
Treasury Direct Account Services - 2256	8,427,827	120,597	232,756	5,005	49,974
Treasury Direct - Site Specific Operations - 2257	721,203	14,253	21,680	1,410	171,671
Treasury Direct - Call CTR Technology Operations - 2258	331,268	591	965,129	208,001	4
Special Treasury Projects - 2259	3,414	70,866	346		128
Government Agency Issues - 2300	**2,780,308**	**37,353**	**119,924**	**290,661**	**30,584**
Government Agency Issues - 2303	2,780,308	37,353	119,924	290,661	30,584
Other Treasury & Government Agency Issues - 2400	**11,575,495**	**499,523**	**1,629,692**	**2,564,438**	**109,314**
Other Treasury & Government Agency Issues - 2403	5,547,588	58,780	170,734	79,856	21,089
Special Treasury (FMS) Projects - 2409	6,027,907	440,743	1,458,958	2,484,582	88,225
Food Coupons - 2600	**2,757,863**	**114,244**	**294,676**	**52,829**	**100,264**
Food Coupon Operations - 2603	2,563,402	113,399	278,871	13,128	99,606
Account Management Agency (AMT) - 2605	194,461	845	15,805	39,701	658
Government Accounts - 2700	**5,417,128**	**80,225**	**335,278**	**43,268**	**26,071**
Electronic Tax Applications - 2701	678,612	9,115	14,413	11,212	107
TIP/PATAX Collateral Monitoring - 2702	609,289	5,786	38,163	262	713
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703	825,348	11,973	24,092	789	7,999
Electronic Federal Tax Payment System - 2705	74,708	1,329	2,344	800	844
Paper Tax Processing (PATAX) - 2706	1,321,514	15,669	158,888	21,844	9,203
Treasury Investment Program - 2707	447,105	5,651	34,490	2,193	1,846
Trea.'s Gen & Gov't Agency Acc't Proc - 2708	1,460,552	30,702	62,888	6,168	5,359
Other Checks - 2740	**7,684,610**	**355,696**	**1,797,430**	**304,826**	**221,565**
Government Check Processing - 2741	7,684,610	355,696	1,797,430	304,826	221,565
Postal Money Order Processing - 2760	**2,846,308**	**156,909**	**758,594**	**830,592**	**11,207**
Postal Money Order Processing - 2761	2,846,308	156,909	758,594	830,592	11,207
U.S. Treasury and Government Agencies - 2000	**70,809,647**	**2,655,050**	**8,798,195**	**5,110,362**	**1,584,732**

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Consolidated Operations - Savings Bonds - 2130	362,590	227,192	8,134	411,351	-40,934
Savings Bonds - Masterfile - 2131	6,369	4,729	75	7,296	-2,028
Savings Bonds - Book-Entry - 2132	853	990	3	996	-720
Consignment and Vault Operations - 2133	1,803	2,106	3	3,889	-720
Savings Bond - EZ Clear - 2134	42,834	13,308	2,816	61,451	-3,672
Centralized Savings Bond Payments - 2135	1,464	1,074	68	6,451	-169
Redemption, Reissue and Exchange Transactions - 2136	120,774	81,479	1,859	128,731	-12,682
Print and Mail Operations - 2137	10,614	2,129	8	10,376	-3
Savings Bond Customer Service - 2138	79,490	55,650	1,616	87,736	-9,295
Savings Bond - Original Issue - 2139	98,289	65,726	1,686	104,425	-11,645
Other Treasury Issues - 2200	13,551	7,848	46	43,427	
Commercial Tenders - 2204	13,551	7,848	46	43,427	
Centrally Provided Treasury and Marketable Services - 2250	96,775	1,605,863	21,872	364,850	-577
Registered Payments - 2251	333	244	12	1,437	
Treasury Direct Central Systems Operations - 2252	6,680	5,280	362	71,364	-532
Treasury Direct Secondary Market Sales - 2253	1,163	2,176		13,881	-22
Treasury Direct Account Services - 2256	79,276	-110,047	18,865	147,202	-20
Treasury Direct - Site Specific Operations - 2257	7,117	-5,004	2,633	10,965	-3
Treasury Direct - Call CTR Technology Operations - 2258	2,206	1,713,199		13,351	
Special Treasury Projects - 2259		15		106,650	
Government Agency Issues - 2300	32,691	23,830	2,948	92,870	-265
Government Agency Issues - 2303	32,691	23,830	2,948	92,870	-265
Other Treasury & Government Agency Issues - 2400	408,228	186,485	6,408	3,042,283	-3,656
Other Treasury & Government Agency Issues - 2403	40,587	18,097	1,283	317,653	-515
Special Treasury (FMS) Projects - 2409	367,641	168,388	5,125	2,724,630	-3,141
Food Coupons - 2600	39,799	6,099	3,384	34,804	-15,761
Food Coupon Operations - 2603	35,386	5,257	3,287	29,527	-15,560
Account Management Agency (AMT) - 2605	4,413	842	97	5,277	-201
Government Accounts - 2700	107,265	198,075	11,895	104,840	-9,728
Electronic Tax Applications - 2701	31,499	2,876	0	6,570	-176
TIP/PATAX Collateral Monitoring - 2702	9,176	5,271	1,686	17,507	-89
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703	23,336	5,574	1,152	30,368	-557
Electronic Federal Tax Payment System - 2705	851	997	3	2,018	-28
Paper Tax Processing (PATAX) - 2706	11,991	142,125	2,134	13,934	-1,978
Treasury Investment Program - 2707	6,177	28,166	1,492	8,373	-27
Trea.'s Gen & Gov't Agency Acc't Proc - 2708	24,235	13,066	5,428	26,070	-6,879
Other Checks - 2740	78,747	16,233	5,895	405,209	-77,823
Government Check Processing - 2741	78,747	16,233	5,895	405,209	-77,823
Postal Money Order Processing - 2760	38,492	7,332	802	-21,350	-6,253
Postal Money Order Processing - 2761	38,492	7,332	802	-21,350	-6,253
U.S. Treasury and Government Agencies - 2000	1,178,138	2,278,956	51,384	4,478,284	-154,997

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINK - 2000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES	INFO TECH SERVICES	GRW ADMIN SERVICES	ACCOUNTING SERVICES	PERSONNEL SERVICES
	61000	7115X	7140X	7162X	7163X
Consolidated Operations - Savings Bonds - 2130		8,469,066	6,837,344	269,958	1,888,703
Savings Bonds - Masterfile - 2131		259,650	115,513	172	28,600
Savings Bonds - Book-Entry - 2132		31,623	17,354		3,486
Consignment and Vault Operations - 2133		60,816	313,415		12,694
Savings Bond - EZ Clear - 2134		938,530	973,120	83,384	206,482
Centralized Savings Bond Payments - 2135		66,450	95,527	16,344	27,666
Redemption, Reissue and Exchange Transactions - 2136		2,360,682	1,892,985	59,583	597,684
Print and Mail Operations - 2137		240,441	468,502		49,228
Savings Bond Customer Service - 2138		1,585,712	1,375,497	44,451	440,285
Savings Bond - Original Issue - 2139		2,925,162	1,585,431	66,024	522,578
Other Treasury Issues - 2200		329,839	350,422		87,699
Commercial Tenders - 2204		329,839	350,422		87,699
Centrally Provided Treasury and Marketable Services - 2250		3,779,264	4,063,895	36	976,926
Registered Payments - 2251		13,480	18,201		5,483
Treasury Direct Central Systems Operations - 2252		384,483	487,226		125,149
Treasury Direct Secondary Market Sales - 2253		116,104	37,354		27,888
Treasury Direct Account Services - 2256		1,718,583	2,028,003		753,710
Treasury Direct - Site Specific Operations - 2257		237,824	172,591	36	62,560
Treasury Direct - Call CTR Technology Operations - 2258		1,294,053			1,680
Special Treasury Projects - 2259		14,737	1,320,520		456
Government Agency Issues - 2300		951,608	1,409,553	1,506	209,012
Government Agency Issues - 2303		951,608	1,409,553	1,506	209,012
Other Treasury & Government Agency Issues - 2400	-2,010,493	21,052,754	2,415,530	4,258	852,489
Other Treasury & Government Agency Issues - 2403	-240,385	3,507,817	1,358,577	2,278	476,776
Special Treasury (PMS) Projects - 2409	-1,770,108	17,544,937	1,056,953	1,980	375,713
Food Coupons - 2600	-48,399	1,240,592	1,524,865	8,711	220,342
Food Coupon Operations - 2603		631,761	1,499,527	7,628	210,037
Account Management Agency (AMT) - 2605	-48,399	608,831	25,338	1,083	10,305
Government Accounts - 2700		2,373,973	1,159,713	196,214	482,345
Electronic Tax Applications - 2701		827,319	133,088		32,808
TIP/PATAX Collateral Monitoring - 2702		82,394	65,679		44,638
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703		551,078	243,099	113,010	56,864
Electronic Federal Tax Payment System - 2705		64,378	15,814	13,380	5,441
Paper Tax Processing (PATAX) - 2706		350,258	220,630	30,076	179,010
Treasury Investment Program - 2707		87,646	63,335	7,388	45,704
Trea.'s Gen & Gov't Agency Acc't Proc - 2708		410,900	418,068	32,360	117,880
Other Checks - 2740		2,220,763	1,977,870	94,597	661,785
Government Check Processing - 2741		2,220,763	1,977,870	94,597	661,785
Postal Money Order Processing - 2760		1,067,042	872,680	14,986	288,941
Postal Money Order Processing - 2761		1,067,042	872,680	14,986	288,941
U.S. Treasury and Government Agencies - 2000	-2,058,892	41,484,901	20,611,872	590,266	5,668,242

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	INTERNAL SUPPORT SERVICES				LOCAL PROJECTS
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	7190X
Consolidated Operations - Savings Bonds - 2130	2,454,762		91,334	751,720	103,207
Savings Bonds - Masterfile - 2131	33,882		328	9,696	
Savings Bonds - Book-Entry - 2132			104	2,001	
Consignment and Vault Operations - 2133			3,167	14,902	
Savings Bond - EZ Clear - 2134	252,923		14,306	81,454	7,006
Centralized Savings Bond Payments - 2135			600	3,948	0
Redemption, Reissue and Exchange Transactions - 2136	151,847		24,949	220,196	
Print and Mail Operations - 2137			4,420	25,516	
Savings Bond Customer Service - 2138	525,984		21,063	160,196	182
Savings Bond - Original Issue - 2139	1,490,126		22,417	233,811	96,019
Other Treasury Issues - 2200	106,208		59,112	40,422	
Commercial Tenders - 2204	106,208		59,112	40,422	
Centrally Provided Treasury and Marketable Services - 2250	9,542		20,292	399,640	725
Registered Payments - 2251			168	3,948	
Treasury Direct Central Systems Operations - 2252	800		3,096	161,004	
Treasury Direct Secondary Market Sales - 2253					725
Treasury Direct Account Services - 2256	8,742		14,764	171,659	
Treasury Direct - Site Specific Operations - 2257			2,264	7,865	
Treasury Direct - Call CTS Technology Operations - 2258					
Special Treasury Projects - 2259				55,164	
Government Agency Issues - 2300	85,308		89,157	407,113	420
Government Agency Issues - 2303	85,308		89,157	407,113	420
Other Treasury & Government Agency Issues - 2400		14	195,718	645,731	2,576
Other Treasury & Government Agency Issues - 2403		14	79,941	125,706	2,576
Special Treasury (FMS) Projects - 2409			115,777	520,025	
Food Coupons - 2600	578,884		9,519	158,964	6,657
Food Coupon Operations - 2603	578,884		9,519	151,378	6,657
Account Management Agency (AMT) - 2605				7,486	
Government Accounts - 2700	2,202,109	27	78,583	184,095	186,565
Electronic Tax Applications - 2701	16,988			26,919	
TIP/PATAX Collateral Monitoring - 2702	60,244		13,412	11,652	
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703	1,510,763		23,001	34,560	183,076
Electronic Federal Tax Payment System - 2705	113,958		$0	4,607	402
Paper Tax Processing (PATAX) - 2706	138,632		18,552	23,340	
Treasury Investment Program - 2707			6,844	10,320	
Trea.'s Gen & Gov't Agency Acc't Proc - 2708	361,515	27	16,714	72,657	3,087
Other Checks - 2740	395,670	427	13,980	350,889	475,181
Government Check Processing - 2741	395,670	427	13,980	350,889	475,181
Postal Money Order Processing - 2760	66,973	212	12,726	177,635	45,187
Postal Money Order Processing - 2761	66,973	212	12,726	177,635	45,187
U.S. Treasury and Government Agencies - 2000	5,899,447	680	570,441	3,116,109	820,518

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	NATIONWALLY PROVIDED SUPPORT SERVICES				
	FRIT SVCS 7316X, 7216X, 7218X	RETAIL SVCS 722XX	WHOLESALE SVCS 723XX	CASH/FISCAL SVCS 724XX	FSO 7251X, 7252X
Consolidated Operations - Savings Bonds - 2130	5,863,976	989,068		3,945,434	593,535
Savings Bonds - Masterfile - 2131	97,790				
Savings Bonds - Book-Entry - 2132	31,006				
Consignment and Vault Operations - 2133	2,824				
Savings Bond - EZ Clear - 2134	61,467				
Centralized Savings Bond Payments - 2135	39				
Redemption, Reissue and Exchange Transactions - 2136	296,652				
Print and Mail Operations - 2137	146,756				
Savings Bond Customer Service - 2138	105,100				
Savings Bond - Original Issue - 2139	1,456,467				
Other Treasury Issues - 2200	2,530,192			8,518,027	25,845
Commercial Tenders - 2204	202,722				
Centrally Provided Treasury and Marketable Services - 2250	2,815,686	1,432		8,232,857	43,986
Registered Payments - 2251	20				
Treasury Direct Central Systems Operations - 2252	3,028				
Treasury Direct Secondary Market Sales - 2253	239				
Treasury Direct Account Services - 2256	21,823				
Treasury Direct - Site Specific Operations - 2257	2,945				
Treasury Direct - Call Ctr Technology Operations - 2258					
Special Treasury Projects - 2259	66,323				
Government Agency Issues - 2300	844,841	716	4,430,553	86,404	18,141
Government Agency Issues - 2303	21,643				
Other Treasury & Government Agency Issues - 2400	7,768,356	7,878	1,479,941	8,551,639	69,837
Other Treasury & Government Agency Issues - 2403	212,991				
Special Treasury (FMS) Projects - 2409	5,512,402				
Food Coupons - 2600	2,132,962	48,220		52,111	150,924
Food Coupon Operations - 2603	351,483				
Account Management Agency (AMT) - 2605	736,831				
Government Accounts - 2700	3,853,007	6,207	1,614,482	7,436,660	2,283,713
Electronic Tax Applications - 2701	1,023,814				
TIP/PATAX Collateral Monitoring - 2702					
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703	612,228				
Electronic Federal Tax Payment System - 2705	5,911				
Paper Tax Processing (PATAX) - 2706					
Treasury Investment Program - 2707					
Trea.'s Gen & Gov't Agency Acc't Proc - 2708	21,066				
Other Checks - 2740	1,766,409	8,791,931		17,670	166,591
Government Check Processing - 2741	178,853				
Postal Money Order Processing - 2760	740,388	3,190,908		6,426	15,773
Postal Money Order Processing - 2761	124,025				
U.S. Treasury and Government Agencies - 2000	28,307,817	13,036,360	7,524,976	36,847,228	3,368,345

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	E-BUSINESS 7256X	FSPC 7260I	CRSO 7261X, 7262X	SCRRM SVCS 7265X, 7266X	SUP & REG SVCS 7270X
Consolidated Operations - Savings Bonds - 2130		50,428	2,476,907		
Savings Bonds - Masterfile - 2131					
Savings Bonds - Book-Entry - 2132					
Consignment and Vault Operations - 2133					
Savings Bond - EZ Clear - 2134					
Centralized Savings Bond Payments - 2135					
Redemption, Reissue and Exchange Transactions - 2136					
Print and Mail Operations - 2137					
Savings Bond Customer Service - 2138					
Savings Bond - Original Issue - 2139					
Other Treasury Issues - 2200		12,608	40,791		
Commercial Tenders - 2204					
Centrally Provided Treasury and Marketable Services - 2250		25,215	183,171		
Registered Payments - 2251					
Treasury Direct Central Systems Operations - 2252					
Treasury Direct Secondary Market Sales - 2253					
Treasury Direct Account Services - 2256					
Treasury Direct - Site Specific Operations - 2257					
Treasury Direct - Call CTR Technology Operations - 2258					
Special Treasury Projects - 2259					
Government Agency Issues - 2300		12,608	40,791		
Government Agency Issues - 2303					
Other Treasury & Government Agency Issues - 2400		12,608	376,542		
Other Treasury & Government Agency Issues - 2403					
Special Treasury (FMS) Projects - 2409					
Food Coupons - 2600		12,608	124,511		
Food Coupon Operations - 2603					
Account Management Agency (AMT) - 2605					
Government Accounts - 2700		37,822	2,594,338	355,273	
Electronic Tax Applications - 2701					
TIP/PATAX Collateral Monitoring - 2702					
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703					
Electronic Federal Tax Payment System - 2705					
Paper Tax Processing (PATAX) - 2706					
Treasury Investment Program - 2707					
Treas.'s Gen & Gov't Agency Acc't Proc - 2708					
Other Checks - 2740			81,585		
Government Check Processing - 2741					
Postal Money Order Processing - 2760			40,791		
Postal Money Order Processing - 2761					
U.S. Treasury and Government Agencies - 2000		163,897	5,959,427	355,273	

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	NPSS OTHER SVCS 7281X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS 01022, 01023	TOTAL CORPORATE OVERHEAD 01300
Consolidated Operations - Savings Bonds - 2130	**225,235**	**30,760,016**	**20,866,114**	**14,144,583**	**2,839,515**
Savings Bonds - Masterfile - 2131		532,814	447,841	97,790	
Savings Bonds - Book-Entry - 2132		87,151	54,568	31,006	
Consignment and Vault Operations - 2133		424,870	404,994	2,824	
Savings Bond - EZ Clear - 2134		4,959,141	2,587,205	61,467	
Centralized Savings Bond Payments - 2135		422,977	210,535	39	
Redemption, Reissue and Exchange Transactions - 2136		8,995,168	5,307,926	296,652	
Print and Mail Operations - 2137		1,799,846	788,107	146,756	
Savings Bond Customer Service - 2138		5,952,791	4,152,370	105,100	
Savings Bond - Original Issue - 2139		7,585,258	6,941,568	1,456,467	
Other Treasury Issues - 2200	**48,122**	**1,472,416**	**973,702**	**11,175,585**	**964,578**
Commercial Tenders - 2204		1,472,416	973,702	202,722	
Centrally Provided Treasury and Marketable Services - 2250	**112,617**	**16,020,666**	**9,250,320**	**11,414,964**	**1,861,859**
Registered Payments - 2251		78,480	41,280	20	
Treasury Direct Central Systems Operations - 2252		2,269,527	1,161,758	3,028	
Treasury Direct Secondary Market Sales - 2253		339,731	182,071	239	
Treasury Direct Account Services - 2256		8,971,435	4,695,461	21,823	
Treasury Direct - Site Specific Operations - 2257		945,925	483,140	2,945	
Treasury Direct - Call CTR Technology Operations - 2258		3,234,149	1,295,733	0	
Special Treasury Projects - 2259		181,419	1,390,877	66,323	
Government Agency Issues - 2300	**56,104**	**3,410,904**	**3,153,677**	**5,490,158**	**160,039**
Government Agency Issues - 2303		3,410,904	3,153,677	21,643	
Other Treasury & Government Agency Issues - 2400	**58,922**	**18,007,717**	**25,169,070**	**18,317,723**	**5,267,888**
Other Treasury & Government Agency Issues - 2403		6,014,767	5,553,685	212,991	
Special Treasury (FMS) Projects - 2409		11,992,950	19,615,385	5,512,402	
Food Coupons - 2600	**69,662**	**3,339,802**	**3,748,434**	**2,590,998**	**533,462**
Food Coupon Operations - 2603		3,126,303	3,095,391	351,483	
Account Management Agency (AMT) - 2605		213,499	653,043	736,831	
Government Accounts - 2700	**99,059**	**6,314,317**	**6,863,615**	**18,280,561**	**1,040,941**
Electronic Tax Applications - 2701		754,234	1,037,122	1,023,814	
TIP/PATAX Collateral Monitoring - 2702		687,764	278,019	0	
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703		930,074	2,715,451	612,228	
Electronic Federal Tax Payment System - 2705		83,866	218,040	5,911	
Paper Tax Processing (PATAX) - 2706		1,695,324	969,498	0	
Treasury Investment Program - 2707		535,466	221,237	0	
Trea.'s Gen & Gov't Agency Acc't Proc - 2708		1,627,589	1,433,248	21,066	
Other Checks - 2740	**94,025**	**10,792,388**	**6,191,162**	**10,918,211**	**1,576,890**
Government Check Processing - 2741		10,792,388	6,191,162	178,853	
Postal Money Order Processing - 2760	**69,662**	**4,622,633**	**2,546,382**	**4,063,948**	**820,733**
Postal Money Order Processing - 2761		4,622,633	2,546,382	124,025	
U.S. Treasury and Government Agencies - 2000	**833,408**	**94,740,859**	**78,762,476**	**96,396,731**	**15,065,905**

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	TOTAL SPECIAL PROJECT 8923X	CENTRAL SVCS PROVIDERS OEB 73211	TOTAL COST	REIMBURSABLE 92000	NET EXPENSE
Consolidated Operations - Savings Bonds - 2130		278,113	68,888,341	68,888,399	-58
Savings Bonds - Masterfile - 2131		4,634	1,083,079		1,083,079
Savings Bonds - Book-Entry - 2132		692	173,417		173,417
Consignment and Vault Operations - 2133		3,207	835,895		835,895
Savings Bond - EZ Clear - 2134		37,533	7,615,346		7,615,346
Centralized Savings Bond Payments - 2135		3,555	637,106		637,106
Redemption, Reissue and Exchange Transactions - 2136		90,434	14,690,180		14,690,180
Print and Mail Operations - 2137		9,854	2,744,563		2,744,563
Savings Bond Customer Service - 2138		56,597	10,267,858		10,267,858
Savings Bond - Original Issue - 2139		71,607	16,054,900		16,054,900
Other Treasury Issues - 2200		11,357	14,597,638	14,597,628	10
Commercial Tenders - 2204		11,357	2,660,197		2,660,197
Centrally Provided Treasury and Marketable Services - 2250		132,743	38,680,552	38,680,564	-12
Registered Payments - 2251		729	120,509		120,509
Treasury Direct Central Systems Operations - 2252		16,346	3,450,659		3,450,659
Treasury Direct Secondary Market Sales - 2253		3,687	525,728		525,728
Treasury Direct Account Services - 2256		96,578	13,785,297		13,785,297
Treasury Direct - Site Specific Operations - 2257		8,220	1,440,230		1,440,230
Treasury Direct - Call CTR Technology Operations - 2258		7,148	4,537,030		4,537,030
Special Treasury Projects - 2259		35	1,638,654		1,638,654
Government Agency Issues - 2300		30,425	12,245,203	12,245,130	73
Government Agency Issues - 2303		30,425	6,616,649		6,616,649
Other Treasury & Government Agency Issues - 2400		117,957	66,880,355	66,880,328	27
Other Treasury & Government Agency Issues - 2403		60,493	11,841,936		11,841,936
Special Treasury (FMS) Projects - 2409		57,464	37,178,201		37,178,201
Food Coupons - 2600		28,149	10,240,836	10,240,856	-20
Food Coupon Operations - 2603		26,127	6,599,304		6,599,304
Account Management Agency (AMT) - 2605		2,013	1,605,386		1,605,386
Government Accounts - 2700		42,453	32,541,887	32,541,860	27
Electronic Tax Applications - 2701		8,361	2,823,531		2,823,531
TIP/PATAX Collateral Monitoring - 2702		2,177	967,960		967,960
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703		8,640	4,266,393		4,266,393
Electronic Federal Tax Payment System - 2705		798	308,615		308,615
Paper Tax Processing (PATAX) - 2706		5,136	2,660,958		2,660,958
Treasury Investment Program - 2707		1,663	758,366		758,366
Trea.'s Gen & Gov't Agency Acc't Proc - 2708		15,678	3,097,581		3,097,581
Other Checks - 2740	740,249	65,546	30,284,446	30,284,450	-4
Government Check Processing - 2741		65,546	17,227,949		17,227,949
Postal Money Order Processing - 2760	296,054	19,805	12,369,555	12,369,610	-55
Postal Money Order Processing - 2761		19,805	7,312,845		7,312,845
U.S. Treasury and Government Agencies - 2000	1,036,303	726,539	286,728,813	286,728,825	-12

SERVICE LINE: U.S. TREASURY AND GOVERNMENT AGENCIES SERVICE LINE - 2000

ACTIVITY	ACTIVITY PRODUCTION COST	PRODUCTIVITY STATISTICS
		AVERAGE NO OF PERSONNEL
	01015	95200
Consolidated Operations - Savings Bonds - 2130	**53,999,137**	**548.32**
Savings Bonds - Masterfile - 2131	1,083,079	9.89
Savings Bonds - Book-Entry - 2132	173,417	1.71
Consignment and Vault Operations - 2133	835,895	6.83
Savings Bond - EZ Clear - 2134	7,608,360	77.59
Centralized Savings Bond Payments - 2135	637,106	6.61
Redemption, Reissue and Exchange Transactions - 2136	14,690,180	173.77
Print and Mail Operations - 2137	2,744,563	20.27
Savings Bond Customer Service - 2138	10,267,676	112.90
Savings Bond - Original Issue - 2139	15,958,881	138.75
Other Treasury Issues - 2200	**2,660,197**	**10.43**
Commercial Tenders - 2204	2,660,197	10.43
Centrally Provided Treasury and Marketable Services - 2250	**25,497,382**	**224.47**
Registered Payments - 2251	120,509	1.33
Treasury Direct Central Systems Operations - 2252	3,450,659	30.15
Treasury Direct Secondary Market Sales - 2253	525,003	4.46
Treasury Direct Account Services - 2256	13,785,297	170.83
Treasury Direct - Site Specific Operations - 2257	1,440,230	14.70
Treasury Direct - Call CTR Technology Operations - 2258	4,537,030	2.93
Special Treasury Projects - 2259	1,638,654	0.07
Government Agency Issues - 2300	**6,616,229**	**30.81**
Government Agency Issues - 2303	6,616,229	30.81
Other Treasury & Government Agency Issues - 2400	**49,017,561**	**145.59**
Other Treasury & Government Agency Issues - 2403	11,839,360	65.11
Special Treasury (FMS) Projects - 2409	37,178,201	80.48
Food Coupons - 2600	**8,198,033**	**47.54**
Food Coupon Operations - 2603	6,592,647	44.97
Account Management Agency (AMT) - 2605	1,605,386	2.57
Government Accounts - 2700	**14,696,839**	**88.65**
Electronic Tax Applications - 2701	2,823,531	9.97
TIP/PATAX Collateral Monitoring - 2702	967,960	10.81
Fed Taxes, TT&L Acctg., TIP/PATAX Coll. Safekeeping - 2703	4,083,317	11.04
Electronic Federal Tax Payment System - 2705	308,213	1.18
Paper Tax Processing (PATAX) - 2706	2,660,958	26.05
Treasury Investment Program - 2707	758,366	7.97
Trea.'s Gen & Gov't Agency Acc't Proc - 2708	3,094,494	21.63
Other Checks - 2740	**16,752,768**	**137.41**
Government Check Processing - 2741	16,752,768	137.41
Postal Money Order Processing - 2760	**7,267,658**	**58.34**
Postal Money Order Processing - 2761	7,267,658	58.34
U.S. Treasury and Government Agencies - 2000	**184,705,804**	**1,291.56**

SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Currency - 3090	93,866,323	5,697,354	56,628,335	992,110	2,830,923
High Speed Currency Operations - 3091	59,484,385	3,576,859	51,225,538	377,904	730,087
Paying and Receiving - 3092	31,524,223	1,957,490	4,887,726	599,087	2,069,594
Cancellation, Verification and Destruction/Offline - 3099	2,857,715	163,005	515,071	15,119	31,242
Coin - 3180	8,595,422	456,620	883,142	93,849	746,715
Coin Paying and Receiving - 3182	4,918,346	277,734	463,602	70,804	76,263
Verifying Deposits - 3185	850,697	45,546	81,202	1,401	9,513
Off-site FRB-administered Coin Terminals - 3187	2,826,379	133,340	338,238	21,644	660,939
Definitive Securities - 3530	207,614	2,253	7,102	1,581	2,599
Special Securities Services - 3533	207,614	2,253	7,102	1,581	2,599
Loans To Depository Inst & Others - 3630	10,472,312	113,778	317,878	54,992	66,303
Loans to Depository Inst & Others - 3632	10,472,312	113,778	317,878	54,992	66,303
Reserve Account & Risk Admin - 3700	18,023,969	172,524	552,595	101,613	65,168
Reserve Account Admin - 3701	11,779,051	120,620	389,416	78,797	46,236
Payment System Risk Administration - 3702	6,244,918	51,904	163,179	22,816	18,932
Public Programs - 3900	45,315,240	1,037,094	2,624,756	561,966	1,437,809
Public Programs - 3906	45,315,240	1,037,094	2,624,756	561,966	1,437,809
Other - 3980	13,226,638	166,801	452,010	511,194	643,544
Financial System Research and Strategic Planning - 3982	948,026	12,016	13,475	78,771	958
Services to Other Central Banks - 3984	10,500,800	115,655	374,827	423,261	37,541
Services Rendered Others - 3988	1,777,812	39,130	63,708	9,162	605,045
Services to Financial Institutions and the Public - 3000	189,707,528	7,646,424	61,465,818	2,317,305	5,793,061

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SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Currency - 3050	1,087,628	202,248	470,237	-1,147,505	-8,049,388
High Speed Currency Operations - 3091	629,793	112,773	372,468	-1,593,039	-49,400
Paying and Receiving - 3092	420,442	82,312	92,420	396,223	-7,998,192
Cancellation. Verification and Destruction/Offline - 3099	37,393	7,163	6,349	49,311	-1,796
Coin - 3180	148,544	23,526	18,686	217,613	-10,411
Coin Paying and Receiving - 3182	76,107	9,872	11,317	114,515	-7,538
Verifying Deposits - 3185	14,365	2,005	1,496	-2,213	-1,541
Off-site FRB-administered Coin Terminals - 3187	58,072	11,649	5,873	105,310	-1,332
Definitive Securities - 3530	2,103	1,355	336	10,923	-3
Special Securities Services - 3533	2,103	1,355	336	10,923	-3
Loans To Depository Inst & Others - 3630	298,437	50,336	11,229	326,927	-2,126
Loans to Depository Inst & Others - 3632	298,437	50,336	11,229	326,927	-2,126
Reserve Account & Risk Admin - 3700	403,048	81,891	12,479	406,877	-8,013
Reserve Account Admin - 3701	236,277	51,441	7,933	261,049	-6,602
Payment System Risk Administration - 3702	166,771	30,450	4,546	145,828	-1,411
Public Programs - 3900	1,996,438	205,750	163,195	7,419,813	-631,023
Public Programs - 3906	1,996,438	205,750	163,195	7,419,813	-631,023
Other - 3980	347,071	40,011	19,129	907,604	-100,864
Financial System Research and Strategic Planning - 3982	40,838	4,268	153	211,030	
Services to Other Central Banks - 3984	225,575	101,988	15,620	592,002	-40,924
Services Rendered Others - 3988	80,658	-66,245	3,356	104,572	-59,940
Services to Financial Institutions and the Public - 3000	4,283,269	605,117	695,291	8,142,252	-8,801,828

SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES 61000	INFO TECH SERVICES 7115X	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X
Currency - 3090	**-20,537**	**18,274,189**	**113,187,618**	**288,338**	**7,760,071**
High Speed Currency Operations - 3091	-5,273	10,523,876	30,863,884	39,887	5,037,218
Paying and Receiving - 3092	-14,912	7,304,424	80,807,041	225,034	2,494,195
Cancellation, Verification and Destruction/Offline - 3099	-352	445,889	1,516,693	23,417	228,658
Coin - 3180	**-27,251**	**2,263,418**	**8,016,983**	**108,701**	**660,920**
Coin Paying and Receiving - 3182	-25,098	1,510,629	5,739,238	83,876	379,238
Verifying Deposits - 3185		143,730	470,323	1,520	61,748
Off-site FRB-administered Coin Terminals - 3187	-2,153	609,049	1,807,422	23,305	219,934
Definitive Securities - 3530		**72,435**	**118,327**		**15,698**
Special Securities Services - 3533		72,435	118,327		15,698
Loans To Depository Inst & Others - 3630		**2,360,480**	**2,790,983**	**3,180**	**689,849**
Loans to Depository Inst & Others - 3632		2,360,480	2,790,983	3,180	689,849
Reserve Account & Risk Admin - 3700		**4,900,835**	**3,418,336**	**40,568**	**1,278,425**
Reserve Account Admin - 3701		3,092,948	2,344,996	40,324	884,523
Payment System Risk Administration - 3702		1,807,887	1,073,340	244	393,902
Public Programs - 3900	**-21**	**10,113,797**	**18,971,149**	**652**	**2,664,477**
Public Programs - 3906	-21	10,113,797	18,971,149	652	2,664,477
Other - 3980	**-319,190**	**6,475,441**	**9,013,641**	**1,386**	**1,035,373**
Financial System Research and Strategic Planning - 3982		166,385	103,566		48,046
Services to Other Central Banks - 3984	-318,955	5,338,638	7,963,233		834,999
Services Rendered Others - 3988	-235	970,418	946,842	1,386	152,328
Services to Financial Institutions and the Public - 3000	**-366,999**	**44,460,595**	**155,517,037**	**442,825**	**14,104,813**

SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	INTERNAL SUPPORT SERVICES				LOCAL PROJECTS
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	7190X
Currency - 3090	**4,408,951**	**82,507**	**361,838**	**4,613,628**	**871,597**
High Speed Currency Operations - 3091	751,007	44,900	186,667	2,668,954	428,141
Paying and Receiving - 3092	3,656,473	35,613	164,745	1,747,039	432,122
Cancellation, Verification and Destruction/Offline - 3099	1,471	1,994	10,426	197,635	11,334
Coin - 3180	**1,372,250**		**42,338**	**654,466**	**74,218**
Coin Paying and Receiving - 3182	1,205,327		24,901	315,828	21,842
Verifying Deposits - 3185	462		1,803	91,215	3,375
Off-site FRB-administered Coin Terminals - 3187	166,461		15,634	247,423	49,001
Definitive Securities - 3530			**7,104**	**26,123**	
Special Securities Services - 3533			7,104	26,123	
Loans To Depository Inst & Others - 3630	**105,692**	**39**	**1,094,439**	**973,654**	**49,756**
Loans to Depository Inst & Others - 3632	105,692	39	1,094,439	973,654	49,756
Reserve Account & Risk Admin - 3700	**4,259,918**	**285**	**262,858**	**676,675**	**338,045**
Reserve Account Admin - 3701	2,188,024	122	85,334	337,021	122,998
Payment System Risk Administration - 3702	2,071,894	163	177,524	339,654	215,047
Public Programs - 3900	**809,366**	**3,675**	**605,477**	**272,122**	**73,558**
Public Programs - 3906	809,366	3,675	605,477	272,122	73,558
Other - 3980	**111,662**	**6,909**	**1,255,968**	**781,852**	**16,139**
Financial System Research and Strategic Planning - 3982	1,642		29,901		1,089
Services to Other Central Banks - 3984			1,164,300	429,720	427
Services Rendered Others - 3988	110,020	6,909	61,767	352,132	14,623
Services to Financial Institutions and the Public - 3000	**11,067,839**	**93,415**	**3,630,022**	**7,998,520**	**1,423,313**

SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	FRIT SVCS 7316X, 7216X, 7218X	RETAIL SVCS 722XX	WHOLESALE SVCS 723XX	CASH/FISCAL SVCS 724XX	FSO 7251X, 7252X
Currency - 3090	6,974,803	129,385		9,184,075	1,512,845
High Speed Currency Operations - 3091	63,157				
Paying and Receiving - 3092	570,256				
Cancellation, Verification and Destruction/Offline - 3099	1,383				
Coin - 3180	1,513,240	1,671		1,282,327	169,068
Coin Paying and Receiving - 3182	391,494				
Verifying Deposits - 3185	472				
Off-site FRB-administered Coin Terminals - 3187	114,211				
Definitive Securities - 3530	242,481				
Special Securities Services - 3533	117,423				
Loans To Depository Inst & Others - 3630	1,512,994	20,768	1,614,482		25,845
Loans to Depository Inst & Others - 3632	69,278				
Reserve Account & Risk Admin - 3700	4,440,812	7,640			270,417
Reserve Account Admin - 3701	800,475				
Payment System Risk Administration - 3702	1,336,045				
Public Programs - 3900	2,850,934	128,908			225,241
Public Programs - 3906	30,685				
Other - 3980	5,296,670	211,480		290,260	35,921
Financial System Research and Strategic Planning - 3982	263				
Services to Other Central Banks - 3984	2,553,177				
Services Rendered Others - 3988	622,808				
Services to Financial Institutions and the Public - 3000	23,231,934	499,852	1,614,482	10,756,662	2,239,337

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SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	E-BUSINESS 7256X	FSPC 72601	CRSO 7261X, 7262X	SCRRM SVCS 7265X, 7266X	SUP & ENG SVCS 7270X
Currency - 3090	137,678	163,898	1,673,145		
High Speed Currency Operations - 3091					
Paying and Receiving - 3092					
Cancellation, Verification and Destruction/Offline - 3099					
Coin - 3180	27,537	25,215	544,990		
Coin Paying and Receiving - 3182					
Verifying Deposits - 3185					
Off-site FRB-administered Coin Terminals - 3187					
Definitive Securities - 3530				11,460	
Special Securities Services - 3533					
Loans To Depository Inst & Others - 3630			79,505	2,967,802	569,061
Loans to Depository Inst & Others - 3632					
Reserve Account & Risk Admin - 3700	18,356	25,215	2,354,379	3,875,810	
Reserve Account Admin - 3701					
Payment System Risk Administration - 3702					
Public Programs - 3900	9,179	12,608	235,595		
Public Programs - 3906					
Other - 3980	237,272		176,654		
Financial System Research and Strategic Planning - 3982					
Services to Other Central Banks - 3984					
Services Rendered Others - 3988					
Services to Financial Institutions and the Public - 3000	430,022	226,936	5,064,268	6,855,072	569,061

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SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	NPSS OTHER SVCS 7281X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS 01022, 01023	TOTAL CORPORATE OVERHEAD 01300
Currency - 3090	**1,594,992**	**152,557,728**	**149,848,737**	**21,370,821**	**17,085,959**
High Speed Currency Operations - 3091		114,861,095	50,544,534	63,157	
Paying and Receiving - 3092		34,016,413	96,866,686	570,256	
Cancellation, Verification and Destruction/Offline - 3099		3,680,220	2,437,517	1,383	
Coin - 3180	**80,462**	**11,146,455**	**13,193,294**	**4,044,510**	**1,352,896**
Coin Paying and Receiving - 3182		5,985,924	9,280,889	391,494	
Verifying Deposits - 3185		1,002,572	774,176	472	
Off-site FRB-administered Coin Terminals - 3187		4,157,959	3,138,229	114,211	
Definitive Securities - 3530		**235,863**	**239,687**	**253,941**	**2,328**
Special Securities Services - 3533		235,863	239,687	117,423	
Loans To Depository Inst & Others - 3630	**74,891**	**11,710,066**	**8,068,072**	**6,865,348**	**1,159,102**
Loans to Depository Inst & Others - 3632		11,710,066	8,068,072	69,278	
Reserve Account & Risk Admin - 3700	**5,026,990**	**19,812,151**	**15,175,945**	**16,019,619**	**2,166,668**
Reserve Account Admin - 3701		12,964,218	9,096,290	800,475	
Payment System Risk Administration - 3702		6,847,933	6,079,655	1,336,045	
Public Programs - 3900	**204,164**	**60,131,017**	**33,514,273**	**3,666,629**	**9,068,816**
Public Programs - 3906		60,131,017	33,514,273	30,685	
Other - 3980	**66,908**	**15,893,948**	**18,698,371**	**6,315,165**	**1,736,385**
Financial System Research and Strategic Planning - 3982		1,309,535	350,629	263	
Services to Other Central Banks - 3984		12,027,390	15,731,317	2,553,177	
Services Rendered Others - 3988		2,557,023	2,616,425	622,808	
Services to Financial Institutions and the Public - 3000	**7,048,407**	**271,487,228**	**238,738,379**	**58,536,033**	**32,572,154**

SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	TOTAL SPECIAL PROJECT 8923X	CENTRAL SVCS PROVIDERS ORB 73211	TOTAL COST	REIMBURSABLE 92000	NET EXPENSE
Currency - 3090		**1,047,958**	**341,911,203**		**341,911,203**
High Speed Currency Operations - 3091		664,575	166,133,361		166,133,361
Paying and Receiving - 3092		351,212	131,804,567		131,804,567
Cancellation, Verification and Destruction/Offline - 3099		32,171	6,151,291		6,151,291
Coin - 3180		**93,113**	**29,830,268**		**29,830,268**
Coin Paying and Receiving - 3182		52,085	15,710,392		15,710,392
Verifying Deposits - 3185		8,542	1,785,762		1,785,762
Off-site FRB-administered Coin Terminals - 3187		32,486	7,442,885		7,442,885
Definitive Securities - 3530		**2,222**	**734,041**		**734,041**
Special Securities Services - 3533		2,222	595,195		595,195
Loans To Depository Inst & Others - 3630		**110,161**	**27,912,749**		**27,912,749**
Loans to Depository Inst & Others - 3632		110,161	19,957,577		19,957,577
Reserve Account & Risk Admin - 3700		**196,457**	**53,370,840**		**53,370,840**
Reserve Account Admin - 3701		129,745	22,990,728		22,990,728
Payment System Risk Administration - 3702		66,712	14,330,345		14,330,345
Public Programs - 3900		**470,260**	**106,850,995**		**106,850,995**
Public Programs - 3906		470,260	94,146,235		94,146,235
Other - 3980		**131,527**	**42,775,396**	**474,107**	**42,301,289**
Financial System Research and Strategic Planning - 3982		6,521	1,666,948		1,666,948
Services to Other Central Banks - 3984		105,302	30,417,186		30,417,186
Services Rendered Others - 3988		19,704	5,815,960		5,815,960
Services to Financial Institutions and the Public - 3000		**2,051,698**	**603,385,492**	**474,107**	**602,911,385**

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SERVICE LINE: SERVICES TO FINANCIAL INSTITUTIONS AND THE PUBLIC SERVICE LINE - 3000

ACTIVITY	ACTIVITY PRODUCTION COST	PRODUCTIVITY STATISTICS
		AVERAGE NO OF PERSONNEL
	01015	95200
Currency - 3090	**303,217,622**	**1,679.63**
High Speed Currency Operations - 3091	165,705,220	1,083.32
Paying and Receiving - 3092	131,372,445	546.96
Cancellation, Verification and Destruction/Offline - 3099	6,139,957	49.35
Coin - 3180	**24,864,821**	**148.20**
Coin Paying and Receiving - 3182	15,688,550	85.35
Verifying Deposits - 3185	1,782,387	14.97
Off-site FRB-administered Coin Terminals - 3187	7,393,884	47.88
Definitive Securities - 3530	**595,195**	**2.09**
Special Securities Services - 3533	595,195	2.09
Loans To Depository Inst & Others - 3630	**19,907,821**	**128.49**
Loans to Depository Inst & Others - 3632	19,907,821	128.49
Reserve Account & Risk Admin - 3700	**36,983,028**	**247.00**
Reserve Account Admin - 3701	22,867,730	165.68
Payment System Risk Administration - 3702	14,115,298	81.32
Public Programs - 3900	**94,072,677**	**517.19**
Public Programs - 3906	94,072,677	517.19
Other - 3980	**37,883,955**	**125.82**
Financial System Research and Strategic Planning - 3982	1,665,859	8.33
Services to Other Central Banks - 3984	30,416,759	92.61
Services Rendered Others - 3988	5,801,337	24.88
Services to Financial Institutions and the Public - 3000	**517,525,119**	**2,848.42**

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	**49,019,729**	**349,077**	**1,124,497**	**418,343**	**65,035**
US Banking Organizations' Intl. Activities - 4102	2,416,017	18,603	51,177	34,380	2,901
Consumer Compliance Activities - 4103	3,570,043	25,675	84,086	34,284	4,495
CRA Activities - 4104	3,521,162	26,483	79,029	42,927	4,307
Reviews of Applications & Notices - 4105	2,466,506	29,854	73,524	27,089	10,152
Safety and Soundness Activities (State Mbr Banks) - 4107	10,898,454	72,333	204,008	75,934	12,450
Safety and Soundness Activities (Bank Holding Co.) - 4108	26,147,547	176,129	632,673	203,729	30,730
Supervision of Domestic Reg & Comm Banking Orgs - 4200	**99,274,906**	**781,025**	**2,903,412**	**714,005**	**195,988**
US Banking Orgs International Activities - 4202	373,053	3,006	10,114	2,413	491
Consumer Compliance Activities - 4203	14,233,809	111,523	434,799	113,417	28,811
CRA Activities - 4204	5,615,157	37,502	166,040	32,278	9,843
Reviews of Applications and Notices - 4205	7,474,191	84,540	245,026	56,706	48,842
Safety and Soundness Activities - State Mbr Banks - 4207	50,440,355	392,920	1,478,551	371,372	73,385
Safety and Soundness Activities - Bnk Holding Co's - 4208	21,138,341	151,534	568,882	137,819	34,616
Supervision of Foreign Banking Organizations - 4400	**36,453,245**	**266,873**	**750,810**	**294,382**	**35,630**
Safety and Soundness Activities - 4401	34,681,711	251,439	707,951	271,036	32,174
Consumer Compliance Activities - 4403	222,080	1,007	1,143	184	257
CRA Activities - 4404	13,954	41	1,005	147	
Reviews of Applications and Notices - 4405	1,535,500	14,386	40,711	23,015	3,199
Admin. of Laws & Regs Related To Banking - 4600	**16,842,342**	**176,449**	**476,917**	**97,676**	**72,947**
Administration of Consumer Laws and Regulations - 4603	2,607,193	28,092	74,539	12,328	19,197
Regulatory Report Processing - 4604	11,559,382	112,684	314,636	74,790	43,402
Administration of All Other Laws & Regulations - 4605	2,675,767	35,673	87,742	10,558	11,348
Supervision Activities Benefiting The Banking System - 4700	**56,272,473**	**510,030**	**1,265,748**	**754,881**	**75,250**
Shared National Credit Program - 4701	4,402,873	29,128	79,055	32,757	4,463
Supervision of Service Corps & Out-Source Providers - 4702	1,054,458	7,000	18,190	5,828	1,466
Consumer Complaint Review and Investigation - 4703	2,905,488	22,807	73,211	31,077	8,988
Examiner Training and Education - 4704	28,410,913	244,156	646,200	267,440	40,400
System Supervision Policy and Projects - 4705	19,498,741	206,939	449,092	417,779	19,933
Supervision & Regulation - 4000	**257,862,695**	**2,083,454**	**6,521,384**	**2,279,287**	**444,850**

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SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	DIRECT				
	TRAVEL	COMMUNICATIONS	BUILDING	OTHER	RECOVERIES
	34000	41000	48000	55000	60000
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	**4,461,310**	**179,783**	**24,882**	**1,433,982**	**-14,778**
US Banking Organizations' Intl. Activities - 4102	283,936	10,253	1,453	84,796	-160
Consumer Compliance Activities - 4103	208,022	15,040	1,480	91,149	-102
CRA Activities - 4104	159,809	14,855	1,367	99,210	-59
Reviews of Applications & Notices - 4105	82,425	6,824	1,675	112,732	-438
Safety and Soundness Activities (State Mbr Banks) - 4107	1,133,109	34,945	4,096	301,328	-3,974
Safety and Soundness Activities (Bank Holding Co.) - 4108	2,594,009	97,866	14,811	744,767	-10,045
Supervision of Domestic Reg & Comm Banking Orgs - 4200	**10,388,522**	**352,808**	**55,688**	**3,040,289**	**-235,354**
US Banking Orgs International Activities - 4202	46,452	1,343	230	17,258	-8
Consumer Compliance Activities - 4203	1,476,434	48,838	7,365	344,747	-2,598
CRA Activities - 4204	520,154	15,390	1,826	118,911	-507
Reviews of Applications and Notices - 4205	350,924	21,195	4,021	365,984	-2,573
Safety and Soundness Activities - State Mbr Banks - 4207	5,726,343	188,698	30,300	1,581,478	-206,785
Safety and Soundness Activities - Bnk Holding Co's - 4208	2,268,215	77,344	11,946	611,911	-22,873
Supervision of Foreign Banking Organizations - 4400	**1,787,841**	**118,029**	**9,254**	**1,189,409**	**-1,131**
Safety and Soundness Activities - 4401	1,747,526	111,264	9,048	1,128,794	-1,078
Consumer Compliance Activities - 4403	8,219	316	39	5,086	-12
CRA Activities - 4404	143	20		233	
Reviews of Applications and Notices - 4405	31,953	6,429	167	55,296	-41
Admin. of Laws & Regs Related To Banking - 4600	**693,922**	**61,442**	**8,656**	**488,888**	**-4,544**
Administration of Consumer Laws and Regulations - 4603	201,271	11,737	5,350	96,276	-462
Regulatory Report Processing - 4604	270,695	36,438	1,788	298,812	-1,374
Administration of All Other Laws & Regulations - 4605	221,956	13,267	1,518	93,800	-2,708
Supervision Activities Benefiting The Banking System - 4700	**5,080,537**	**225,755**	**21,222**	**2,261,024**	**-41,878**
Shared National Credit Program - 4701	335,215	14,961	990	116,907	-2,778
Supervision of Service Corps & Out-Source Providers - 4702	119,546	3,197	469	23,791	-3,501
Consumer Complaint Review and Investigation - 4703	209,674	9,957	384	92,734	-904
Examiner Training and Education - 4704	3,438,457	125,527	14,964	1,229,101	-26,946
System Supervision Policy and Projects - 4705	977,645	72,113	4,415	798,491	-7,749
Supervision & Regulation - 4000	**22,412,132**	**937,817**	**119,702**	**8,413,592**	**-297,685**

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SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES 61000	INFO TECH SERVICES 7115X	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	**-15,741**	**6,979,277**	**6,235,913**		**2,577,370**
US Banking Organizations' Intl. Activities - 4102		436,654	291,688		123,351
Consumer Compliance Activities - 4103		638,672	568,965		240,802
CRA Activities - 4104		739,825	682,699		245,949
Reviews of Applications & Notices - 4105	-15,741	519,143	535,575		162,032
Safety and Soundness Activities (State Mbr Banks) - 4107		1,457,334	1,295,103		576,745
Safety and Soundness Activities (Bank Holding Co.) - 4108		3,187,649	2,861,883		1,228,491
Supervision of Domestic Reg & Comm Banking Orgs - 4200	**-10,494**	**13,336,820**	**12,719,982**		**5,143,936**
US Banking Orgs International Activities - 4202		36,303	50,039		15,877
Consumer Compliance Activities - 4203		1,986,242	2,059,214		801,915
CRA Activities - 4204		810,112	675,189		321,202
Reviews of Applications and Notices - 4205	-10,494	1,109,849	1,341,511		410,907
Safety and Soundness Activities - State Mbr Banks - 4207		6,623,597	6,009,181		2,534,200
Safety and Soundness Activities - Bnk Holding Co's - 4208		2,770,717	2,584,848		1,059,835
Supervision of Foreign Banking Organizations - 4400	**-26,235**	**6,207,710**	**5,792,506**		**2,158,471**
Safety and Soundness Activities - 4401		5,680,374	5,317,085		2,005,548
Consumer Compliance Activities - 4403		12,305	29,646		15,805
CRA Activities - 4404		2,040	1,934		561
Reviews of Applications and Notices - 4405	-26,235	512,991	443,841		136,557
Admin. of Laws & Regs Related To Banking - 4600	**-214**	**3,607,319**	**3,436,727**	**94**	**1,190,169**
Administration of Consumer Laws and Regulations - 4603		442,247	571,837	32	156,313
Regulatory Report Processing - 4604	-1	2,826,171	2,421,111	24	895,704
Administration of All Other Laws & Regulations - 4605	-213	338,901	443,779	38	138,152
Supervision Activities Benefiting The Banking System - 4700	**-13,352**	**9,311,078**	**8,231,225**		**3,198,435**
Shared National Credit Program - 4701		699,296	579,784		232,185
Supervision of Service Corps & Out-Source Providers - 4702		179,967	122,101		56,229
Consumer Complaint Review and Investigation - 4703		635,767	441,531		178,646
Examiner Training and Education - 4704		4,185,954	4,018,394		1,598,285
System Supervision Policy and Projects - 4705	-13,352	3,610,094	3,069,415		1,133,090
Supervision & Regulation - 4000	**-66,036**	**39,442,204**	**36,416,353**	**94**	**14,268,381**

SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	INTERNAL SUPPORT SERVICES				LOCAL PROJECTS
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	7190X
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100		3,546	3,658,504	245,479	43,627
US Banking Organizations' Intl. Activities - 4102		310	274,255	34,860	1,605
Consumer Compliance Activities - 4103		132	95,031	30,038	3,061
CRA Activities - 4104		95	97,224	4,026	2,565
Reviews of Applications & Notices - 4105		109	664,126	15,925	1,370
Safety and Soundness Activities (State Mbr Banks) - 4107		471	757,379	70,817	10,082
Safety and Soundness Activities (Bank Holding Co.) - 4108		2,429	1,770,489	89,813	24,944
Supervision of Domestic Reg & Comm Banking Orgs - 4200		6,061	1,946,345	362,397	156,673
US Banking Orgs International Activities - 4202			11,764	10,168	1,699
Consumer Compliance Activities - 4203		1,059	176,406	36,973	15,700
CRA Activities - 4204		23	85,664	25,285	4,371
Reviews of Applications and Notices - 4205		288	737,844	41,260	8,602
Safety and Soundness Activities - State Mbr Banks - 4207		3,702	582,587	188,697	84,346
Safety and Soundness Activities - Bnk Holding Co's - 4208		989	352,080	60,014	41,955
Supervision of Foreign Banking Organizations - 4400			2,963,631	222,301	39,182
Safety and Soundness Activities - 4401			1,974,567	216,933	38,354
Consumer Compliance Activities - 4403			10,650	222	225
CRA Activities - 4404					
Reviews of Applications and Notices - 4405			978,414	5,146	603
Admin. of Laws & Regs Related To Banking - 4600	310,030	26,236	1,033,057	176,015	47,477
Administration of Consumer Laws and Regulations - 4603	39,728	23	148,717	9,125	19,400
Regulatory Report Processing - 4604	51,370	656	429,827	67,266	16,679
Administration of All Other Laws & Regulations - 4605	218,932	25,557	454,513	99,624	11,398
Supervision Activities Benefiting The Banking System - 4700		36,234	3,262,742	212,247	76,459
Shared National Credit Program - 4701		33,314	60,522	39,841	3,972
Supervision of Service Corps & Out-Source Providers - 4702		135	47,827	8,140	2,763
Consumer Complaint Review and Investigation - 4703		181	60,518	9,318	3,575
Examiner Training and Education - 4704		2,357	1,200,071	75,539	53,624
System Supervision Policy and Projects - 4705		247	1,893,804	79,409	12,525
Supervision & Regulation - 4000	310,030	72,077	12,864,279	1,218,439	363,418

SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	FRIT SVCS 7316X, 7216X, 7218X	RETAIL SVCS 722XX	WHOLESALE SVCS 723XX	CASH/FISCAL SVCS 724XX	FSO 7251X, 7252X
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	2,956,726	37,240			105,756
US Banking Organizations' Intl. Activities - 4102	168				
Consumer Compliance Activities - 4103	349				
CRA Activities - 4104	433				
Reviews of Applications & Notices - 4105	1,135				
Safety and Soundness Activities (State Mbr Banks) - 4107	1,318				
Safety and Soundness Activities (Bank Holding Co.) - 4108	3,859				
Supervision of Domestic Reg & Comm Banking Orgs - 4200	5,400,406	137,500			320,922
US Banking Orgs International Activities - 4202	415				
Consumer Compliance Activities - 4203	6,391				
CRA Activities - 4204	2,910				
Reviews of Applications and Notices - 4205	8,175				
Safety and Soundness Activities - State Mbr Banks - 4207	16,851				
Safety and Soundness Activities - Bnk Holding Co's - 4208	8,655				
Supervision of Foreign Banking Organizations - 4400	1,862,119	13,846			69,837
Safety and Soundness Activities - 4401	4,557				
Consumer Compliance Activities - 4403					
CRA Activities - 4404					
Reviews of Applications and Notices - 4405	324				
Admin. of Laws & Regs Related To Banking - 4600	2,229,732	37,479			54,062
Administration of Consumer Laws and Regulations - 4603	13,094				
Regulatory Report Processing - 4604	136,201				
Administration of All Other Laws & Regulations - 4605	1,872				
Supervision Activities Benefiting The Banking System - 4700	2,551,027	49,415			105,756
Shared National Credit Program - 4701	7,371				
Supervision of Service Corps & Out-Source Providers - 4702	316				
Consumer Complaint Review and Investigation - 4703	592				
Examiner Training and Education - 4704	7,896				
System Supervision Policy and Projects - 4705	4,022				
Supervision & Regulation - 4000	15,000,010	275,480			656,333

SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	E-BUSINESS 7256X	FSPC 72601	CREO 7261X, 7262X	SCRRM SVCS 7265X, 7266X	SUP & REG SVCS 7270X
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100			159,010		1,851,394
US Banking Organizations' Intl. Activities - 4102					
Consumer Compliance Activities - 4103					
CRA Activities - 4104					
Reviews of Applications & Notices - 4105					
Safety and Soundness Activities (State Mbr Banks) - 4107					
Safety and Soundness Activities (Bank Holding Co.) - 4108					
Supervision of Domestic Reg & Comm Banking Orgs - 4200	9,179	12,608	294,538		3,700,846
US Banking Orgs International Activities - 4202					
Consumer Compliance Activities - 4203					
CRA Activities - 4204					
Reviews of Applications and Notices - 4205					
Safety and Soundness Activities - State Mbr Banks - 4207					
Safety and Soundness Activities - Bnk Holding Co's - 4208					
Supervision of Foreign Banking Organizations - 4400			119,259		1,280,390
Safety and Soundness Activities - 4401					
Consumer Compliance Activities - 4403					
CRA Activities - 4404					
Reviews of Applications and Notices - 4405					
Admin. of Laws & Regs Related To Banking - 4600	18,356	12,608	2,095,365		2,627,625
Administration of Consumer Laws and Regulations - 4603					
Regulatory Report Processing - 4604					
Administration of All Other Laws & Regulations - 4605					
Supervision Activities Benefiting The Banking System - 4700			159,010		1,566,868
Shared National Credit Program - 4701					
Supervision of Service Corps & Out-Source Providers - 4702					
Consumer Complaint Review and Investigation - 4703					
Examiner Training and Education - 4704					
System Supervision Policy and Projects - 4705					
Supervision & Regulation - 4000	27,535	25,216	2,827,182		11,027,123

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SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	NPSS OTHER SVCS 7281X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS 01022 & 01023	TOTAL CORPORATE OVERHEAD 01300
Super. of Lg. Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	172,484	57,046,119	19,743,716	5,282,610	3,911,073
US Banking Organizations' Intl. Activities - 4102		2,903,356	1,162,723	168	
Consumer Compliance Activities - 4103		4,034,172	1,576,701	349	
CRA Activities - 4104		3,949,090	1,772,383	433	
Reviews of Applications & Notices - 4105		2,794,602	1,898,280	1,135	
Safety and Soundness Activities (State Mbr Banks) - 4107		12,732,683	4,167,931	1,318	
Safety and Soundness Activities (Bank Holding Co.) - 4108		30,632,216	9,165,698	3,859	
Supervision of Domestic Reg & Comm Banking Orgs - 4200	417,918	117,460,795	33,672,214	10,293,917	9,265,619
US Banking Orgs International Activities - 4202		454,352	128,850	415	
Consumer Compliance Activities - 4203		16,797,145	5,077,509	6,391	
CRA Activities - 4204		6,516,594	1,921,846	2,910	
Reviews of Applications and Notices - 4205		8,638,362	3,650,261	8,175	
Safety and Soundness Activities - State Mbr Banks - 4207		60,076,607	16,026,310	16,851	
Safety and Soundness Activities - Bnk Holding Co's - 4208		24,977,735	6,870,438	8,655	
Supervision of Foreign Banking Organizations - 4400	121,074	40,878,107	17,383,801	3,466,525	2,217,048
Safety and Soundness Activities - 4401		38,939,865	15,232,861	4,557	
Consumer Compliance Activities - 4403		238,319	68,853	0	
CRA Activities - 4404		15,543	4,535	0	
Reviews of Applications and Notices - 4405		1,684,380	2,077,552	324	
Admin. of Laws & Regs Related To Banking - 4600	2,573,999	18,914,481	9,827,124	9,649,226	1,913,223
Administration of Consumer Laws and Regulations - 4603		3,054,521	1,387,422	13,094	
Regulatory Report Processing - 4604		12,711,252	6,708,808	136,201	
Administration of All Other Laws & Regulations - 4605		3,148,708	1,730,894	1,872	
Supervision Activities Benefiting The Banking System - 4700	175,303	66,411,690	24,328,420	4,607,379	4,410,368
Shared National Credit Program - 4701		5,013,571	1,648,914	7,371	
Supervision of Service Corps & Out-Source Providers - 4702		1,230,444	417,162	316	
Consumer Complaint Review and Investigation - 4703		3,353,416	1,329,536	592	
Examiner Training and Education - 4704		34,390,212	11,134,224	7,896	
System Supervision Policy and Projects - 4705		22,424,047	9,798,584	4,022	
Supervision & Regulation - 4000	3,460,778	300,711,192	104,955,275	33,299,657	21,717,331

SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	TOTAL SPECIAL PROJECT 8923X	CENTRAL SVCS PROVIDERS OEB 73211	TOTAL COST	REIMBURSABLE 92000	NET EXPENSE
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100		510,131	86,493,649		86,493,649
US Banking Organizations' Intl. Activities - 4102		25,755	4,092,002		4,092,002
Consumer Compliance Activities - 4103		36,745	5,647,967		5,647,967
CRA Activities - 4104		36,344	5,758,250		5,758,250
Reviews of Applications & Notices - 4105		23,871	4,717,888		4,717,888
Safety and Soundness Activities (State Mbr Banks) - 4107		109,315	17,011,247		17,011,247
Safety and Soundness Activities (Bank Holding Co.) - 4108		278,101	40,079,874		40,079,874
Supervision of Domestic Reg & Comm Banking Orgs - 4200		1,041,294	171,733,839		171,733,839
US Banking Orgs International Activities - 4202		4,131	584,748		584,748
Consumer Compliance Activities - 4203		147,490	22,028,535		22,028,535
CRA Activities - 4204		57,354	8,498,704		8,498,704
Reviews of Applications and Notices - 4205		76,172	12,372,970		12,372,970
Safety and Soundness Activities - State Mbr Banks - 4207		535,796	76,655,564		76,655,564
Safety and Soundness Activities - Bnk Holding Co's - 4208		220,351	32,077,179		32,077,179
Supervision of Foreign Banking Organizations - 4400		358,573	64,304,054		64,304,054
Safety and Soundness Activities - 4401		344,448	54,521,731		54,521,731
Consumer Compliance Activities - 4403		2,313	309,485		309,485
CRA Activities - 4404		176	20,254		20,254
Reviews of Applications and Notices - 4405		11,636	3,773,892		3,773,892
Admin. of Laws & Regs Related To Banking - 4600		178,032	40,482,086		40,482,086
Administration of Consumer Laws and Regulations - 4603		27,672	4,482,709		4,482,709
Regulatory Report Processing - 4604		121,844	19,678,105		19,678,105
Administration of All Other Laws & Regulations - 4605		28,516	4,909,990		4,909,990
Supervision Activities Benefiting The Banking System - 4700		577,628	100,335,485		100,335,485
Shared National Credit Program - 4701		46,374	6,716,230		6,716,230
Supervision of Service Corps & Out-Source Providers - 4702		10,572	1,658,494		1,658,494
Consumer Complaint Review and Investigation - 4703		30,858	4,714,402		4,714,402
Examiner Training and Education - 4704		290,940	45,823,272		45,823,272
System Supervision Policy and Projects - 4705		198,884	32,425,537		32,425,537
Supervision & Regulation - 4000		2,665,658	463,349,113		463,349,113

SERVICE LINE: SUPERVISION AND REGULATION SERVICE LINE - 4000

ACTIVITY	ACTIVITY PRODUCTION COST 01015	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Super. of Lg, Multi-state, Multi-dist. Domestic Bnkng Orgs - 4100	**77,263,601**	**451.32**
US Banking Organizations' Intl. Activities - 4102	4,090,397	22.43
Consumer Compliance Activities - 4103	5,644,906	36.05
CRA Activities - 4104	5,755,685	34.49
Reviews of Applications & Notices - 4105	4,716,518	22.95
Safety and Soundness Activities (State Mbr Banks) - 4107	17,001,165	100.25
Safety and Soundness Activities (Bank Holding Co.) - 4108	40,054,930	235.15
Supervision of Domestic Reg & Comm Banking Orgs - 4200	**152,061,027**	**1,084.19**
US Banking Orgs International Activities - 4202	583,049	4.12
Consumer Compliance Activities - 4203	22,012,835	162.75
CRA Activities - 4204	8,494,333	62.56
Reviews of Applications and Notices - 4205	12,364,368	81.27
Safety and Soundness Activities - State Mbr Banks - 4207	76,571,218	548.38
Safety and Soundness Activities - Bnk Holding Co's - 4208	32,035,224	225.11
Supervision of Foreign Banking Organizations - 4400	**58,586,180**	**305.20**
Safety and Soundness Activities - 4401	54,483,377	290.36
Consumer Compliance Activities - 4403	309,260	2.06
CRA Activities - 4404	20,254	0.14
Reviews of Applications and Notices - 4405	3,773,289	12.64
Admin. of Laws & Regs Related To Banking - 4600	**29,023,327**	**211.10**
Administration of Consumer Laws and Regulations - 4603	4,463,309	30.34
Regulatory Report Processing - 4604	19,661,426	153.04
Administration of All Other Laws & Regulations - 4605	4,898,592	27.72
Supervision Activities Benefiting The Banking System - 4700	**91,261,476**	**552.24**
Shared National Credit Program - 4701	6,712,258	40.20
Supervision of Service Corps & Out-Source Providers - 4702	1,655,731	10.87
Consumer Complaint Review and Investigation - 4703	4,710,827	29.77
Examiner Training and Education - 4704	45,769,648	297.80
System Supervision Policy and Projects - 4705	32,413,012	173.60
Supervision & Regulation - 4000	**408,195,611**	**2,604.05**

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SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Special Cash Services - 5020	229,534	19,719	27,675	274	757,894
Cash Transportation - 5021	58,362	3,049	3,760	21	753,895
Coin Wrapping - 5024	86,693	10,802	17,527	175	2,993
Other Cash Services - 5027	84,479	5,868	6,388	78	1,006
Transfer of Account Balances - 5250	2,447,481	45,382	87,714	6,818	94,321
Online Transfer of Reserve Account Balances - 5252	1,771,697	30,332	61,695	6,295	52,041
Offline Transfer of Reserve Account Balances - 5253	675,784	15,050	26,019	523	42,280
Automated Clearing House Operations - 5260	4,410,939	72,979	159,858	79,265	48,993
Automated Clearing House Operations - 5262	4,410,939	72,979	159,858	79,265	48,993
Commercial Checks - 5360	249,414,284	12,795,839	46,587,027	8,774,777	30,116,054
Commercial Check Processing - 5362	125,433,062	7,678,199	27,616,470	4,590,341	19,256,497
Interdistrict Accounting - 5363	2,876,405	89,208	127,935	32,179	5,216
Adjustments - 5364	38,828,948	839,490	1,788,622	456,925	485,261
Return Item Adjustments - 5365	10,339,089	244,507	480,558	92,873	77,949
Return Items - 5366	25,926,584	1,587,141	3,375,523	616,244	4,611,946
Fine Sort - 5367	3,425,407	183,504	487,600	111,107	1,583,869
Check Relay - 5368	56,791	724	2,171	1,250	3,011,665
Payor Bank - Extract & Delivery of MICR - 5371	9,696,566	535,988	3,171,885	644,423	538,834
Payor Bank - Key Account Totals - 5372	2,797,148	169,566	853,070	402,197	11,646
Payor Bank - Special Sorting for Payor Cust - 5373	6,346,694	374,705	1,330,155	312,965	125,488
Payor Bank - Imaging - 5374	9,014,415	426,584	3,555,684	776,778	180,802
Payor Bank - Truncation - 5375	10,623,827	489,115	2,705,160	522,409	166,885
Payor Bank - All Other Payor Bank Svcs - 5376	4,049,348	177,108	1,092,194	215,086	59,996
Book-Entry Securities - 5520	2,583,258	43,093	85,991	6,246	80,938
Book-Entry Safekeeping and Transfer - 5521	2,093,899	32,515	67,378	5,937	49,959
Purchase and Sale - 5522	56,866	767	950		1,108
Offline Book-Entry Security Transfer - 5523	432,493	9,811	17,663	309	29,871
Non-Cash Collection - 5810	591,611	29,612	40,241	30,839	110,240
Non-Cash Collection - 5814	591,611	29,612	40,241	30,839	110,240
Fee-Based Services To Fin. Institutions - 5000	259,677,107	13,006,624	46,988,506	8,898,219	31,208,440

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Special Cash Services - 5020	2,113	903	575	2,692	-28
Cash Transportation - 5021	999	253	205	393	-2
Coin Wrapping - 5024	726	351	370	1,584	-26
Other Cash Services - 5027	388	299		715	
Transfer of Account Balances - 5250	20,556	36,936	1,156	88,583	-3,434
Online Transfer of Reserve Account Balances - 5252	14,649	20,919	633	70,486	-1,981
Offline Transfer of Reserve Account Balances - 5253	5,907	16,017	523	18,097	-1,453
Automated Clearing House Operations - 5260	47,319	80,871	10,379	74,492	-2,497
Automated Clearing House Operations - 5262	47,319	80,871	10,379	74,492	-2,497
Commercial Checks - 5360	2,861,797	810,764	131,816	7,741,079	-2,929,803
Commercial Check Processing - 5362	1,458,565	363,612	79,691	2,568,067	-1,181,512
Interdistrict Accounting - 5363	37,675	11,087	590	61,565	-29,410
Adjustments - 5364	342,559	156,725	13,245	3,203,164	-239,429
Return Item Adjustments - 5365	93,815	39,983	2,920	175,914	-42,377
Return Items - 5366	307,737	81,262	12,892	588,138	-701,158
Fine Sort - 5367	47,851	8,797	1,397	51,382	-23,217
Check Relay - 5368	518	253	7	2,514	-2,114
Payor Bank - Extract & Delivery of MICR - 5371	131,140	32,442	5,636	187,728	-99,064
Payor Bank - Key Account Totals - 5372	41,898	10,851	1,967	169,314	-138,910
Payor Bank - Special Sorting for Payor Cust - 5373	53,522	18,728	1,654	97,923	-59,598
Payor Bank - Imaging - 5374	125,014	36,299	5,206	255,828	-162,982
Payor Bank - Truncation - 5375	158,583	40,819	5,095	331,314	-234,740
Payor Bank - All Other Payor Bank Svcs - 5376	62,920	9,906	1,456	52,228	-15,292
Book-Entry Securities - 5520	19,363	34,782	1,056	86,019	-2,971
Book-Entry Safekeeping and Transfer - 5521	15,778	23,841	713	71,372	-1,887
Purchase and Sale - 5522	153	349		2,521	
Offline Book-Entry Security Transfer - 5523	3,432	10,592	343	12,126	-1,084
Non-Cash Collection - 5810	9,222	1,723	1,757	6,257	-9,970
Non-Cash Collection - 5814	9,222	1,723	1,757	6,257	-9,970
Fee-Based Services To Fin. Institutions - 5000	2,960,370	965,979	146,739	7,999,122	-2,948,703

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES 61000	INFO TECH SERVICES 7115X	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X
Special Cash Services - 5020		45,167	154,643	12,036	20,603
Cash Transportation - 5021		18,869	35,195	4,350	5,354
Coin Wrapping - 5024		10,401	80,801		6,026
Other Cash Services - 5027		15,897	38,647	7,686	9,223
Transfer of Account Balances - 5250		2,347,242	474,732	1,430,576	175,120
Online Transfer of Reserve Account Balances - 5252		2,139,066	347,992	1,430,576	126,387
Offline Transfer of Reserve Account Balances - 5253		208,176	126,740		48,733
Automated Clearing House Operations - 5260		2,758,360	1,056,986	4,316,293	294,346
Automated Clearing House Operations - 5262		2,758,360	1,056,986	4,316,293	294,346
Commercial Checks - 5360		54,892,006	54,815,634	10,964,128	20,021,678
Commercial Check Processing - 5362		27,114,100	27,880,440	7,460,388	10,024,320
Interdistrict Accounting - 5363		753,742	608,350	177,469	228,360
Adjustments - 5364		8,941,629	8,474,663	349,929	3,281,109
Return Item Adjustments - 5365		2,236,996	2,192,484	140,128	891,916
Return Items - 5366		4,083,563	5,277,974	2,105,196	1,981,620
Fine Sort - 5367		607,479	865,399	111,807	264,460
Check Relay - 5368		8,660	75,714	19,049	2,778
Payor Bank - Extract & Delivery of MICR - 5371		3,801,247	2,133,093	269,562	672,302
Payor Bank - Key Account Totals - 5372		642,679	563,677	33,396	204,998
Payor Bank - Special Sorting for Payor Cust - 5373		789,034	1,217,386	14,106	531,685
Payor Bank - Imaging - 5374		3,143,779	1,982,160	85,706	734,854
Payor Bank - Truncation - 5375		1,921,930	2,639,400	166,143	875,760
Payor Bank - All Other Payor Bank Svcs - 5376		847,168	904,894	31,249	327,516
Book-Entry Securities - 5520		1,733,762	501,625	69,754	175,848
Book-Entry Safekeeping and Transfer - 5521		1,545,779	406,110	69,436	138,098
Purchase and Sale - 5522		21,412	6,744	318	5,345
Offline Book-Entry Security Transfer - 5523		166,571	88,771		32,405
Non-Cash Collection - 5810		84,957	192,298	9,408	43,397
Non-Cash Collection - 5814		84,957	192,298	9,408	43,397
Fee-Based Services To Fin. Institutions - 5000		61,861,494	57,195,918	16,802,195	20,730,992

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	INTERNAL SUPPORT SERVICES				LOCAL PROJECTS
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	7190X
Special Cash Services - 5020	42,551		5,813	16,313	2,293
Cash Transportation - 5021	7,764		200	7,264	
Coin Wrapping - 5024	624		3,560	9,049	
Other Cash Services - 5027	34,163		2,053		2,293
Transfer of Account Balances - 5250	6,930,944		53,004	350,192	227,663
Online Transfer of Reserve Account Balances - 5252	6,930,944		45,984	248,516	227,663
Offline Transfer of Reserve Account Balances - 5253			7,020	101,676	
Automated Clearing House Operations - 5260	10,539,547		5,727	141,599	305,648
Automated Clearing House Operations - 5262	10,539,547		5,727	141,599	305,648
Commercial Checks - 5360	26,156,601	291,355	960,260	6,365,606	34,062,232
Commercial Check Processing - 5362	8,250,057	118,130	330,466	3,123,272	17,030,439
Interdistrict Accounting - 5363	39,830	250	41,916	59,478	71,677
Adjustments - 5364	4,622,565	65,422	272,111	1,445,510	3,461,371
Return Item Adjustments - 5365	1,649,553	15,030	76,292	280,560	877,876
Return Items - 5366	2,446,635	16,617	74,935	697,470	2,074,557
Fine Sort - 5367	563,732	619	8,405	85,307	498,518
Check Relay - 5368	57,269		9,231	1,409	60
Payor Bank - Extract & Delivery of MICR - 5371	2,482,788	10,851	42,913	137,812	2,581,165
Payor Bank - Key Account Totals - 5372	554,405	723	8,389	49,806	643,334
Payor Bank - Special Sorting for Payor Cust - 5373	170,051	4,630	17,716	72,678	679,388
Payor Bank - Imaging - 5374	2,497,820	43,572	30,749	185,543	3,877,586
Payor Bank - Truncation - 5375	2,262,223	14,621	28,709	160,510	1,171,123
Payor Bank - All Other Payor Bank Svcs - 5376	559,673	890	18,428	66,251	1,095,138
Book-Entry Securities - 5520	3,487,860		28,407	280,845	194,286
Book-Entry Safekeeping and Transfer - 5521	3,487,860		24,287	189,581	194,143
Purchase and Sale - 5522				5,960	143
Offline Book-Entry Security Transfer - 5523			4,120	85,304	
Non-Cash Collection - 5810	8,772		2,248	31,720	
Non-Cash Collection - 5814	8,772		2,248	31,720	
Fee-Based Services To Fin. Institutions - 5000	47,166,275	291,355	1,055,459	7,185,275	34,792,122

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	FRIT SVCS 7316X, 7216X, 7218X	RETAIL SVCS 722XX	WHOLESALE SVCS 723XX	CASH/FISCAL SVCS 724XX	FSO 7251X, 7252X
Special Cash Services - 5020	40,207				
Cash Transportation - 5021	4				
Coin Wrapping - 5024	135				
Other Cash Services - 5027					
Transfer of Account Balances - 5250	12,692,051	1,671	15,029,476		1,195,939
Online Transfer of Reserve Account Balances - 5252	2,982,981				
Offline Transfer of Reserve Account Balances - 5253					
Automated Clearing House Operations - 5260	9,066,571	23,447,204			2,033,128
Automated Clearing House Operations - 5262	1,914,015				
Commercial Checks - 5360	30,936,019	116,480,502	244,126		10,107,048
Commercial Check Processing - 5362	6,285,043				
Interdistrict Accounting - 5363	93,982				
Adjustments - 5364	704,727				
Return Item Adjustments - 5365	257,973				
Return Items - 5366	869,151				
Fine Sort - 5367	195,538				
Check Relay - 5368	37				
Payor Bank - Extract & Delivery of MICR - 5371	1,272,179				
Payor Bank - Key Account Totals - 5372	142,263				
Payor Bank - Special Sorting for Payor Cust - 5373	132,867				
Payor Bank - Imaging - 5374	504,137				
Payor Bank - Truncation - 5375	384,362				
Payor Bank - All Other Payor Bank Svcs - 5376	166,391				
Book-Entry Securities - 5520	7,569,413	477	6,937,553		369,461
Book-Entry Safekeeping and Transfer - 5521	1,505,936				
Purchase and Sale - 5522					
Offline Book-Entry Security Transfer - 5523					
Non-Cash Collection - 5810	120,030	1,432	48,320		
Non-Cash Collection - 5814	698				
Fee-Based Services To Fin. Institutions - 5000	60,424,291	139,931,286	22,259,475		13,705,576

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	NATIONALLY PROVIDED SUPPORT SERVICES				
	E-BUSINESS 7256X	FSPC 72601	CREC 7261X, 7262X	SCRRM SVCS 7265X, 7266X	SUP & REG SVCS 7270X
Special Cash Services - 5020					
Cash Transportation - 5021					
Coin Wrapping - 5024					
Other Cash Services - 5027					
Transfer of Account Balances - 5250	174,393	201,716	4,988,217	2,526,924	
Online Transfer of Reserve Account Balances - 5252					
Offline Transfer of Reserve Account Balances - 5253					
Automated Clearing House Operations - 5260	128,500	151,288	6,153,214	40,757	
Automated Clearing House Operations - 5262					
Commercial Checks - 5360	293,713	365,612	7,652,276		
Commercial Check Processing - 5362					
Interdistrict Accounting - 5363					
Adjustments - 5364					
Return Item Adjustments - 5365					
Return Items - 5366					
Fine Sort - 5367					
Check Relay - 5368					
Payor Bank - Extract & Delivery of MICR - 5371					
Payor Bank - Key Account Totals - 5372					
Payor Bank - Special Sorting for Payor Cust - 5373					
Payor Bank - Imaging - 5374					
Payor Bank - Truncation - 5375					
Payor Bank - All Other Payor Bank Svcs - 5376					
Book-Entry Securities - 5520	82,607	100,860	2,685,210	1,508,004	
Book-Entry Safekeeping and Transfer - 5521					
Purchase and Sale - 5522					
Offline Book-Entry Security Transfer - 5523					
Non-Cash Collection - 5810					
Non-Cash Collection - 5814					
Fee-Based Services To Fin. Institutions - 5000	679,213	819,476	21,478,917	4,075,685	

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SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	NPSS OTHER SVCS 7281X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS 01022, 01023	TOTAL CORPORATE OVERHEAD 01300
Special Cash Services - 5020		1,041,351	299,419	40,207	41,504
Cash Transportation - 5021		820,935	78,996	4	
Coin Wrapping - 5024		121,195	110,461	135	
Other Cash Services - 5027		99,221	109,962	0	
Transfer of Account Balances - 5250	107,045	2,825,513	11,989,473	36,917,432	2,002,101
Online Transfer of Reserve Account Balances - 5252		2,026,766	11,497,128	2,982,981	
Offline Transfer of Reserve Account Balances - 5253		798,747	492,345	0	
Automated Clearing House Operations - 5260	117,848	4,982,598	19,418,506	41,138,510	1,608,472
Automated Clearing House Operations - 5262		4,982,598	19,418,506	1,914,015	
Commercial Checks - 5360	2,568,989	356,303,634	208,529,500	168,648,285	33,462,425
Commercial Check Processing - 5362		187,862,992	101,331,612	6,285,043	
Interdistrict Accounting - 5363		3,212,450	1,981,072	93,982	
Adjustments - 5364		45,875,510	30,914,309	704,727	
Return Item Adjustments - 5365		11,505,231	8,360,835	257,973	
Return Items - 5366		36,406,309	18,758,567	869,151	
Fine Sort - 5367		5,877,697	3,005,726	195,538	
Check Relay - 5368		3,073,779	174,170	37	
Payor Bank - Extract & Delivery of MICR - 5371		14,845,638	12,131,733	1,272,179	
Payor Bank - Key Account Totals - 5372		4,314,747	2,701,407	142,263	
Payor Bank - Special Sorting for Payor Cust - 5373		8,602,236	3,496,674	132,867	
Payor Bank - Imaging - 5374		14,213,628	12,581,769	504,137	
Payor Bank - Truncation - 5375		14,808,467	9,240,419	384,362	
Payor Bank - All Other Payor Bank Svcs - 5376		5,704,950	3,851,207	166,391	
Book-Entry Securities - 5520	66,908	2,937,775	6,472,387	19,320,493	1,258,234
Book-Entry Safekeeping and Transfer - 5521		2,359,505	6,055,294	1,505,936	
Purchase and Sale - 5522		62,714	39,922	0	
Offline Book-Entry Security Transfer - 5523		515,556	377,171	0	
Non-Cash Collection - 5810		811,532	372,800	169,782	139,825
Non-Cash Collection - 5814		811,532	372,800	698	
Fee-Based Services To Fin. Institutions - 5000	2,860,790	368,902,403	247,082,085	266,234,709	38,512,561

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	TOTAL SPECIAL PROJECT 8923X	CENTRAL SVCS PROVIDERS OSB 73211	TOTAL COST	REIMBURSABLE 92000	NET EXPENSE
Special Cash Services - 5020		2,579	1,425,060		1,425,060
Cash Transportation - 5021		675	900,610		900,610
Coin Wrapping - 5024		874	232,665		232,665
Other Cash Services - 5027		1,030	210,213		210,213
Transfer of Account Balances - 5250		24,664	53,759,183	377,244	53,381,939
Online Transfer of Reserve Account Balances - 5252		16,734	16,523,609		16,523,609
Offline Transfer of Reserve Account Balances - 5253		7,930	1,299,022		1,299,022
Automated Clearing House Operations - 5260		46,967	67,195,053	6,407,400	60,787,653
Automated Clearing House Operations - 5262		46,967	26,362,086		26,362,086
Commercial Checks - 5360	13,766,579	2,711,144	783,421,567	2,133,940	781,287,627
Commercial Check Processing - 5362		1,349,378	296,829,025		296,829,025
Interdistrict Accounting - 5363		28,720	5,316,224		5,316,224
Adjustments - 5364		435,602	77,930,148		77,930,148
Return Item Adjustments - 5365		114,738	20,238,777		20,238,777
Return Items - 5366		277,039	56,311,066		56,311,066
Fine Sort - 5367		36,884	9,115,845		9,115,845
Check Relay - 5368		687	3,248,673		3,248,673
Payor Bank - Extract & Delivery of MICR - 5371		103,432	28,352,982		28,352,982
Payor Bank - Key Account Totals - 5372		33,051	7,191,468		7,191,468
Payor Bank - Special Sorting for Payor Cust - 5373		73,280	12,305,057		12,305,057
Payor Bank - Imaging - 5374		104,001	27,403,535		27,403,535
Payor Bank - Truncation - 5375		113,173	24,546,421		24,546,421
Payor Bank - All Other Payor Bank Svcs - 5376		41,159	9,763,707		9,763,707
Book-Entry Securities - 5520		26,908	30,015,797	8,830,058	21,185,739
Book-Entry Safekeeping and Transfer - 5521		21,081	9,941,816		9,941,816
Purchase and Sale - 5522		702	103,338		103,338
Offline Book-Entry Security Transfer - 5523		5,125	897,852		897,852
Non-Cash Collection - 5810		6,639	1,500,578		1,500,578
Non-Cash Collection - 5814		6,639	1,191,669		1,191,669
Fee-Based Services To Fin. Institutions - 5000	13,766,579	2,818,901	937,317,238	17,748,642	919,568,596

SERVICE LINE: FEE-BASED SERVICES TO FIN. INSTITUTIONS SERVICE LINE - 5000

ACTIVITY	ACTIVITY PRODUCTION COST 01015	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Special Cash Services - 5020	**1,341,195**	**4.55**
Cash Transportation - 5021	900,610	1.13
Coin Wrapping - 5024	232,665	1.80
Other Cash Services - 5027	207,920	1.62
Transfer of Account Balances - 5250	**17,594,968**	**37.91**
Online Transfer of Reserve Account Balances - 5252	16,295,946	24.43
Offline Transfer of Reserve Account Balances - 5253	1,299,022	13.48
Automated Clearing House Operations - 5260	**26,056,438**	**77.22**
Automated Clearing House Operations - 5262	26,056,438	77.22
Commercial Checks - 5360	**544,490,696**	**4,967.40**
Commercial Check Processing - 5362	279,798,586	2,520.13
Interdistrict Accounting - 5363	5,244,547	52.68
Adjustments - 5364	74,468,777	774.33
Return Item Adjustments - 5365	19,360,901	201.95
Return Items - 5366	54,236,509	508.63
Fine Sort - 5367	8,617,327	65.61
Check Relay - 5368	3,248,613	0.92
Payor Bank - Extract & Delivery of MICR - 5371	25,771,817	195.58
Payor Bank - Key Account Totals - 5372	6,548,134	53.39
Payor Bank - Special Sorting for Payor Cust - 5373	11,625,669	129.92
Payor Bank - Imaging - 5374	23,525,949	178.09
Payor Bank - Truncation - 5375	23,375,298	213.07
Payor Bank - All Other Payor Bank Svcs - 5376	8,668,569	73.10
Book-Entry Securities - 5520	**10,748,720**	**40.46**
Book-Entry Safekeeping and Transfer - 5521	9,747,673	30.76
Purchase and Sale - 5522	103,195	0.87
Offline Book-Entry Security Transfer - 5523	897,852	8.83
Non-Cash Collection - 5810	**1,191,669**	**11.94**
Non-Cash Collection - 5814	1,191,669	11.94
Fee-Based Services To Fin. Institutions - 5000	**601,423,686**	**5,139.48**

SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Reserve Bank Information Technology Service - 6150	209,002,093	2,252,334	39,999,664	16,536,687	193,333
Local FRAS Support - 6151	2,391,511	54,102	496,326	150,660	3,389
Information Technology Operations - 6152	40,123,579	791,538	21,178,509	9,469,117	52,191
Local Data Communications - 6153	5,056,448	70,060	1,870,732	263,863	15,189
Output Operations - 6154	1,713,540	83,193	988,524	110,838	4,287
End User Support - 6155	44,160,053	473,434	4,820,951	3,430,613	36,928
Application Development and Support - 6156	91,138,516	280,505	2,735,932	2,299,941	12,138
Information Technology Administrative Support - 6157	14,896,461	336,440	1,269,556	537,677	4,617
Telecommunications - 6158	9,521,985	163,082	6,639,134	273,978	64,534
General Administrative Services - 6400	199,317,514	16,453,371	15,277,042	1,021,313	1,478,511
Printing and Graphics - 6401	9,059,241	1,366,596	2,757,420	66,798	241,524
Purchase and Supply - 6402	15,812,880	317,528	663,419	238,587	155,660
Facilities Management - 6405	77,477,594	8,075,295	5,571,579	376,668	975,300
Protection - 6406	83,615,118	2,720,798	5,058,768	92,888	18,957
Records Management - 6407	3,703,382	134,107	328,160	143,696	48,216
Food Services - 6409	9,649,299	3,839,047	897,696	102,676	38,854
Accounting Services - 6620	5,970,410	100,730	163,896	28,724	28,983
Depository Institution Accounting - 6621	3,637,242	60,995	99,425	15,699	16,245
Depository Institution Billing - 6622	2,333,168	39,735	64,471	13,025	12,738
Personnel Services - 6630	50,722,931	1,121,621	1,777,252	1,508,725	204,339
Recruitment and Placement - 6632	8,170,507	145,931	257,307	297,167	29,856
Compensation - 6634	19,407,780	373,193	659,446	720,500	72,259
Medical Services - 6635	2,438,909	106,774	100,542	48,000	10,108
Training and Education - 6636	5,691,745	187,310	173,523	106,939	11,656
Admin and Employee Relations - 6638	15,013,990	308,413	586,434	336,119	80,460
Business Development Services - 6640	40,977,528	470,256	1,252,249	294,942	310,134
Customer Support - 6641	24,685,038	248,464	743,440	208,072	160,338
Marketing - 6642	16,292,490	221,792	508,809	86,870	149,796
Management Consulting - 6700	2,087,326	11,959	30,764	7,887	258
Management Consulting - 6704	2,087,326	11,959	30,764	7,887	258
Legal - 6750	19,706,258	760,857	402,200	80,073	16,280
Legal - 6751	19,706,258	760,857	402,200	80,073	16,280
Audit - 6800	30,715,600	147,179	664,661	65,382	8,999
Audit - 6801	30,715,600	147,179	664,661	65,382	8,999
Local Projects - 6900	22,531,711	662,249	1,870,191	725,829	56,775
District Projects - 6904	22,423,929	661,290	1,836,138	693,845	56,431
VRSA Projects - 6905	107,782	959	34,053	32,984	344
Internal Support - 6000	581,031,371	21,980,556	61,437,919	20,270,562	2,297,612

SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Reserve Bank Information Technology Service - 6150	**3,119,230**	**4,523,626**	**192,523**	**7,567,286**	**-5,027,966**
Local FRAS Support - 6151	20,034	30,950	1,092	82,558	-3,579
Information Technology Operations - 6152	705,853	1,180,689	72,605	1,374,505	-1,953,564
Local Data Communications - 6153	65,578	255,572	2,494	177,200	-92,725
Output Operations - 6154	16,985	28,163	2,461	71,864	-44,978
End User Support - 6155	729,479	584,226	39,084	2,218,285	-1,580,860
Application Development and Support - 6156	1,140,459	286,426	14,733	2,686,548	-437,634
Information Technology Administrative Support - 6157	290,789	88,718	33,538	678,315	-92,674
Telecommunications - 6158	150,053	2,068,882	26,516	278,011	-821,952
General Administrative Services - 6400	**1,544,261**	**1,070,519**	**193,544,154**	**20,867,080**	**-44,380,407**
Printing and Graphics - 6401	94,049	22,786	10,000	1,841,434	-545,508
Purchase and Supply - 6402	331,930	102,053	28,376	1,006,920	-543,357
Facilities Management - 6405	384,711	609,991	192,681,166	4,267,882	-35,529,105
Protection - 6406	666,289	263,556	748,815	1,733,874	-274,734
Records Management - 6407	29,600	30,115	10,205	178,083	-218,606
Food Services - 6409	37,682	42,018	65,492	11,838,887	-7,269,097
Accounting Services - 6620	**112,171**	**27,093**	**4,663**	**120,906**	**-2,141,170**
Depository Institution Accounting - 6621	63,389	16,866	2,743	74,867	-2,134,862
Depository Institution Billing - 6622	48,782	10,227	1,920	46,039	-6,308
Personnel Services - 6630	**1,184,733**	**164,047**	**66,654**	**9,586,000**	**-2,425,660**
Recruitment and Placement - 6632	196,115	23,900	12,714	1,367,091	-172,865
Compensation - 6634	430,892	59,930	16,472	2,529,016	-877,279
Medical Services - 6635	37,825	9,914	3,300	771,384	-320,734
Training and Education - 6636	178,916	14,576	8,268	1,262,936	-133,025
Admin and Employee Relations - 6638	340,985	55,727	25,900	3,655,573	-921,757
Business Development Services - 6640	**1,235,381**	**471,760**	**18,448**	**1,343,464**	**-388,682**
Customer Support - 6641	439,003	306,245	9,721	560,219	-331,115
Marketing - 6642	796,378	165,515	8,727	783,245	-57,567
Management Consulting - 6700	**30,287**	**9,484**	**76**	**178,266**	**-3**
Management Consulting - 6704	30,287	9,484	76	178,266	-3
Legal - 6750	**514,406**	**90,219**	**15,905**	**2,386,267**	**-213,541**
Legal - 6751	514,406	90,219	15,905	2,386,267	-213,541
Audit - 6800	**1,540,773**	**68,188**	**57,478**	**751,262**	**-2,384,407**
Audit - 6801	1,540,773	68,188	57,478	751,262	-2,384,407
Local Projects - 6900	**1,687,295**	**150,442**	**450,451**	**1,205,725**	**-290,591**
District Projects - 6904	1,686,620	148,829	450,451	977,535	-72,864
VRSA Projects - 6905	675	1,613		228,190	-217,727
Internal Support - 6000	**10,968,537**	**6,575,378**	**194,350,352**	**44,006,256**	**-57,252,427**

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SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	DIRECT		INTERNAL SUPPORT SERVICES		
	CONTRA EXPENSES 61000	INTRA-DISTRICT 62000	INFO TECH SERVICES 7115X	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X
Reserve Bank Information Technology Service - 6150	-14,935	18	52,435,202	46,272,500	9,856
Local FRAS Support - 6151		3	1,510,279	664,139	
Information Technology Operations - 6152	0	11	13,391,028	14,744,403	2,608
Local Data Communications - 6153		3	1,623,525	1,487,754	1,380
Output Operations - 6154		-4	657,550	556,325	
End User Support - 6155		3	11,180,048	10,080,208	
Application Development and Support - 6156	-14,935	-3	17,244,310	12,094,229	
Information Technology Administrative Support - 6157		2	4,919,203	3,169,570	
Telecommunications - 6158		3	1,909,259	3,565,872	5,868
General Administrative Services - 6400	-2,042,726	10	25,820,348	72,981,397	2,641
Printing and Graphics - 6401	-360,291	8	1,793,017	4,816,086	
Purchase and Supply - 6402	-1,549	0	4,503,149	6,330,613	1,304
Facilities Management - 6405	-1,680,720	2	9,082,399	23,963,957	1,304
Protection - 6406		0	7,701,175	14,803,990	33
Records Management - 6407	-166	0	1,247,297	4,518,638	
Food Services - 6409		0	1,493,311	18,548,113	
Accounting Services - 6620		-7	3,144,768	1,371,139	58,793
Depository Institution Accounting - 6621		-4	2,158,780	794,018	37,339
Depository Institution Billing - 6622		-3	985,988	577,121	21,454
Personnel Services - 6630		2	14,136,633	16,131,341	3,697
Recruitment and Placement - 6632		-1	1,948,143	2,206,771	1,304
Compensation - 6634		2	6,430,022	5,228,925	2,340
Medical Services - 6635		-2	580,112	1,350,021	
Training and Education - 6636		5	1,049,806	1,849,351	
Admin and Employee Relations - 6638		-2	4,128,550	5,496,273	53
Business Development Services - 6640		2	8,982,008	7,279,961	3,513
Customer Support - 6641		0	6,039,772	4,304,242	3,497
Marketing - 6642		2	2,942,236	2,975,719	16
Management Consulting - 6700		1	237,395	341,001	
Management Consulting - 6704		1	237,395	341,001	
Legal - 6750		-6	2,796,767	6,097,839	
Legal - 6751		-6	2,796,767	6,097,839	
Audit - 6800		3	4,235,750	5,133,603	
Audit - 6801		3	4,235,750	5,133,603	
Local Projects - 6900	-140,772	6	5,611,699	3,434,116	16
District Projects - 6904	-140,772	3	4,870,293	3,402,907	16
VRSA Projects - 6905		3	741,406	31,209	
Internal Support - 6000	-2,198,433	29	117,400,570	159,042,897	78,516

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SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	INTERNAL SUPPORT SERVICES				
	PERSONNEL SERVICES 7163X	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X
Reserve Bank Information Technology Service - 6150	**12,038,839**	**96,976**	**144,161**	**657,528**	**6,477,847**
Local FRAS Support - 6151	167,871		233	2,383	74,799
Information Technology Operations - 6152	2,388,491	96,976	92,403	94,984	2,301,433
Local Data Communications - 6153	288,158			14,656	476,006
Output Operations - 6154	115,161		1,869	2,760	33,139
End User Support - 6155	2,761,542		30,872	201,205	1,714,636
Application Development and Support - 6156	4,855,377		103	143,791	1,062,428
Information Technology Administrative Support - 6157	873,460		3,206	136,811	424,768
Telecommunications - 6158	588,779		15,475	60,938	390,638
General Administrative Services - 6400	**15,943,828**		**221,862**	**3,820,250**	**2,980,789**
Printing and Graphics - 6401	752,842		8,814	74,059	111,250
Purchase and Supply - 6402	1,133,001			1,445,391	1,013,296
Facilities Management - 6405	6,004,055		47,665	1,354,062	722,843
Protection - 6406	6,692,268		162,681	779,775	976,379
Records Management - 6407	355,732		2,702	86,342	100,065
Food Services - 6409	1,005,930			80,621	56,956
Accounting Services - 6620	**440,266**	**4,851,506**	**433**	**40,498**	**597,617**
Depository Institution Accounting - 6621	278,623	2,919,466	257	28,296	408,713
Depository Institution Billing - 6622	161,643	1,932,040	176	12,202	188,904
Personnel Services - 6630	**2,771,542**	**924**	**94,497**	**5,185,860**	**2,295,897**
Recruitment and Placement - 6632	493,320		14,813	905,030	315,849
Compensation - 6634	961,838		36,228	1,250,132	1,425,756
Medical Services - 6635	142,446		5	183,430	69,146
Training and Education - 6636	420,216		37,564	264,377	92,825
Admin and Employee Relations - 6638	753,722	924	5,887	2,582,891	392,321
Business Development Services - 6640	**2,607,680**	**747,675**	**14,326**	**227,954**	**812,908**
Customer Support - 6641	1,707,320	719,295	11,479	94,280	511,652
Marketing - 6642	900,360	28,380	2,847	133,674	301,256
Management Consulting - 6700	**132,492**		**11,247**	**568**	**2,517**
Management Consulting - 6704	132,492		11,247	568	2,517
Legal - 6750	**1,019,687**		**544**	**99,132**	**203,442**
Legal - 6751	1,019,687		544	99,132	203,442
Audit - 6800	**1,677,947**			**99,541**	
Audit - 6801	1,677,947			99,541	
Local Projects - 6900	**1,356,429**	**228,756**	**3,792**	**378,778**	**1,676,816**
District Projects - 6904	1,350,393	228,756	3,792	376,151	1,676,816
VRSA Projects - 6905	6,036			2,627	
Internal Support - 6000	**37,988,710**	**5,925,837**	**490,862**	**10,510,109**	**15,047,833**

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SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	INTERNAL SUPP SERVICES LOCAL PROJECTS 7190X	NPSS FRIT SERVICES 7316X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT COSTS 01020	TOTAL NPSS COSTS 01022
Reserve Bank Information Technology Service - 6150	**726,077**	**4,507,400**	**278,343,893**	**118,858,986**	**4,507,400**
Local FRAS Support - 6151	3,006	1,159,801	3,227,046	2,422,710	1,159,801
Information Technology Operations - 6152	62,960	51,684	72,995,033	33,175,286	51,684
Local Data Communications - 6153	389,507	526,895	7,684,394	4,280,986	526,895
Output Operations - 6154	7,197	9,487	2,974,873	1,374,001	9,487
End User Support - 6155	66,785	39,722	54,912,196	26,035,296	39,722
Application Development and Support - 6156	55,991	2,701,010	100,142,686	38,366,229	2,701,010
Information Technology Administrative Support - 6157	95,212	6,232	18,043,439	9,622,230	6,232
Telecommunications - 6158	45,419	12,569	18,364,226	6,582,248	12,569
General Administrative Services - 6400	**306,290**	**44,519**	**404,150,642**	**122,077,405**	**44,519**
Printing and Graphics - 6401	11,912	6,853	14,554,057	7,567,980	6,853
Purchase and Supply - 6402	54,025	19,789	18,112,447	14,480,779	19,789
Facilities Management - 6405	2,531	6,879	253,210,363	41,178,816	6,879
Protection - 6406	145,398	7,984	94,644,429	31,261,699	7,984
Records Management - 6407	13,881	1,515	4,386,792	6,324,657	1,515
Food Services - 6409	78,543	1,499	19,242,554	21,263,474	1,499
Accounting Services - 6620	**209,456**	**1,792,853**	**4,416,399**	**10,714,476**	**1,792,853**
Depository Institution Accounting - 6621	109,564	1,077,505	1,852,605	6,735,056	1,077,505
Depository Institution Billing - 6622	99,892	715,348	2,563,794	3,979,420	715,348
Personnel Services - 6630	**294,906**	**139,806**	**63,910,644**	**40,915,297**	**139,806**
Recruitment and Placement - 6632	108,950	2,434	10,327,722	5,994,180	2,434
Compensation - 6634	88,050	80,583	23,392,211	15,423,291	80,583
Medical Services - 6635	6,066	355	3,206,020	2,331,226	355
Training and Education - 6636	13,250	1,047	7,502,849	3,727,389	1,047
Admin and Employee Relations - 6638	78,590	55,387	19,481,842	13,439,211	55,387
Business Development Services - 6640	**757,461**	**262,227**	**45,985,482**	**21,433,486**	**262,227**
Customer Support - 6641	637,772	240,144	27,029,425	14,029,309	240,144
Marketing - 6642	119,689	22,083	18,956,057	7,404,177	22,083
Management Consulting - 6700	**1,353**	**54**	**2,356,305**	**726,573**	**54**
Management Consulting - 6704	1,353	54	2,356,305	726,573	54
Legal - 6750	**9,278**	**2,955**	**23,758,918**	**10,226,689**	**2,955**
Legal - 6751	9,278	2,955	23,758,918	10,226,689	2,955
Audit - 6800	**41,078**	**65,100**	**31,635,118**	**11,187,919**	**65,100**
Audit - 6801	41,078	65,100	31,635,118	11,187,919	65,100
Local Projects - 6900	**36,688**	**65,012**	**28,910,311**	**12,727,090**	**65,012**
District Projects - 6904	36,077	52,408	28,721,435	11,945,201	52,408
VRSA Projects - 6905	611	12,604	188,876	781,889	12,604
Internal Support - 6000	**2,382,587**	**6,879,926**	**883,467,712**	**348,867,921**	**6,879,926**

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SERVICE LINE: INTERNAL SUPPORT SERVICE LINE - 6000

ACTIVITY	CENTRAL SVCS PROVIDERS ORB 73211	TOTAL COST	COSTS TRANSFERRED 90522	RESIDUAL COSTS	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Reserve Bank Information Technology Service - 6150	**2,128,337**	**403,838,616**	**405,888,504**	**-2,049,888**	**2,227.68**
Local FRAS Support - 6151	21,771	6,831,328	7,548,873	-717,545	29.28
Information Technology Operations - 6152	410,281	106,632,284	109,458,210	-2,825,926	452.16
Local Data Communications - 6153	52,384	12,544,659	13,473,237	-928,578	55.64
Output Operations - 6154	18,055	4,376,416	4,722,990	-346,574	24.78
End User Support - 6155	463,159	81,450,373	83,080,603	-1,630,230	517.37
Application Development and Support - 6156	917,365	139,127,290	131,761,144	7,366,146	876.48
Information Technology Administrative Support - 6157	145,660	27,817,561	30,120,669	-2,303,108	151.19
Telecommunications - 6158	99,662	25,058,705	25,722,778	-664,073	120.78
General Administrative Services - 6400	**2,083,557**	**528,356,123**	**533,888,491**	**-5,532,368**	**3,366.46**
Printing and Graphics - 6401	96,500	22,225,390	15,822,805	6,402,585	142.97
Purchase and Supply - 6402	169,480	32,782,495	32,645,187	137,308	232.22
Facilities Management - 6405	804,271	295,200,329	307,792,152	-12,591,823	1,194.09
Protection - 6406	862,470	126,776,582	126,776,574	8	1,553.52
Records Management - 6407	42,570	10,755,534	10,618,038	137,496	60.50
Food Services - 6409	108,266	40,615,793	40,233,735	382,058	183.16
Accounting Services - 6620	**61,435**	**16,985,163**	**17,967,117**	**-981,954**	**86.33**
Depository Institution Accounting - 6621	36,850	9,702,016	10,336,898	-634,882	53.04
Depository Institution Billing - 6622	24,585	7,283,147	7,630,219	-347,072	33.29
Personnel Services - 6630	**506,879**	**105,472,626**	**106,464,096**	**-991,470**	**593.76**
Recruitment and Placement - 6632	79,054	16,403,390	17,820,167	-1,416,777	98.08
Compensation - 6634	190,483	39,086,568	41,522,227	-2,435,659	230.14
Medical Services - 6635	25,441	5,563,042	5,873,571	-310,529	26.62
Training and Education - 6636	58,065	11,289,350	6,850,837	4,438,513	65.82
Admin and Employee Relations - 6638	153,836	33,130,276	34,397,294	-1,267,018	173.10
Business Development Services - 6640	**427,018**	**68,108,213**	**71,615,714**	**-3,507,501**	**514.20**
Customer Support - 6641	252,817	41,551,695	43,474,925	-1,923,230	325.81
Marketing - 6642	174,201	26,556,518	28,140,789	-1,584,271	188.39
Management Consulting - 6700	**21,855**	**3,104,787**	**2,652,810**	**451,977**	**23.19**
Management Consulting - 6704	21,855	3,104,787	2,652,810	451,977	23.19
Legal - 6750	**192,925**	**34,181,487**	**34,740,662**	**-559,175**	**153.34**
Legal - 6751	192,925	34,181,487	34,740,662	-559,175	153.34
Audit - 6800	**320,622**	**43,208,759**	**43,655,771**	**-447,012**	**329.18**
Audit - 6801	320,622	43,208,759	43,655,771	-447,012	329.18
Local Projects - 6900	**246,751**	**41,949,164**	**41,949,154**	**10**	**316.05**
District Projects - 6904	245,977	40,965,021	40,965,012	9	314.15
VRSA Projects - 6905	774	984,143	984,142	1	1.90
Internal Support - 6000	**5,989,379**	**1,245,204,938**	**1,258,822,319**	**-13,617,381**	**7,610.19**

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	DIRECT				
	PERSONNEL 05000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Federal Reserve Technology Operations - 7160	**67,662,852**	**599,902**	**55,219,097**	**31,452,712**	**141,674**
Mainframe Data Processing - 7161	24,778,421	265,249	11,506,376	22,396,331	54,916
National Data Communications - 7162	12,086,618	82,616	34,676,450	1,773,614	42,122
Distributed Processing - 7163	13,907,086	137,521	8,375,858	6,942,960	34,147
Information Technology Planning & Standards (ITPS) - 7164	3,254,042	29,411	79,490	13,651	417
Infrastructure - 7165	13,636,685	85,105	580,923	326,156	10,072
FRIT Projects - 7180	**9,896,400**	**54,360**	**2,474,763**	**1,208,209**	**24,403**
Bulkdata Transmission Utility - 7181	1,117,385	4,299	20,832	4,844	196
Internet & Directory Services - 7182	1,730,303	11,810	1,242,723	120,194	6,981
Cryptographic Development & Support - 7183	422,404	1,669	7,696	6,385	14
Groupware Leadership Center - 7184	1,826,179	11,455	713,376	418,151	10,970
Incident Response Team (IRT) - 7185	935,060	1,307	129,632	202,203	4,333
Desktop Standardization - 7186	3,026,934	19,393	291,032	143,588	1,087
Remote Access - 7187					
FRIT Support - 7189	838,135	4,427	69,472	312,844	822
Retail Payments - 7200	**4,384,503**	**21,333**	**74,052**	**85,141**	**1,160**
Retail Payment Office (RPO) - 7201	4,384,503	21,333	74,052	85,141	1,160
Retail - Check Related Projects - 7220	**31,167,697**	**500,233**	**3,526,869**	**8,803,608**	**42,232,523**
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	2,660,060	47,679	48,896	1,260	42,202,752
Government Image Archive - 7222	817,315	74,638	1,288,945	1,610,243	630
Enterprise-Wide Adjustments - 7223	1,476,093	5,316	726,738	2,259,860	1,024
Check Electronic Access & Delivery - 7224	1,036,204	5,941	188,695	1,365,837	661
Check Standardization Project - 7225	20,307,747	111,327	777,051	1,279,345	8,249
Image Services System (ISS) - 7226	4,180,202	254,621	141,383	2,157,967	6,576
Check Services Information System - 7227	49,182	182	592	7,747	94
Check User Research Environment (CURE) - 7228	49,182	182	5,630	7,747	94
General Information Systems (GIS) - 7229	49,182	182	592	7,747	94
Check Centralized Distributed Computing - 7231	542,530	1,065	248,347	105,855	12,349
Retail - ACH Related Projects - 7240	**5,313,116**	**20,239**	**113,373**	**143,180**	**2,312**
FEDACH - 7241	5,313,116	20,239	113,373	143,180	2,312
Wholesale Payments - 7300	**2,468,739**	**20,759**	**47,518**	**14,244**	**1,446**
Wholesale Payments Product Office - 7301	2,468,739	20,759	47,518	14,244	1,446
Wholesale Payments - Funds Related Projects - 7320	**2,459,089**	**15,358**	**60,882**	**324,532**	**513**
Funds Transfer System - 7321	2,329,978	14,367	57,081	195,459	502
Access Control Support System (ACSS) - 7322	129,111	991	3,801	129,073	11
Wholesale Payments - Securities Related Projects - 7340	**1,699,046**	**10,844**	**43,018**	**387,125**	**252**
National Book-Entry System (NBES) - 7341	1,699,046	10,844	43,018	387,125	252
Cash Services - 7410	**1,305,291**	**15,615**	**28,635**	**675**	**14,058**
Cash Services Office - 7411	1,305,291	15,615	28,635	675	14,058
Cash Related Projects - 7420	**2,439,744**	**23,298**	**510,818**	**351,117**	**913,802**
Currency Technology Office - 7421	2,018,409	18,976	506,876	7,806	18,797
Standard Cash Automation System (SCA) - 7422	273,706	436	857	294,062	52
Open Access - 7423					
Internet Technologies - Cash - 7424					
Standard Materials Handling Interface - 7425				49,032	
Strategic Inventory Locations (SILS) - 7426	17,771	2,190	1,030	118	602,689
Long Term Cash Initiatives - 7427	129,858	1,696	2,055	99	2,004
International Strategic Inventory - 7429					290,260
Treasury Relations and Support - 7430	**976,837**	**6,939**	**16,724**		**252**
Treasury Relations and Support Office - 7431	976,837	6,939	16,724		252

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	DIRECT				
	TRAVEL	COMMUNICATIONS	BUILDING	OTHER	RECOVERIES
	34000	41000	48000	53000	60000
Federal Reserve Technology Operations - 7160	**2,625,951**	**498,354**	**12,041,539**	**21,285,024**	**-2,274,701**
Mainframe Data Processing - 7161	438,803	184,356	5,869,191	6,789,424	-51,522
National Data Communications - 7162	323,731	72,565	2,136,710	1,839,777	-292,942
Distributed Processing - 7163	621,978	112,617	2,053,648	4,440,091	-4,857
Information Technology Planning & Standards (ITPS) - 7164	546,612	27,511	347,487	1,595,480	-230,725
Infrastructure - 7165	694,827	101,305	1,634,503	6,620,252	-1,694,655
FRIT Projects - 7180	**458,559**	**90,074**	**76,942**	**1,729,810**	**-3,789**
Bulkdata Transmission Utility - 7181	22,943	5,615	62,058	75,694	-3,728
Internet & Directory Services - 7182	61,997	4,926	309	703,264	-1
Cryptographic Development & Support - 7183	25,043	1,281		26,544	-11
Groupware Leadership Center - 7184	65,422	20,637	14,571	117,219	-49
Incident Response Team (IRT) - 7185	57,755	24,671		348,624	
Desktop Standardization - 7186	204,095	23,596		453,272	
Remote Access - 7187					
FRIT Support - 7189	21,304	9,348	4	5,193	
Retail Payments - 7200	**439,953**	**51,389**	**256**	**4,066,329**	**-283**
Retail Payment Office (RPO) - 7201	439,953	51,389	256	4,066,329	-283
Retail - Check Related Projects - 7220	**4,582,902**	**560,265**	**27,431**	**9,091,191**	**-18,130**
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	58,642	54,909	391	101,504	-35
Government Image Archive - 7222	74,385	35,306		416,986	
Enterprise-Wide Adjustments - 7223	197,509	14,699	424	78,375	
Check Electronic Access & Delivery - 7224	49,404	30,148	50	160,264	-6,561
Check Standardization Project - 7225	3,589,990	324,291	16,279	6,919,300	-9,322
Image Services System (ISS) - 7226	471,592	92,695	10,287	1,373,195	-2,212
Check Services Information System - 7227	35,414	1,089		11,758	
Check User Research Environment (CURE) - 7228	35,414	1,089		11,758	
General Information Systems (GIS) - 7229	35,414	1,089		11,758	
Check Centralized Distributed Computing - 7231	35,138	4,950		6,293	
Retail - ACH Related Projects - 7240	**107,320**	**11,744**	**1,504**	**99,600**	**-159**
FEDACH - 7241	107,320	11,744	1,504	99,600	-159
Wholesale Payments - 7300	**141,595**	**20,028**	**2,765**	**478,729**	
Wholesale Payments Product Office - 7301	141,595	20,028	2,765	478,729	
Wholesale Payments - Funds Related Projects - 7320	**12,806**	**13,376**	**1,703**	**28,591**	**-27,551**
Funds Transfer System - 7321	12,357	12,478	1,585	28,444	-27,549
Access Control Support System (ACSS) - 7322	449	898	118	147	-2
Wholesale Payments - Securities Related Projects - 7340	**7,096**	**9,828**	**1,359**	**20,876**	**-10,911**
National Book-Entry System (NBES) - 7341	7,096	9,828	1,359	20,876	-10,911
Cash Services - 7410	**190,824**	**7,148**	**354**	**319,331**	
Cash Services Office - 7411	190,824	7,148	354	319,331	
Cash Related Projects - 7420	**246,185**	**7,753**	**2,312**	**148,195**	**-1,357**
Currency Technology Office - 7421	194,467	3,548	1,492	119,706	-1,351
Standard Cash Automation System (SCA) - 7422	34,390	3,223	760	3,349	
Open Access - 7423					
Internet Technologies - Cash - 7424					
Standard Materials Handling Interface - 7425					
Strategic Inventory Locations (SILS) - 7426	527	37	19	537	-6
Long Term Cash Initiatives - 7427	16,801	945	41	24,603	
International Strategic Inventory - 7429					
Treasury Relations and Support - 7430	**107,302**	**5,450**	**3,236**	**46,046**	
Treasury Relations and Support Office - 7431	107,302	5,450	3,236	46,046	

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	DIRECT				INTERNAL SUPP SERVICES
	CONTRA EXPENSES 61000	INTRA-DISTRICT 62000	CENTRALIZED SERVICES SOLD 63000	CENTRALIZED SERVICES BOUGHT 64000	INFO TECHNOLOGY SERVICES 7115X
Federal Reserve Technology Operations - 7160	**-379,454**	**-2**	**-188,872,958**	**198,087,481**	
Mainframe Data Processing - 7161	-1	-1	-64,330,349	64,330,349	
National Data Communications - 7162	0	-1	-56,251,586	56,251,588	
Distributed Processing - 7163	0	0	-20,244,506	29,459,026	
Information Technology Planning & Standards (ITPS) - 7164	0		-5,738,209	5,738,205	
Infrastructure - 7165	-379,453		-42,308,308	42,308,313	
FRIT Projects - 7180	**0**		**-951,174**	**951,174**	**772,821**
Bulkdata Transmission Utility - 7181	0		-744,062	744,062	72,536
Internet & Directory Services - 7182					149,851
Cryptographic Development & Support - 7183					209,889
Groupware Leadership Center - 7184	0		-207,112	207,112	123,239
Incident Response Team (IRT) - 7185					161,378
Desktop Standardization - 7186					43,449
Remote Access - 7187					
FRIT Support - 7189					12,479
Retail Payments - 7200					**649,301**
Retail Payment Office (RPO) - 7201					649,301
Retail - Check Related Projects - 7220	**-3,364,076**		**-36,256**	**36,256**	**9,315,038**
Check Relay/Cash Letter Monitoring System (CLMS) - 7221					438,795
Government Image Archive - 7222					532,637
Enterprise-Wide Adjustments - 7223	-260,041				1,904,161
Check Electronic Access & Delivery - 7224	-176,961				906,512
Check Standardization Project - 7225	-1,861,070		-36,256	36,256	3,087,206
Image Services System (ISS) - 7226	-754,016				1,417,171
Check Services Information System - 7227					161,272
Check User Research Environment (CURE) - 7228	-311,988				799,211
General Information Systems (GIS) - 7229					67,465
Check Centralized Distributed Computing - 7231					608
Retail - ACH Related Projects - 7240	**-365,422**				**749,320**
FEDACH - 7241	-365,422				749,320
Wholesale Payments - 7300					**361,366**
Wholesale Payments Product Office - 7301					361,366
Wholesale Payments - Funds Related Projects - 7320	**-524,463**				**4,595,158**
Funds Transfer System - 7321	-524,463				4,461,184
Access Control Support System (ACSS) - 7322					133,974
Wholesale Payments - Securities Related Projects - 7340	**-167,896**				**4,732,601**
National Book-Entry System (NBES) - 7341	-167,896				4,732,601
Cash Services - 7410					**103,426**
Cash Services Office - 7411					103,426
Cash Related Projects - 7420	**-885,231**				**3,079,459**
Currency Technology Office - 7421					240,270
Standard Cash Automation System (SCA) - 7422	-664,790				1,871,424
Open Access - 7423	-138,889				553,082
Internet Technologies - Cash - 7424					277,460
Standard Materials Handling Interface - 7425	-81,552				135,957
Strategic Inventory Locations (SILS) - 7426					5
Long Term Cash Initiatives - 7427					1,261
International Strategic Inventory - 7429					
Treasury Relations and Support - 7430					**62,203**
Treasury Relations and Support Office - 7431					62,203

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	INTERNAL SUPPORT SERVICES				
	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X
Federal Reserve Technology Operations - 7160					
Mainframe Data Processing - 7161					
National Data Communications - 7162					
Distributed Processing - 7163					
Information Technology Planning & Standards (ITPS) - 7164					
Infrastructure - 7165					
FRIT Projects - 7180	1,113,529		240,749		
Bulkdata Transmission Utility - 7181	46,357		21,153		
Internet & Directory Services - 7182	226,202		48,511		
Cryptographic Development & Support - 7183	107,227		16,604		
Groupware Leadership Center - 7184	181,447		63,244		
Incident Response Team (IRT) - 7185	136,570		45,088		
Desktop Standardization - 7186	326,602		6,885		
Remote Access - 7187					
FRIT Support - 7189	89,124		39,264		
Retail Payments - 7200	466,629		149,468		
Retail Payment Office (RPO) - 7201	466,629		149,468		
Retail - Check Related Projects - 7220	4,426,523		1,325,289		
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	427,923		158,286		
Government Image Archive - 7222	299,105		18,217		
Enterprise-Wide Adjustments - 7223	519,890		77,355		
Check Electronic Access & Delivery - 7224	316,142		35,955		
Check Standardization Project - 7225	2,213,409		871,212		
Image Services System (ISS) - 7226	637,801		146,704		
Check Services Information System - 7227	8,616		5,740		
Check User Research Environment (CURE) - 7228	1,693		5,740		
General Information Systems (GIS) - 7229	1,693		5,740		
Check Centralized Distributed Computing - 7231	251		340		
Retail - ACH Related Projects - 7240	459,062		184,830	14,768	
FEDACH - 7241	459,062		184,830	14,768	
Wholesale Payments - 7300	745,002		132,097		
Wholesale Payments Product Office - 7301	745,002		132,097		
Wholesale Payments - Funds Related Projects - 7320	594,329		183,662		
Funds Transfer System - 7321	543,070		172,579		
Access Control Support System (ACSS) - 7322	51,259		11,083		
Wholesale Payments - Securities Related Projects - 7340	460,217		130,270		
National Book-Entry System (NBES) - 7341	460,217		130,270		
Cash Services - 7410	136,352		38,325		
Cash Services Office - 7411	136,352		38,325		
Cash Related Projects - 7420	515,738	24	114,675		
Currency Technology Office - 7421	372,343	24	79,094		
Standard Cash Automation System (SCA) - 7422	91,795		23,678		
Open Access - 7423					
Internet Technologies - Cash - 7424	120				
Standard Materials Handling Interface - 7425	3,240				
Strategic Inventory Locations (SILS) - 7426	2,902		49		
Long Term Cash Initiatives - 7427	45,338		11,854		
International Strategic Inventory - 7429					
Treasury Relations and Support - 7430	156,542		63,723		
Treasury Relations and Support Office - 7431	156,542		63,723		

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	INTERNAL SUPPORT SERVICES			NPSS	TOTAL DIRECT COSTS
	LEGAL SERVICES	AUDIT SERVICES	LOCAL PROJECTS	FRIT SERVICES	
	7175X	7180X	7190X	7316X	01010
Federal Reserve Technology Operations - 7160				33,190,570	198,087,471
Mainframe Data Processing - 7161				4,987,883	72,231,543
National Data Communications - 7162				7,127,184	52,741,262
Distributed Processing - 7163				308,080	45,835,569
Information Technology Planning & Standards (ITPS) - 7164				74,836	5,663,372
Infrastructure - 7165				20,692,587	21,615,725
FRIT Projects - 7180	100,581	479,600	3,068	559,324	16,009,731
Bulkdata Transmission Utility - 7181		12,585		16,850	1,310,138
Internet & Directory Services - 7182		262,728		210,220	3,882,506
Cryptographic Development & Support - 7183		66,204	3,068	675	491,025
Groupware Leadership Center - 7184	13,560	91,128		163,163	3,197,931
Incident Response Team (IRT) - 7185	87,021	44,019			1,703,585
Desktop Standardization - 7186				151,148	4,162,997
Remote Access - 7187					
FRIT Support - 7189		2,936		23,268	1,261,549
Retail Payments - 7200	311,436	406,896	11,555		9,123,833
Retail Payment Office (RPO) - 7201	311,436	406,896	11,555		9,123,833
Retail - Check Related Projects - 7220	190,061	1,996,612	41,729	10,703,907	97,110,513
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	33,821	61,492	35,440	8,317	45,176,058
Government Image Archive - 7222		117,804			4,418,448
Enterprise-Wide Adjustments - 7223		292,942		504,199	4,499,997
Check Electronic Access & Delivery - 7224	16,476	63,177		2,318,913	2,652,782
Check Standardization Project - 7225	136,400	1,223,845	5,934	2,243,750	31,463,187
Image Services System (ISS) - 7226	3,364	237,352	355	5,449,879	7,932,290
Check Services Information System - 7227					106,058
Check User Research Environment (CURE) - 7228				178,849	-260,892
General Information Systems (GIS) - 7229					106,058
Check Centralized Distributed Computing - 7231					956,527
Retail - ACH Related Projects - 7240	44,964	103,641		10,213,321	5,446,807
FEDACH - 7241	44,964	103,641		10,213,321	5,446,807
Wholesale Payments - 7300	586,136	80,013		73,114	3,195,823
Wholesale Payments Product Office - 7301	586,136	80,013		73,114	3,195,823
Wholesale Payments - Funds Related Projects - 7320	7,066	95,944		4,881,265	2,364,836
Funds Transfer System - 7321	6,495	90,831		4,806,631	2,100,239
Access Control Support System (ACSS) - 7322	571	5,113		74,634	264,597
Wholesale Payments - Securities Related Projects - 7340	5,666	64,778		6,041,731	2,000,637
National Book-Entry System (NBES) - 7341	5,666	64,778		6,041,731	2,000,637
Cash Services - 7410	189,032	209,596			1,881,931
Cash Services Office - 7411	189,032	209,596			1,881,931
Cash Related Projects - 7420	72	417,595		299,694	3,756,636
Currency Technology Office - 7421		156,344		0	2,888,726
Standard Cash Automation System (SCA) - 7422	72	204,905			-53,955
Open Access - 7423		10,990			-138,889
Internet Technologies - Cash - 7424		33,356		299,606	
Standard Materials Handling Interface - 7425		12,000		88	-32,520
Strategic Inventory Locations (SILS) - 7426					624,912
Long Term Cash Initiatives - 7427					178,102
International Strategic Inventory - 7429					290,260
Treasury Relations and Support - 7430	142,580	8,324			1,162,786
Treasury Relations and Support Office - 7431	142,580	8,324			1,162,786

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS COSTS 01022	CENTRAL SVCS PROVIDERS OEB 73211	TOTAL COST	COSTS REDISTRIBUTED 90533
Federal Reserve Technology Operations - 7160		33,190,570		231,278,041	232,782,461
Mainframe Data Processing - 7161		4,987,883		77,219,426	87,020,809
National Data Communications - 7162		7,127,184		59,868,446	24,988,454
Distributed Processing - 7163		308,080		46,143,649	42,100,338
Information Technology Planning & Standards (ITPS) - 7164		74,836		5,738,208	1,157,807
Infrastructure - 7165		20,692,587		42,308,312	8,185,867
FRIT Projects - 7180	2,710,348	559,324	98,717	19,378,120	19,378,090
Bulkdata Transmission Utility - 7181	152,631	10,850	6,365	1,479,984	
Internet & Directory Services - 7182	687,292	210,220	23,510	4,803,528	4,803,505
Cryptographic Development & Support - 7183	402,992	675	4,563	899,255	
Groupware Leadership Center - 7184	472,618	163,163	17,353	3,851,065	3,851,062
Incident Response Team (IRT) - 7185	474,076	0	13,200	2,190,861	
Desktop Standardization - 7186	376,936	151,148	22,520	4,713,601	
Remote Access - 7187					
FRIT Support - 7189	143,803	23,268	11,206	1,439,826	
Retail Payments - 7200	1,995,285	0	44,727	11,163,845	11,163,847
Retail Payment Office (RPO) - 7201	1,995,285	0	44,727	11,163,845	
Retail - Check Related Projects - 7220	17,295,252	10,703,907	322,706	125,432,378	125,432,353
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	1,155,757	8,317	30,726	46,370,858	46,153,487
Government Image Archive - 7222	867,763	0	8,661	5,394,872	5,394,872
Enterprise-Wide Adjustments - 7223	2,794,348	504,199	15,747	7,814,291	130,745
Check Electronic Access & Delivery - 7224	1,338,262	2,318,913	9,647	6,319,604	
Check Standardization Project - 7225	7,538,006	2,243,750	203,319	41,448,262	12,200,006
Image Services System (ISS) - 7226	2,442,747	5,449,879	42,234	15,867,150	12,067,710
Check Services Information System - 7227	175,628	0	483	282,169	
Check User Research Environment (CURE) - 7228	806,644	178,849	483	785,084	
General Information Systems (GIS) - 7229	74,898	0	483	181,439	
Check Centralized Distributed Computing - 7231	1,199	0	10,923	968,649	
Retail - ACH Related Projects - 7240	1,556,585	10,213,321	66,883	17,283,596	17,283,596
FEDACH - 7241	1,556,585	10,213,321	66,883	17,283,596	17,283,596
Wholesale Payments - 7300	1,904,614	73,114	22,611	5,196,162	5,196,157
Wholesale Payments Product Office - 7301	1,904,614	73,114	22,611	5,196,162	364,132
Wholesale Payments - Funds Related Projects - 7320	5,476,159	4,881,265	26,511	12,748,771	12,748,759
Funds Transfer System - 7321	5,274,159	4,806,631	25,182	12,206,211	
Access Control Support System (ACSS) - 7322	202,000	74,634	1,329	542,560	
Wholesale Payments - Securities Related Projects - 7340	5,393,532	6,041,731	18,115	13,454,015	13,454,014
National Book-Entry System (NBES) - 7341	5,393,532	6,041,731	18,115	13,454,015	
Cash Services - 7410	676,731	0	12,065	2,570,727	2,570,727
Cash Services Office - 7411	676,731	0	12,065	2,570,727	
Cash Related Projects - 7420	4,127,563	299,694	30,128	8,214,021	8,214,053
Currency Technology Office - 7421	848,075	0	23,115	3,759,916	
Standard Cash Automation System (SCA) - 7422	2,191,874	0	3,394	2,141,313	
Open Access - 7423	564,072			425,183	
Internet Technologies - Cash - 7424	310,936	299,606		610,542	
Standard Materials Handling Interface - 7425	151,197	88		118,765	
Strategic Inventory Locations (SILS) - 7426	2,956	0	313	628,181	2,395
Long Term Cash Initiatives - 7427	58,453	0	3,306	239,861	
International Strategic Inventory - 7429				290,260	
Treasury Relations and Support - 7430	433,372	0	3,407	1,599,565	1,599,564
Treasury Relations and Support Office - 7431	433,372	0	3,407	1,599,565	

SERVICE LINK: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section I)

ACTIVITY	RESIDUAL COSTS	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Federal Reserve Technology Operations - 7160	**-1,504,420**	**715.00**
Mainframe Data Processing - 7161	-9,801,383	275.58
National Data Communications - 7162	34,879,992	129.11
Distributed Processing - 7163	4,043,311	134.60
Information Technology Planning & Standards (ITPS) - 7164	4,580,401	28.12
Infrastructure - 7165	34,122,445	147.59
FRIT Projects - 7180	**30**	**93.37**
Bulkdata Transmission Utility - 7181	1,479,984	10.70
Internet & Directory Services - 7182	23	15.04
Cryptographic Development & Support - 7183	899,255	3.64
Groupware Leadership Center - 7184	3	18.22
Incident Response Team (IRT) - 7185	2,190,861	8.14
Desktop Standardization - 7186	4,713,601	30.93
Remote Access - 7187		
FRIT Support - 7189	1,439,826	6.70
Retail Payments - 7200	**-2**	**37.34**
Retail Payment Office (RPO) - 7201	11,163,845	37.34
Retail - Check Related Projects - 7220	**25**	**351.67**
Check Relay/Cash Letter Monitoring System (CLMS) - 7221	217,371	44.39
Government Image Archive - 7222	0	8.21
Enterprise-Wide Adjustments - 7223	7,683,546	15.12
Check Electronic Access & Delivery - 7224	6,319,604	9.36
Check Standardization Project - 7225	29,248,256	224.56
Image Services System (ISS) - 7226	3,799,440	42.06
Check Services Information System - 7227	282,169	0.48
Check User Research Environment (CURE) - 7228	785,084	0.48
General Information Systems (GIS) - 7229	181,439	0.48
Check Centralized Distributed Computing - 7231	968,649	6.53
Retail - ACH Related Projects - 7240	**0**	**57.27**
FEDACH - 7241	0	57.27
Wholesale Payments - 7300	**5**	**16.76**
Wholesale Payments Product Office - 7301	4,832,030	16.76
Wholesale Payments - Funds Related Projects - 7320	**12**	**25.85**
Funds Transfer System - 7321	12,206,211	24.51
Access Control Support System (ACSS) - 7322	542,560	1.34
Wholesale Payments - Securities Related Projects - 7340	**1**	**17.23**
National Book-Entry System (NBES) - 7341	13,454,015	17.23
Cash Services - 7410	**0**	**9.06**
Cash Services Office - 7411	2,570,727	9.06
Cash Related Projects - 7420	**-32**	**29.94**
Currency Technology Office - 7421	3,759,916	22.32
Standard Cash Automation System (SCA) - 7422	2,141,313	4.26
Open Access - 7423	425,183	
Internet Technologies - Cash - 7424	610,542	
Standard Materials Handling Interface - 7425	118,765	
Strategic Inventory Locations (SILS) - 7426	625,786	0.71
Long Term Cash Initiatives - 7427	239,861	2.65
International Strategic Inventory - 7429	290,260	
Treasury Relations and Support - 7430	**1**	**10.08**
Treasury Relations and Support Office - 7431	1,599,565	10.08

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Treasury Related Projects - 7440	**7,638,331**	**50,691**	**2,176,052**	**1,975,402**	**8,068**
Reimbursable Claims Accounting - 7441	82,040	1,672	3,166	2,610	164
Savings Bond Software - 7443	100,673	1,859	3,426	89,127	3,076
Treasury Investment Program (TIP) - 7444	1,695,503	4,959	29,334	415,856	504
Treasury Web Application Infrastructure - 7445	2,823,776	30,519	2,000,407	1,033,925	1,681
Savings Bond Architecture Program (SnAP) - 7446	542,570	277	1,758	25,499	10
Treasury Direct - 7447	662,387	3,705	25,718	10,472	471
Paper Tax System (PATAX) - 7448	595,354	4,883	26,979	119,403	201
Centrally Provided Services for Automated Auction - 7449	1,136,028	3,617	85,264	278,510	1,961
Financial Support - 7510	**1,235,293**	**4,639**	**13,593**	**293**	**163**
Financial Support Office - 7511	1,235,293	4,639	13,593	293	163
Financial Support - Accounting Related Projects - 7520	**4,920,632**	**11,495**	**131,331**	**1,359,420**	**1,617**
Integrated Accounting System (IAS) - 7521	2,157,082	5,856	41,963	222	252
Treasury Account Management Information (TAMI) - 7523	116,086	-42	5,843	1,869	20
Billing - 7524	511,137	1,366	17,803	84,208	
Account Management Information Gateway (AMI) - 7525	948,311	1,906	-5,593	521,462	128
CASH-LINK - 7526	178,745	978	18,756	463	1,107
Centralization of Internal Accounting Applications - 7527	863,492	1,431	52,559	605,417	110
AMI Non-Accounting Information Integration - 7528	145,779			145,779	
E-Business Strategy - 7560	**712,737**	**2,457**	**4,562**	**1,738**	**12**
Office of E-Business Strategy - 7561	712,737	2,457	4,562	1,738	12
Financial Services Policy Committee - 7600	**906,614**	**4,688**	**13,912**	**814**	**3,980**
Financial Services Policy Committee (FSPC) - 7601	906,614	4,688	13,912	814	3,980
Customer Relations Support - 7610	**2,862,465**	**36,424**	**97,280**	**16,495**	**28,413**
Customer Relations Support Office - 7611	2,862,465	36,424	97,280	16,495	28,413
Customer Relations Customer Support Projects - 7620	**6,302,575**	**57,528**	**2,664,110**	**7,624,460**	**8,584**
Propriety Network Product - 7621	804,769	7,947	1,579,594	7,290,306	5,799
Customer Support Tools - 7622	953,744	4,502	15,475	4,756	354
Internet Technologies - 7623	1,178,315	5,063	688,470	36,298	271
Voice Response - 7624	150,395	815	149,945	17,826	4
Global Customer Directory (GCD) - 7625	623,256	4,521	17,496	234,864	25
National Account Program - 7626	731,155	2,585	3,352	10,060	510
Fedline Transactional Services - 7627	761,872	6,699	15,773	5,334	41
Electronic Access Customer Support - 7628	1,099,069	25,396	194,005	25,016	1,580
SCRRM - 7650	**348,193**	**3,079**	**8,984**	**5,347**	**338**
SCRRM Administrative Office (SAO) - 7651	348,193	3,079	8,984	5,347	338
SCRRM Related Projects - 7660	**2,656,796**	**10,593**	**87,272**	**423,708**	**3,381**
Daylight Overdraft Report & Pricing System (DORPS) - 7661	284,225	1,459	8,344	331	2,889
Account Balance Monitoring System (ABMS) - 7662	694,971	4,954	19,265	2,158	43
Common Loans Automation System (CLAS) - 7663	895,604	850	21,495	309,500	186
Risk Management Information System (RMIS) - 7664	446,214	503	14,725	110,022	96
Collateral Management System - 7665	335,782	2,827	23,443	1,697	167
Supervision And Regulation - 7700	**7,657,721**	**64,423**	**217,637**	**666,053**	**12,023**
National Information Center - Central Ops. - 7701	6,394,801	60,817	178,181	497,700	11,664
National Information Center (RSSD & NED) - 7702	986,415	1,989	24,718	94,718	9
Home Mortgage Disclosure Act System (HMDA) - 7703	276,505	1,617	14,738	73,635	350
Other - 7810	**4,342,024**	**21,084**	**194,720**	**2,006,187**	**3,533**
Audit Services - 7812	416,635	6,993	8,143	32,789	1,160
PeopleSoft HRIS - 7814	959,024	3,294	25,736	781,044	23
Statistics and Reserves (STAR) - 7815	1,958,876	2,006	18,708	1,190,407	228
System Purchasing Service (SPS) - 7816	932,001	8,518	20,812	1,938	1,998
Video Conferencing - 7817	74,488	273	121,321	9	124
Special Projects - 7900	**5,059,171**	**15,331**	**3,096,644**	**8,793,212**	**839**
Check Standardization Special Project - 7905	5,059,171	15,331	3,096,644	8,793,212	839
Nationally Provided Support Services - 7000	**174,415,866**	**1,571,312**	**70,821,845**	**65,643,672**	**43,403,346**

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Treasury Related Projects - 7440	**287,866**	**72,831**	**286,011**	**3,784,256**	**-1,637**
Reimbursable Claims Accounting - 7441	1,498	299	76	1,347	-137
Savings Bond Software - 7443	2,915	1,461	47	8,375	-15
Treasury Investment Program (TIP) - 7444	19,946	4,827	1,741	26,339	-396
Treasury Web Application Infrastructure - 7445	181,093	22,045	282,346	3,608,331	-713
Savings Bond Architecture Program (SnAP) - 7446	42,688	827	0	13,655	-20
Treasury Direct - 7447	10,252	2,027	19	9,481	-266
Paper Tax System (PATAX) - 7448	6,110	2,220	1,736	3,158	-90
Centrally Provided Services for Automated Auction - 7449	23,364	39,125	46	113,570	
Financial Support - 7510	**87,635**	**5,791**	**631**	**31,692**	**0**
Financial Support Office - 7511	87,635	5,791	631	31,692	0
Financial Support - Accounting Related Projects - 7520	**180,149**	**23,469**	**1,681**	**272,274**	**-145,813**
Integrated Accounting System (IAS) - 7521	22,009	5,379	161	21,214	-1
Treasury Account Management Information (TAMI) - 7523	2,051	664	39	3,361	-5
Billing - 7524	10,637	1,123		22,816	
Account Management Information Gateway (AMI) - 7525	4,548	460	79	44,789	-1
CA$H-LINK - 7526	3,724	997	1,402	2,727	-27
Centralization of Internal Accounting Applications - 7527	137,180	14,846		177,367	
AMI Non-Accounting Information Integration - 7528					-145,779
E-Business Strategy - 7560	**107,386**	**7,599**	**3,556**	**190,033**	**-177**
Office of E-Business Strategy - 7561	107,386	7,599	3,556	190,033	-177
Financial Services Policy Committee - 7600	**41,096**	**3,599**	**1,750**	**42,503**	**-35**
Financial Services Policy Committee (FSPC) - 7601	41,096	3,599	1,750	42,503	-35
Customer Relations Support - 7610	**226,555**	**70,868**	**637**	**789,357**	**-2**
Customer Relations Support Office - 7611	226,555	70,868	637	789,357	-2
Customer Relations Customer Support Projects - 7620	**495,627**	**295,277**	**39,438**	**3,091,578**	**-87,631**
Propriety Network Product - 7621	66,985	28,286	126	680,008	-40,921
Customer Support Tools - 7622	29,954	2,787	38,262	59,102	-130
Internet Technologies - 7623	83,162	54,360	203	644,715	-610
Voice Response - 7624	4,947	121,822		12,836	-1,255
Global Customer Directory (GCD) - 7625	1,383	4,331	566	2,050	-51
National Account Program - 7626	196,843	38,214	121	321,819	
Fedline Transactional Services - 7627	73,171	36,491	160	1,264,187	
Electronic Access Customer Support - 7628	39,182	8,986		106,861	-44,664
SCRRM - 7650	**13,385**	**843**	**365**	**14,434**	**-11**
SCRRM Administrative Office (SAO) - 7651	13,385	843	365	14,434	-11
SCRRM Related Projects - 7660	**50,605**	**19,726**	**2,974**	**368,740**	**-5,407**
Daylight Overdraft Report & Pricing System (DORPS) - 7661	9,757	603	2,357	4,834	-124
Account Balance Monitoring System (ABMS) - 7662	2,124	4,633	607	5,475	-55
Common Loans Automation System (CLAS) - 7663	23,786	10,026		25,109	-5,071
Risk Management Information System (RMIS) - 7664	10,098	1,753	0	10,693	-24
Collateral Management System - 7665	4,840	2,711	10	322,629	-133
Supervision And Regulation - 7700	**201,731**	**23,355**	**1,459**	**308,352**	**-8,307**
National Information Center - Central Ops. - 7701	168,267	17,461	1,459	220,647	-455
National Information Center (RSSD & NED) - 7702	22,599	5,446		74,793	-7,754
Home Mortgage Disclosure Act System (HMDA) - 7703	10,865	448	0	12,912	-98
Other - 7810	**166,506**	**19,277**	**5,459**	**390,514**	**-5,525**
Audit Services - 7812	60,551	5,401	8	95,460	-2,785
PeopleSoft HRIS - 7814	27,971	2,613	64	86,054	
Statistics and Reserves (STAR) - 7815	26,174	4,899	16	38,751	
System Purchasing Service (SPS) - 7816	49,500	6,161	5,370	93,045	-2,532
Video Conferencing - 7817	2,310	203	1	77,204	-208
Special Projects - 7900	**37,702**	**19,051**	**151,492**	**231,615**	**-2,602,313**
Check Standardization Special Project - 7905	37,702	19,051	151,492	231,615	-2,602,313
Nationally Provided Support Services - 7000	**10,816,736**	**1,837,095**	**12,654,854**	**46,829,070**	**-5,193,739**

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	DIRECT				INTERNAL SUPP SERVICES
	CONTRA EXPENSES 61000	INTRA-DISTRICT 62000	CENTRALIZED SERVICES SOLD 63000	CENTRALIZED SERVICES BOUGHT 64000	INFO TECHNOLOGY SERVICES 7115X
Treasury Related Projects - 7440	-2,938,187		-9,214,521		11,072,363
Reimbursable Claims Accounting - 7441					31,173
Savings Bond Software - 7443					1,446,401
Treasury Investment Program (TIP) - 7444	-79,540				679,752
Treasury Web Application Infrastructure - 7445	-6,953		-9,214,521		1,366
Savings Bond Architecture Program (SnAP) - 7446	-1,042,781				1,764,362
Treasury Direct - 7447					2,740,728
Paper Tax System (PATAX) - 7448					150,855
Centrally Provided Services for Automated Auction - 7449	-1,808,913				4,257,726
Financial Support - 7510					211,724
Financial Support Office - 7511					211,724
Financial Support - Accounting Related Projects - 7520	-1,869,133				4,879,710
Integrated Accounting System (IAS) - 7521					909,144
Treasury Account Management Information (TAMI) - 7523	-506,337				1,012,442
Billing - 7524	-179,623				1,537,961
Account Management Information Gateway (AMI) - 7525	-570,693				214,418
CASH-LINK - 7526					271,491
Centralization of Internal Accounting Applications - 7527	-466,701				934,254
AMI Non-Accounting Information Integration - 7528	-145,779				
E-Business Strategy - 7560					53,155
Office of E-Business Strategy - 7561					53,155
Financial Services Policy Committee - 7600					103,714
Financial Services Policy Committee (FSPC) - 7601					103,714
Customer Relations Support - 7610					397,811
Customer Relations Support Office - 7611					397,811
Customer Relations Customer Support Projects - 7620	-968,008		-472,559	472,559	7,702,594
Propriety Network Product - 7621	-100,713				2,637,872
Customer Support Tools - 7622	0		-472,559	472,559	1,422,362
Internet Technologies - 7623					582,630
Voice Response - 7624					827,704
Global Customer Directory (GCD) - 7625	-849,379				2,112,426
National Account Program - 7626					54,763
Fedline Transactional Services - 7627	-17,916				37,341
Electronic Access Customer Support - 7628					27,496
SCRRM - 7650					43,483
SCRRM Administrative Office (SAO) - 7651					43,483
SCRRM Related Projects - 7660	-194,269				3,506,807
Daylight Overdraft Report & Pricing System (DORPS) - 7661					714,121
Account Balance Monitoring System (ABMS) - 7662					1,196,410
Common Loans Automation System (CLAS) - 7663	-24,510				408,042
Risk Management Information System (RMIS) - 7664	-169,759				812,456
Collateral Management System - 7665					375,878
Supervision And Regulation - 7700	-818,841				3,581,622
National Information Center - Central Ops. - 7701	-27,547				2,029,926
National Information Center (RSSD & NED) - 7702	-452,976				1,335,888
Home Mortgage Disclosure Act System (HMDA) - 7703	-338,318				215,808
Other - 7810	-1,776,622				8,910,572
Audit Services - 7812					71,162
PeopleSoft HRIS - 7814	-187,005				1,953,485
Statistics and Reserves (STAR) - 7815	-1,589,433				6,300,901
System Purchasing Service (SPS) - 7816	-184				585,024
Video Conferencing - 7817					
Special Projects - 7900	0				
Check Standardization Special Project - 7905	0				
Nationally Provided Support Services - 7000	-14,251,602	-2	-199,547,468	199,547,470	64,884,348

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	INTERNAL SUPPORT SERVICES				
	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X
Treasury Related Projects - 7440	**684,661**		**294,269**	**11,604**	
Reimbursable Claims Accounting - 7441	16,110		5,039		
Savings Bond Software - 7443	14,062		1,679	487	
Treasury Investment Program (TIP) - 7444	222,919		102,731		
Treasury Web Application Infrastructure - 7445	190		278		
Savings Bond Architecture Program (SBAP) - 7446	41,646		12,558		
Treasury Direct - 7447	99,424		55,339		
Paper Tax System (PATAX) - 7448	96,885		48,148		
Centrally Provided Services for Automated Auction - 7449	193,425		68,497	11,117	
Financial Support - 7510	**137,662**		**48,051**		
Financial Support Office - 7511	137,662		48,051		
Financial Support - Accounting Related Projects - 7520	**710,158**	**4**	**192,884**		
Integrated Accounting System (IAS) - 7521	242,857		101,408		
Treasury Account Management Information (TAMI) - 7523	21,643		2,703		
Billing - 7524	73,142		23,227		
Account Management Information Gateway (AMI) - 7525	131,080		38,543		
CA$H-LINK - 7526	31,885	4	11,490		
Centralization of Internal Accounting Applications - 7527	209,551		15,513		
AMI Non-Accounting Information Integration - 7528					
E-Business Strategy - 7560	**50,181**		**13,876**		
Office of E-Business Strategy - 7561	50,181		13,876		
Financial Services Policy Committee - 7600	**92,519**		**28,926**	**1,642**	
Financial Services Policy Committee (FSPC) - 7601	92,519		28,926	1,642	
Customer Relations Support - 7610	**737,592**		**158,711**		**64,302**
Customer Relations Support Office - 7611	737,592		158,711		64,302
Customer Relations Customer Support Projects - 7620	**1,502,101**		**252,595**		**60,527**
Propriety Network Product - 7621	774,809		67,397		
Customer Support Tools - 7622	31,403		30,353		
Internet Technologies - 7623	213,806		55,479		45,827
Voice Response - 7624	58,270		6,295		
Global Customer Directory (GCD) - 7625	199,145		53,433		
National Account Program - 7626	125,205		28,473		
Fedline Transactional Services - 7627	6,888		3,777		14,700
Electronic Access Customer Support - 7628	92,575		7,388		
SCRRM - 7650	**42,740**		**18,408**		
SCRRM Administrative Office (SAO) - 7651	42,740		18,408		
SCRRM Related Projects - 7660	**434,813**	**4**	**146,435**		
Daylight Overdraft Report & Pricing System (DORPS) - 7661	43,054	4	15,859		
Account Balance Monitoring System (ABMS) - 7662	188,931		58,262		
Common Loans Automation System (CLAS) - 7663	88,803		36,984		
Risk Management Information System (RMIS) - 7664	78,870		19,599		
Collateral Management System - 7665	35,155		15,731		
Supervision And Regulation - 7700	**1,887,420**		**563,015**		**133**
National Information Center - Central Ops. - 7701	1,677,855		497,741		133
National Information Center (RSSD & NED) - 7702	164,975		41,232		
Home Mortgage Disclosure Act System (HMDA) - 7703	44,590		24,042		
Other - 7810	**770,966**		**249,710**		**8,869**
Audit Services - 7812	66,834		27,756		2,325
PeopleSoft HRIS - 7814	196,012		44,140		
Statistics and Reserves (STAR) - 7815	273,928		131,597		
System Purchasing Service (SPS) - 7816	228,846		45,925		6,544
Video Conferencing - 7817	5,346		292		
Special Projects - 7300	**23**		**0**		
Check Standardization Special Project - 7905	23		0		
Nationally Provided Support Services - 7000	**16,124,759**	**32**	**4,529,968**	**28,014**	**133,831**

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	INTERNAL SUPPORT SERVICES			NPSS	TOTAL DIRECT COSTS
	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	LOCAL PROJECTS 7190X	FRIT SERVICES 7316X	01010
Treasury Related Projects - 7440	11,960	317,103	19	18,665,442	4,125,163
Reimbursable Claims Accounting - 7441	264	14,460			92,735
Savings Bond Software - 7443			19	288,937	210,944
Treasury Investment Program (TIP) - 7444	196	93,080		2,126,656	2,119,073
Treasury Web Application Infrastructure - 7445				9,214,523	761,936
Savings Bond Architecture Program (SnAP) - 7446		74,030			-415,517
Treasury Direct - 7447	3,324	18,396		1,918,980	724,266
Paper Tax System (PATAX) - 7448		93,036		1,130,993	759,154
Centrally Provided Services for Automated Auction - 7449	8,176	24,101		3,985,353	-127,428
Financial Support - 7510	196	21,320		201	1,379,730
Financial Support Office - 7511	196	21,320		201	1,379,730
Financial Support - Accounting Related Projects - 7520	2,280	215,207	3,789	7,830,644	4,887,122
Integrated Accounting System (IAS) - 7521		148,284		5,444,587	2,254,137
Treasury Account Management Information (TAMI) - 7523				22	-376,451
Billing - 7524		31,716	3,789	1,378,837	469,467
Account Management Information Gateway (AMI) - 7525	2,280	31,224		192,494	945,396
CASH-LINK - 7526		3,983		781,999	208,872
Centralization of Internal Accounting Applications - 7527				32,705	1,385,701
AMI Non-Accounting Information Integration - 7528					0
E-Business Strategy - 7560					1,029,903
Office of E-Business Strategy - 7561					1,029,903
Financial Services Policy Committee - 7600	4,148	232	301		1,018,921
Financial Services Policy Committee (FSPC) - 7601	4,148	232	301		1,018,921
Customer Relations Support - 7610	16,370	31,410	6,055	33,545	4,128,492
Customer Relations Support Office - 7611	16,370	31,410	6,055	33,545	4,128,492
Customer Relations Customer Support Projects - 7620	3,482	331,001	2,725	3,100,744	19,523,538
Propriety Network Product - 7621	493	120,621	1,291	106,858	10,322,186
Customer Support Tools - 7622	137	22,886	28	739	1,108,806
Internet Technologies - 7623		94,246	1,148	13,668	2,690,247
Voice Response - 7624		15,706		14,275	457,335
Global Customer Directory (GCD) - 7625	2,852	46,132		1,515,961	39,062
National Account Program - 7626		31,410	258		1,304,659
Fedline Transactional Services - 7627				1,436,653	2,145,812
Electronic Access Customer Support - 7628				12,590	1,455,431
SCRRM - 7650	5,772				394,957
SCRRM Administrative Office (SAO) - 7651	5,772				394,957
SCRRM Related Projects - 7660	7,544	158,001		3,069,578	3,424,119
Daylight Overdraft Report & Pricing System (DORPS) - 7661		20,465		1,196,912	314,675
Account Balance Monitoring System (ABMS) - 7662	2,984	28,228		1,859,843	734,175
Common Loans Automation System (CLAS) - 7663		62,925		789	1,256,975
Risk Management Information System (RMIS) - 7664		31,047		10,398	424,321
Collateral Management System - 7665	4,560	15,336		1,636	693,973
Supervision And Regulation - 7700	35,183	50,894	3,008	331,890	8,325,606
National Information Center - Central Ops. - 7701	33,167	12,855	3,008	24,537	7,522,995
National Information Center (RSSD & NED) - 7702		37,755		13,801	749,957
Home Mortgage Disclosure Act System (HMDA) - 7703	2,016	284		293,552	52,654
Other - 7810	148,248	289,970	1,557	3,744,982	5,367,157
Audit Services - 7812	188		1,262		624,355
PeopleSoft HRIS - 7814		108,852		1,353	1,698,818
Statistics and Reserves (STAR) - 7815	188	167,900		3,743,629	1,651,632
System Purchasing Service (SPS) - 7816	147,872	13,218	295		1,116,627
Video Conferencing - 7817					275,725
Special Projects - 7900					14,802,744
Check Standardization Special Project - 7905					14,802,744
Nationally Provided Support Services - 7000	1,812,777	5,278,137	73,806	102,739,952	408,548,456

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	TOTAL INTERNAL SUPPORT	TOTAL NPSS COSTS	CENTRAL SVCS PROVIDERS OEB	TOTAL COST	COSTS REDISTRIBUTED
	01020	01022	73211		90533
Treasury Related Projects - 7440	**12,391,979**	**18,665,442**	**36,997**	**35,219,581**	**35,219,573**
Reimbursable Claims Accounting - 7441	67,046	0	855	160,636	160,635
Savings Bond Software - 7443	1,462,648	288,937	1,797	1,964,326	270,900
Treasury Investment Program (TIP) - 7444	1,098,678	2,126,656	6,512	5,350,919	
Treasury Web Application Infrastructure - 7445	1,834	9,214,523	2,359	9,980,652	766,130
Savings Bond Architecture Program (SnAP) - 7446	1,892,596	0	5,092	1,482,171	619,518
Treasury Direct - 7447	2,917,211	1,918,980	7,155	5,567,612	5,567,607
Paper Tax System (PATAX) - 7448	388,924	1,130,993	2,574	2,281,645	
Centrally Provided Services for Automated Auction - 7449	4,563,042	3,985,353	10,653	8,431,620	
Financial Support - 7510	**418,953**	**201**	**15,154**	**1,814,038**	**1,814,040**
Financial Support Office - 7511	418,953	201	15,154	1,814,038	1,514,747
Financial Support - Accounting Related Projects - 7520	**6,004,032**	**7,830,644**	**54,358**	**18,776,156**	**18,776,143**
Integrated Accounting System (IAS) - 7521	1,401,693	5,444,587	26,498	9,126,915	9,126,915
Treasury Account Management Information (TAMI) - 7523	1,036,788	22	1,803	662,162	
Billing - 7524	1,669,835	1,378,837	5,494	3,523,633	
Account Management Information Gateway (AMI) - 7525	417,545	192,494	11,549	1,566,984	1,566,980
CASH-LINK - 7526	318,853	781,999	2,006	1,311,730	
Centralization of Internal Accounting Applications - 7527	1,159,318	32,705	7,008	2,584,732	25,347
AMI Non-Accounting Information Integration - 7528				0	0
E-Business Strategy - 7560	**117,212**	**0**	**8,017**	**1,155,132**	**1,155,128**
Office of E-Business Strategy - 7561	117,212	0	8,017	1,155,132	237,272
Financial Services Policy Committee - 7600	**231,482**	**0**	**10,343**	**1,260,746**	**1,260,744**
Financial Services Policy Committee (FSPC) - 7601	231,482	0	10,343	1,260,746	1,030,383
Customer Relations Support - 7610	**1,412,251**	**33,545**	**28,061**	**5,602,349**	**5,602,343**
Customer Relations Support Office - 7611	1,412,251	33,545	28,061	5,602,349	38,407
Customer Relations Customer Support Projects - 7620	**9,855,025**	**3,100,744**	**74,163**	**32,553,470**	**32,553,467**
Propriety Network Product - 7621	3,602,483	106,858	9,196	14,040,723	722,368
Customer Support Tools - 7622	1,507,169	739	4,882	2,621,596	
Internet Technologies - 7623	993,136	13,668	12,199	3,709,250	1,337,231
Voice Response - 7624	907,975	14,275	1,818	1,381,403	1,305,247
Global Customer Directory (GCD) - 7625	2,413,988	1,515,961	6,226	3,975,237	
National Account Program - 7626	240,109	0	7,828	1,552,596	
Fedline Transactional Services - 7627	62,706	1,436,653	7,931	3,653,102	24,590
Electronic Access Customer Support - 7628	127,459	12,590	24,083	1,619,563	694,712
SCRRM - 7650	**110,403**	**0**	**3,771**	**509,131**	**509,128**
SCRRM Administrative Office (SAO) - 7651	110,403	0	3,771	509,131	512,022
SCRRM Related Projects - 7660	**4,253,704**	**3,069,578**	**29,510**	**10,776,911**	**10,776,901**
Daylight Overdraft Report & Pricing System (DORPS) - 7661	793,503	1,196,912	3,175	2,308,265	
Account Balance Monitoring System (ABMS) - 7662	1,474,815	1,859,843	6,851	4,075,684	
Common Loans Automation System (CLAS) - 7663	596,754	789	10,309	1,864,827	
Risk Management Information System (RMIS) - 7664	941,972	10,398	5,396	1,382,087	1,382,087
Collateral Management System - 7665	446,660	1,636	3,779	1,146,048	1,146,045
Supervision And Regulation - 7700	**6,121,275**	**331,890**	**81,678**	**14,860,449**	**14,860,474**
National Information Center - Central Ops. - 7701	4,254,685	24,527	69,152	11,871,369	1,271,681
National Information Center (RSSD & NED) - 7702	1,579,850	13,801	12,513	2,355,121	
Home Mortgage Disclosure Act System (HMDA) - 7703	286,740	293,552	1,013	633,959	
Other - 7810	**10,379,892**	**3,744,982**	**48,788**	**19,540,819**	**19,540,807**
Audit Services - 7812	169,527	0	4,555	798,437	
PeopleSoft HRIS - 7814	2,302,489	1,353	10,942	4,013,602	
Statistics and Reserves (STAR) - 7815	6,874,514	3,743,629	23,037	12,292,812	
System Purchasing Service (SPS) - 7816	1,027,724	0	9,747	2,154,098	1,349,493
Video Conferencing - 7817	5,638	0	507	281,870	281,868
Special Projects - 7900	**23**			**14,802,767**	**14,802,770**
Check Standardization Special Project - 7905	23			14,802,767	8,296,965
Nationally Provided Support Services - 7000	**92,865,672**	**102,739,952**	**1,036,710**	**605,190,790**	**606,695,139**

SERVICE LINE: NATIONALLY PROVIDED SUPPORT SERVICES SERVICE LINE - 7000 (Section II)

ACTIVITY	RESIDUAL COSTS	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Treasury Related Projects - 7440	**8**	**81.53**
Reimbursable Claims Accounting - 7441	1	1.21
Savings Bond Software - 7443	1,693,426	1.75
Treasury Investment Program (TIP) - 7444	5,350,919	19.06
Treasury Web Application Infrastructure - 7445	9,214,522	27.56
Savings Bond Architecture Program (SnAP) - 7446	862,653	6.44
Treasury Direct - 7447	5	8.55
Paper Tax System (PATAX) - 7448	2,281,645	7.57
Centrally Provided Services for Automated Auction - 7449	8,431,620	9.39
Financial Support - 7510	**-2**	**11.48**
Financial Support Office - 7511	299,291	11.48
Financial Support - Accounting Related Projects - 7520	**13**	**56.16**
Integrated Accounting System (IAS) - 7521	0	25.40
Treasury Account Management Information (TAMI) - 7523	662,162	0.99
Billing - 7524	3,523,633	6.29
Account Management Information Gateway (AMI) - 7525	4	9.03
CASH-LINK - 7526	1,311,730	2.89
Centralization of Internal Accounting Applications - 7527	2,559,385	10.28
AMI Non-Accounting Information Integration - 7528	0	1.28
E-Business Strategy - 7560	**4**	**4.96**
Office of E-Business Strategy - 7561	917,860	4.96
Financial Services Policy Committee - 7600	**2**	**7.77**
Financial Services Policy Committee (FSPC) - 7601	230,363	7.77
Customer Relations Support - 7610	**6**	**28.54**
Customer Relations Support Office - 7611	5,563,942	28.54
Customer Relations Customer Support Projects - 7620	**3**	**66.42**
Propriety Network Product - 7621	13,318,355	7.72
Customer Support Tools - 7622	2,621,596	11.22
Internet Technologies - 7623	2,372,015	10.26
Voice Response - 7624	76,156	1.76
Global Customer Directory (GCD) - 7625	3,975,237	6.24
National Account Program - 7626	1,552,596	5.24
Fedline Transactional Services - 7627	3,628,512	6.15
Electronic Access Customer Support - 7628	924,851	17.83
SCRRM - 7650	**3**	**4.32**
SCRRM Administrative Office (SAO) - 7651	-2,891	4.32
SCRRM Related Projects - 7660	**10**	**29.09**
Daylight Overdraft Report & Pricing System (DORPS) - 7661	2,308,265	3.54
Account Balance Monitoring System (ABMS) - 7662	4,075,684	6.95
Common Loans Automation System (CLAS) - 7663	1,864,827	8.54
Risk Management Information System (RMIS) - 7664	0	5.41
Collateral Management System - 7665	3	3.85
Supervision And Regulation - 7700	**-25**	**93.22**
National Information Center - Central Ops. - 7701	10,599,688	79.91
National Information Center (RSSD & NED) - 7702	2,355,121	9.46
Home Mortgage Disclosure Act System (HMDA) - 7703	633,959	3.85
Other - 7810	**12**	**50.88**
Audit Services - 7812	798,437	5.69
PeopleSoft HRIS - 7814	4,013,602	13.20
Statistics and Reserves (STAR) - 7815	12,292,812	20.57
System Purchasing Service (SPS) - 7816	804,605	10.50
Video Conferencing - 7817	2	0.92
Special Projects - 7900	**-3**	**13.66**
Check Standardization Special Project - 7905	5,505,802	13.66
Nationally Provided Support Services - 7000	**-1,504,349**	**1,811.60**

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Corporate Overhead - 8310	**67,116,763**	**1,198,254**	**2,903,479**	**1,487,384**	**323,792**
Corporate Administration - 8311	37,170,063	854,657	2,030,013	409,224	271,599
Expense Accounting - 8312	17,435,030	200,222	516,398	865,751	32,783
General Ledger Accounting - 8313	4,995,248	74,704	140,073	31,985	11,676
Budget Preparation and Control - 8314	7,516,422	68,671	216,995	180,444	7,734
Corporate Overhead Services - 8000	**67,116,763**	**1,198,254**	**2,903,479**	**1,487,384**	**323,792**

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
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SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Corporate Overhead - 8310	2,559,561	556,364	94,724	6,513,898	-2,379,689
Corporate Administration - 8311	2,013,210	406,710	63,614	5,626,739	-337,391
Expense Accounting - 8312	333,338	92,969	17,508	516,367	-2,018,312
General Ledger Accounting - 8313	81,377	24,835	3,855	210,215	-15,982
Budget Preparation and Control - 8314	131,636	31,850	9,747	160,577	-11,004
Corporate Overhead Services - 8000	2,559,561	556,364	94,724	6,513,898	-2,379,689

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	DIRECT	INTERNAL SUPPORT SERVICES			
	CONTRA EXPENSES 61000	INFO TECHNOLOGY SERVICES 7115X	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X
Corporate Overhead - 8310	-8,151	18,798,407	20,649,614	49,848	4,125,380
Corporate Administration - 8311	-8,151	6,235,106	13,913,736	48,192	2,046,901
Expense Accounting - 8312	0	8,200,869	3,974,764	1,348	1,211,277
General Ledger Accounting - 8313	0	1,864,685	1,195,492	308	375,525
Budget Preparation and Control - 8314	0	2,497,747	1,565,622		491,677
Corporate Overhead Services - 8000	-8,151	18,798,407	20,649,614	49,848	4,125,380

SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	INTERNAL SUPPORT SERVICES				
	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	LOCAL PROJECTS 7190X
Corporate Overhead - 8310	754	1,555,876	2,499,080	2,829,746	1,839,795
Corporate Administration - 8311	267	1,533,017	2,406,864	467,826	918,245
Expense Accounting - 8312		3,002	42,917	1,316,177	841,704
General Ledger Accounting - 8313	487	242	32,068	600,145	5,763
Budget Preparation and Control - 8314		19,615	17,231	445,598	74,083
Corporate Overhead Services - 8000	754	1,555,876	2,499,080	2,829,746	1,839,795

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	NPSS FRTT SERVICES 7316X	TOTAL DIRECT COSTS 01010	TOTAL INTERNAL SUPPORT COSTS 01020	TOTAL NPSS COSTS 01022	CENTRAL SVCS PROVIDERS OEB 73211
Corporate Overhead - 8310	350,290	80,366,379	52,348,500	350,290	702,423
Corporate Administration - 8311	8,292	48,500,287	27,570,154	8,292	386,862
Expense Accounting - 8312	149,164	17,995,054	15,592,058	149,164	184,785
General Ledger Accounting - 8313	145,770	5,557,966	4,074,715	145,770	49,959
Budget Preparation and Control - 8314	47,064	8,313,072	5,111,573	47,064	80,817
Corporate Overhead Services - 8000	350,290	80,366,379	52,348,500	350,290	702,423

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CORPORATE OVERHEAD SERVICES SERVICE LINE - 8000

ACTIVITY	TOTAL COST	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Corporate Overhead - 8310	133,767,592	803.62
Corporate Administration - 8311	76,465,595	404.16
Expense Accounting - 8312	33,921,061	235.92
General Ledger Accounting - 8313	9,828,410	72.66
Budget Preparation and Control - 8314	13,552,526	90.88
Corporate Overhead Services - 8000	133,767,592	803.62

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	DIRECT				
	PERSONNEL 06000	MATERIALS & SUPPLIES 13000	EQUIPMENT 20000	SOFTWARE 21000	SHIPPING 27000
Office Of Employee Benefits - 9210	4,038,967	23,859	157,910	117,130	351,226
Office Of Employee Benefits - 9211	4,038,967	23,859	157,910	117,130	351,226
Centralized Service Providers - 9000	4,038,967	23,859	157,910	117,130	351,226

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	DIRECT				
	TRAVEL 34000	COMMUNICATIONS 41000	BUILDING 48000	OTHER 55000	RECOVERIES 60000
Office Of Employee Benefits - 9210	145,127	89,176	37,361	32,378,853	-2,835,756
Office Of Employee Benefits - 9211	145,127	89,176	37,361	32,378,853	-2,835,756
Centralized Service Providers - 9000	145,127	89,176	37,361	32,378,853	-2,835,756

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT

2002 ANNUAL REPORT

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	DIRECT				INTERNAL SUPP SERVICES
	CONTRA EXPENSES 61000	INTRA-DISTRICT 62000	CENTRALIZED SERVICES SOLD 63000	CENTRALIZED SERVICES BOUGHT 64000	INFO TECHNOLOGY SERVICES 7115X
Office Of Employee Benefits - 9210	-16,145,232	1	-18,706,131	18,685,535	
Office Of Employee Benefits - 9211	-16,145,232	1	-18,706,131	18,685,535	
Centralized Service Providers - 9000	-16,145,232	1	-18,706,131	18,685,535	

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	INTERNAL SUPPORT SERVICES				
	GEN ADMIN SERVICES 7140X	ACCOUNTING SERVICES 7162X	PERSONNEL SERVICES 7163X	BUS DEVELOP SERVICES 7164X	MGMT CONSL SERVICES 7170X
Office Of Employee Benefits - 9210					
Office Of Employee Benefits - 9211					
Centralized Service Providers - 9000					

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	INTERNAL SUPPORT SERVICES			NPSS	TOTAL DIRECT COSTS
	LEGAL SERVICES 7175X	AUDIT SERVICES 7180X	LOCAL PROJECTS 7190X	FRIT SERVICES 7316X	01010
Office Of Employee Benefits - 9210					18,338,026
Office Of Employee Benefits - 9211					18,338,026
Centralized Service Providers - 9000					18,338,026

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT
2002 ANNUAL REPORT

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	TOTAL INTERNAL SUPPORT 01020	TOTAL NPSS COSTS 01022	TOTAL COST	COSTS REDISTRIBUTED 90533	RESIDUAL COSTS
Office Of Employee Benefits - 9210			18,338,026	15,912,814	2,425,212
Office Of Employee Benefits - 9211			18,338,026	15,912,814	2,425,212
Centralized Service Providers - 9000			18,338,026	15,912,814	2,425,212

FEDERAL RESERVE BANK EXPENSES BY ACTIVITY SUMMARY REPORT

2002 ANNUAL REPORT

Page 81

SERVICE LINE: CENTRALIZED SERVICE PROVIDERS SERVICE LINE - 9000

ACTIVITY	PRODUCTIVITY STATISTICS AVERAGE NO OF PERSONNEL 95200
Office Of Employee Benefits - 9210	31
Office Of Employee Benefits - 9211	31
Centralized Service Providers - 9000	31

Vice Chairman Roger W. Ferguson, Jr., subsequently submitted the following in response to written questions received from Congressman Patrick Tiberi in connection with the April 8, 2003, hearing before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit:

1. The Committee understands that the Federal Reserve operates a check transportation network called the Check Relay Network (CRN) out of the Federal Reserve Bank of Atlanta. Are there individuals employed on a full-time basis to run the CRN?

The transportation of checks between Reserve Bank locations is managed by the Federal Reserve Banks' Retail Payments Office located at the Federal Reserve Bank of Atlanta. The Check Relay function is part of the management operations of the Retail Payments Office. Thirteen Check Relay staff in the Atlanta office manage private-sector vendor contracts for air and ground transport services through an open bidding process and provide associated analytical functions. Another thirty-one staff provide logistical support at five airport locations to receive, load, and transfer bundles of the approximately 18 million checks transported by air on the Check Relay network on a typical business day.

2. What other Federal Reserve banks offer check transportation services?

All Reserve Banks use private-sector ground and air transportation to receive and deliver the checks being collected and returned through the Reserve Banks. All Reserve Banks contract for local transportation services in addition to those arranged by Check Relay. Reserve Banks use transportation services as an input to the check collection services they provide to depository institutions, when checks need to be transported between Reserve Banks as well as between Reserve Banks and the depository institutions. The use of this transportation is analogous to the use of telecommunications and data processing inputs, which have become increasingly important over time in providing check clearing services.

The Reserve Banks do not offer transportation services that allow one depository institution to ship checks directly to another depository institution. Depository institutions must use private services for this type of activity.

3. Do the Federal Reserve banks have sales or other marketing literature that promotes check transportation to private sector banks?

As noted in the answer to question 2, the Reserve Banks do not offer transportation that allows one depository institution to ship checks to another depository institution. Consequently, there is no sales or marketing literature on such activities. Reserve Banks

do describe check transportation options they provide to ship checks to a Reserve Bank, as well as relevant fees, in literature provided to depository institutions.

4. Does the Federal Reserve incorporate the overhead that is used in running check transportation (employees and sales literature, etc.) into the prices it charges banks for the provision of transportation services?

The Monetary Control Act requires that "over the long run ...fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services" to depository institutions. The Reserve Banks set their fees to recover all costs of providing check collection services over the long run, including but not limited to the cost of employees who arrange transportation for checks and of literature describing product options, as well as imputed costs to account for the expenses that would have been incurred and profits that would have been earned had the service been provided by the private sector.

5. Would the Federal Reserve be opposed to disclosing all of its costs associated with transporting checks? If so, why?

The Federal Reserve already publishes information on Reserve Bank expenses including those incurred for shipping costs. The Reserve Banks capture substantial information about their costs, including transportation costs, through their Planning and Control System (PACS). PACS information can be accessed by submitting a request under the Freedom of Information Act, and interested parties have requested and received such information in the past. Copies of relevant pages are enclosed and marked for your convenience. In addition, a copy of the PACS report for full-year 2002 is enclosed for your information.

Check transportation costs are captured in PACS in two areas of the report. Expenses specifically related to the Check Relay operation can be found on pages 55 through 60 (attachment 1). Highlighted on page 55, the shipping costs related to the Check Relay function for 2002 were $42.2 million. Check Relay also incurred $4.2 million in expenses for staffing and associated expenses. The majority of these expenses are related to shipping commercial checks; a small percentage of the Check Relay expenses are also apportioned to shipments of savings bonds, government checks, and interoffice mail. In addition to Check Relay costs, Reserve Banks incur another $30.1 million in shipping expenses, mostly to transport checks from the Reserve Banks and to depository institutions. This portion of the commercial check service's shipping expense is highlighted on page 40 of attachment 2.

Attachments

Statement of

Gary L. Nelson

On Behalf of

CheckClear, LLC

Prepared For

The House Sub Committee on Financial Services

Regarding

HR 1474 "Check Clearing for the 21st Century"

April 8, 2003

CheckClear, LLC wishes to thank Congressman Frank Lucas for the invitation to submit our testimony on the proposed HR 1474, "Check Clearing for the 21st Century Act", and we wish to commend the members of the Federal Reserve and the House Financial Services Committee for their pro-active and thoughtful consideration of this important piece of legislation.

CheckClear is a privately held company that has established the Endpoint Exchange network, a national image exchange and clearing system. Endpoint Exchange provides its users –unit financial institutions or their third party servicers-- the technology and infrastructure for the electronic exchange and routing of check images in lieu of original paper checks. Since its launch in January of this year, CheckClear's Endpoint Exchange network has experienced rapid growth in financial institution membership. This growth is evidence of building demand among image-enabled financial institutions across the United States for check image exchange services. Already, the Endpoint Exchange network connects the check imaging centers of 627 financial institutions specifically for the purposes of check truncation, electronic image exchange, and settlement. Today, Endpoint Exchange member institutions are sending each other images, and are truncating each other's paper. Over the next 90 days, the number of financial institutions expected to participate in the Endpoint Exchange network will rise to over 1350.

The Check Clearing for the 21st Century Act will spur further private-sector modernization of the nation's payment system, by encouraging check truncation early in the check collection process without mandating that downstream banks accept checks in an electronic form. By making a "Substitute Check" the legal equivalent of its original, the Check 21 Act removes

the last barrier to wholesale truncation and electronic payment of checks for those financial institutions who wish to leverage their existing investment in check imaging technology, while accommodating those that do not or can not.

Substitute Checks bridge the new world of image clearing with the old world of paper presentment, but further improves upon paper presentment by allowing the *essence* of the payment instrument to traverse space and time unfettered by the physical being of the original paper object. The overall system benefits from image exchange technology, while allowing receiving banks to continue to operate in a paper-based paradigm.

Moreover, passage of this Act will *accelerate* the further adoption and use of check imaging technology by financial institutions of every size and in every region of our country.

Some consumer groups fear that passage of this legislation will impose new risk to consumers in the form of delayed reconciliation of potential errors, and have asked for special provisions, manifest in Section 6 of the proposed legislation, to address these concerns. We respectfully disagree.

Section 6 is Fraught with Unintentional Consequences.

We believe that Section 6 of the proposed Act, detailing expedited re-credit provisions, will facilitate and encourage new fraudulent activity that will exploit and undermine other intended benefits of the Bill. On this matter, we strongly support the position of taken by the Board of Governors of the Federal Reserve presented during Senate testimony last week. Further, we agree with the testimony on the damaging consequences of Section 6 by the

American Banker's Association (ABA), America's Community Bankers (ACB), Consumer Bankers Association (CBA), the Financial Service Roundtable, and the Independent Community Bankers of America (ICBA).

We believe the consumer protections desired are already effectively addressed by Regulation CC and the Uniform Commercial Code. In addition, existing market forces act as an incentive for Financial Institutions to avoid incorrect posting of transactions, and the prompt resolution of errors. Financial Institutions currently provide expedited re-credit in the normal course of business, regardless of the transactional medium, in order to retain customer relationships and loyalty. There is no evidence to suggest that Financial Institutions will behave any differently toward the re-crediting of substitute checks as they do toward original checks today.

In closing, we can assure this Committee that the private-sector infrastructure for efficient multilateral exchange of images between financial institutions that this Act is designed to spur, has already taken life and is maturing at a brisk rate. CheckClear and its contemporaries are bringing to market the systems needed to make the vision of a more efficient and secure US Payments system a reality, and are functioning well in the context of existing check law. These systems are poised for the smooth and widespread adoption of check image exchange. They require only the impetus for backward-compatibility to accommodate heritage paper-based systems that Substitute Checks provide. We urge Congress to pass this legislation to ensure that this can be accomplished at the lowest cost and greatest convenience for all stakeholders in the US payments system. Thank you.

WRITTEN STATEMENT BY

GREGORY J. YU

OF

CHEN-YU ENTERPRISES LLC

SUBMITTED FOR THE RECORD TO THE

HOUSE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

HEARING OF APRIL 8, 2003

H.R. 1474
"CHECK CLEARING FOR THE 21ST CENTURY ACT"

WRITTEN STATEMENT BY GREGORY J. YU OF CHEN-YU ENTERPRISES LLC

SUBMITTED FOR THE RECORD TO

THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

APRIL 8, 2003

Chen-Yu Enterprises, LLC ("CYE") presents this submission regarding proposed H.R. 1474, known as the "Check Clearing for the 21st Century Act" (the "Act"). Gregory J. Yu, Marketing Director and Chief Legal Officer of CYE, is principally engaged in business development for CYE's proprietary solutions for payments processing, check imaging, and data warehousing.

INTRODUCTION

H.R. 1474 aims to "foster innovation in the check collection system without mandating receipt of checks in electronic form." H.R. 1474 leverages new technologies to increase efficiencies but impedes crucial data gathering for banks, government and ultimately for consumers and small businesses. Customers only receive access to their payments data to the extent that their own bank as the paying bank accesses reliable, high-quality data and image content. The Act leaves commercial banks with two plain choices: (1) accepting, in the long term, substitute checks for themselves and for their customers or (2) investing in check image capture and exchange capability. The latter option involving image exchange is, at best, a highly problematic investment.[1] It is our belief that H.R. 1474 can promote innovation only if the industry and Congress can fully anticipate savings that are measurable or, in the least, definable. It also must be clear that savings of banks that are achieved should flow to the pocketbooks of customers. Accordingly, any operational, technical and legal costs and risks deserve rigorous attention, particularly when original physical check return is eliminated for millions of customers, consumers and small businesses alike.

CYE SOLUTIONS FOR THE INDUSTRY

CYE's technology and products electronically tag check and credit/debit card payments by consumers and businesses with a major category of outlay. For example, consumer payments fall into standard categories as clothing, mortgage/rent, food, utilities, medical, dependent care, etc.; business payments divide into universal groups such as rent, phone, payroll, inventory, etc. The bank as the enterprise would process and summarize these payments periodically. Its customer gains a newly acquired tool for budgeting, tax deduction capture, and longer term financial planning/savings. In 1995, CYE developed a U.S. patented check (Check*flo*™) that pre-prints these standard categories aligned with

[1] The *American Banker* reports that since last fall two major banks stopped image exchange in a test. The conclusion was that image exchange *failed to generate appreciable cost savings for the banks*. "Lessons from Chase-BofA Image Swaps," *American Banker*, March 26, 2003, p. 1.

bubbles arrayed in the lower left corner of the check. The customer marks (manually or electronically) the bubble for the chosen category at the point of tendering payment. CYE's software is to be lodged at the retail point of sale, depository bank (branch or central capture site), collecting bank, paying bank, or an outsourced location after the bank customer has received its canceled physical checks. Accurate capture of the categorization data requires either access to the physical check, or alternatively, a pre-scrubbed, fully decompressed check image (or at least the snippet with the relevant Check*flo*™ region) that has been faithfully preserved during the check clearing and check truncation processes. Check*flo*™ is currently being tested by a state-chartered commercial bank in the Fed's 12th District.[2] CYE has been developing Check*flo*™ and other solutions in its suite of products for over 10 years, with new patents now pending. H.R. 1474 need not necessarily cause the sporadic destruction of original checks or the premature degradation of check image quality. Benefits, features, and solutions, like Check*flo*™, are today, without 1474, are freely available to paying banks and their customers.

SUMMARY OF CYE CONCERNS

CYE is dedicated to offer its technology to consumers, small businesses, and the industry to create, capture, preserve and deliver spending data emerging from multiple payment channels. To this end, CYE believes that H.R. 1474 should insure that:

A. Paying banks, on behalf of their customers, have a window of access to the original paid paper checks or faithful images thereof so that recredit protections within the Act, as well as specific purpose data capture and security functions can legitimately and efficiently operate.

B. Check issuers are not overtly or incidentally discouraged from using paper checks to tender payment, particularly when they await timely return of important data from the original document and a full check image thereof, as the case may be.

CHOICE FOR ORIGINALS, SUBSTITUTES, AND IMAGES SHOULD REMAIN

Reduction in overnight courier costs of check return is but one opportunity to increase efficiency in the payments system. The integrity of the source document, its image and its MICR line and their timely delivery are an equal concern for the health of the overall payments process. Customers, too, have an important interest in the checks themselves under existing state law. UCC § 4-406 provides, "if the items are not returned to the customer, the person retaining the items shall either retain the items or, if the items are destroyed, maintain the capacity to furnish legible copies of the items until the expiration of seven years after receipt of the items." Therefore, since commercial banks carry the dual roles of depositary bank and paying bank, the creation of a new commercial

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[2] CYE is also engaged in consumer direct sale of its printed retail Check*flo*™ checks, and its customers include those of larger banks, including BofA, Wells Fargo, and Washington Mutual (these institutions have not endorsed the product).

instrument must contemplate both sets of interests and benefits. To do otherwise would overstate the net savings in store for banks and the payments industry as a whole.

Like H.R. 1474, Check*flo*™ embraces proven technology to capture, preserve, and transmit check images and data. For example, like banks and other imaging solutions Check*flo*™ faces the daunting task of accurately reading a check's physical and image content, as the case may be. Scales of volume and exceptions processing must be addressed. The substitute check, if not governed by the strictest of guidelines in design, creation, and storage, pose a host of new challenges in the imaging environment. If a single check goes through multiple generations of substitute checks (with increasingly distorted and reduced images), the data capture solution fast exceeds the reach of even the best technology. No benchmarking is really necessary when momentarily picturing a serially faxed letter. More importantly, as banks of various sizes adopt our solution, they face the same deficiency of lacking a proper source document or image to deliver data and reports to their customers.

The mandate of the substitute check within H.R. 1474 actually carries two key elements for proper execution and acceptance within the payments system. First is **machinability**. The substitute check, first and foremost, must be manufactured and processed just as the original. The replacement document must carry the identical MICR line and flow cleanly through the reader/sorter. Increased exception processing would defeat the aims of H.R. 1474. Machinability is, quite literally, of no concern to the check writer as long as the item clears.

The second element is **image quality**. To put this in perspective, image quality appearing on the substitute check does nothing to jam the reader/sorter. Indeed, there is neither a processing or post-processing step in substitute check handling that necessitates any quality assurance. For that, the check writer must lodge and sustain a complaint. Proponents of H.R. 1474 should not overlook the reality that stakeholders in **machinability** and those in **image quality** may be altogether different parties in the payments process. Preserving an original or at least an image or usable and suitable quality should be necessary for three reasons.

Better image quality will only lead to superior resolution of recredit claims under H.R. 1474. Any such dispute functions best with access to probative documentary evidence of the payment. Since H.R. 1474, in its current form, eliminates a guarantee of original check retention, the prospective claimant begins with perhaps an illegible image appearing on the last substitute check created during the clearing cycle. Without imaging and a mutually agreeable image exchange agreement with the reconverting bank, the check writer, whether a large corporation, a small business owner or a consumer, must accept the substitute check and must exercise recredit on that document alone. Therefore, CYE proposes that a repository of truncated original checks be maintained, at least until the expiry of the recredit right. Alternatively, if that cost is prohibitive or objectionable for the industry, initial reconverting banks should at least have the capability to retain an original check image for the recredit claim period.

Further, it is peculiar that the consensus of opinion is highly confident that customer choice in this instance is irrelevant or inconsequential in the push for the substitute check mandate. The mantra in the financial services industry is that customer choice should prevail. In a pre-H.R. 1474 environment, poor or degraded check image quality allows the check writer *voluntary* access to the original with a request to its own paying bank H.R. 1474, in its current form, gives no choice or vehicle to get the original or a better image back. Indeed, the high satisfaction of check truncation of certain market segments apparently is justifying the *universal* displacement of choice freely exercised by the rest of the market. Congress has not been presented with any independent research on consumer preferences toward the return of original checks to customers. **Exhibit A** fills this gap. An independent study conducted by Mathew Greenwald & Associates, Inc. shows that one mall intercept survey produced a *70%* preference for original check return from their financial institution, *even in the face of a fee charged for such return*. Although paper check affinity does not seem rational or measurable to some, H.R. 1474 should not necessarily question the extraordinary confidence economic units still place in the paper check, just as in the tender of currency itself. The proponents of H.R. 1474 must understand that removal of original check return is not the only mandated result. It also removes any assurance that image quality in the upper right corner on the substitute check will be satisfactory, legible, or usable for image-dependent market solutions such as Check*flo*™. The digital retention (albeit temporary for the recredit period) of clean, robust check images of the original check creates no interference against the overall intent and mission of H.R. 1474. At the least, the market is harmed when the check writer has trouble in even discerning the check image when the original has been destroyed. Without such retention of options to access originals or original images, market solutions and choices are permanently harmed.

Finally, the substitute check as defined in generalized terms under H.R. 1474 creates clearly foreseeable dangers, and particularly when it arrives from the last of the reconverting banks for a given payment. Today, up to 11 *physical* security features are imbedded inside certain paper checks, including the feature of controlled paper stock. Not surprisingly, those features are requested by check issuers, which include the largest of corporations. Banks do not examine every check, but larger-dollar amount items are selected for sight review or signature verification. Even if there is no actual examination of each item, the forger is less likely to be tempted when items are under periodic review. Thus, site review presents a disparity among banks under H.R. 1474. Here, a paying bank normally exercising established risk management procedures against check fraud would now be subject to an arbitrary decision of a reconverting bank to withhold the original item and send a substitute. Checks, such as official checks, immediately lose market and security value. There should be second thoughts about the wisdom of promoting involuntary truncation of original paper checks that sacrifices the bargained-for security features in original checks written by customers in the first place.

As a footnote, Congress should be mindful of the potential disproportionate impact of substitute check infusion. One of the fundamental yet practical values of the paper check is that nearly all customers, on occasion, face the need or desire to view one or many

of their checks. In a post-H.R. 1474 environment, viewing the substitute by many bank customers would come from the Web. With the return of physical paper checks for inspection and viewing, there is no socioeconomic division. But the paradigm shift to Web check image delivery and preferred pricing represents another unwelcome "digital divide" among Americans. For some, the lack of personal Web access and the lack of high-speed Web access causes extraordinary download times of data-rich check images, inconvenience, and possible loss of privacy in using public access points.

CONCLUSIONS

Overall, CYE's mission is not to protect checks in paper form no matter the cost. Instead, CYE solutions represent the interests of businesses and consumers as bank customers. Check*flo*™ derives useful, timely data from the original physical check or from a faithful, full-scale image, and delivers it back to the check writer. The access to originals or such images also allow effective exercise of recredit rights by banks and consumers. These concerns should not be unilaterally overridden by H.R. 1474, particularly for even the smallest of remittances of funds originally entrusted to the bank by a consumer.

H.R. 1474 may properly institutionalize the policy and mechanics of check truncation and reserve the greater technical challenges behind this legislation for the technologists and standardization committees. However, these committees do not and cannot address the specter of uneven impact on unrepresented stakeholders and a wide spectrum of economic units. It perhaps is wise, in the front end, to make deeper and more incisive *and independent* assessments of potential impact. If an accelerated launch of the substitute check indeed creates operational, legal and marketing harms, those deleterious effects could, in some respects, be irreversible.

RECOMMENDATIONS:

1. Create a physical, universally accessible repository of all original checks and reconverted substitute checks that have been previously truncated, with the cost to be shared among the industry, based perhaps on the volume of substitute checks created by such banks. Record retention is based on the recredit period.

2. Establish a ready industry-wide image archive of full-scale original check images of previously truncated and substituted checks, which is accessible by paying banks, their customers, authorized technology providers, and authorized outsourcing firms. Image archive histories of substitute checks could be retired as early as the expiry of the recredit period.

3. Implement H.R. 1474 on a trial or phase-in basis to engage operational and marketing experts and gather sufficient independent evidence on the effects and real costs of substitute check.

4. Independent of the recredit right, facilitate free market choice of paying banks and their customers by at least allowing access to and return of original checks and/or images for fees left to the market to decide.

EXHIBIT A – CONSUMER RESEARCH ON THE USE, RETURN AND BENEFITS OF ORIGINAL CHECKS

Checkflo™ and Check Image Mall Intercept Study

EXCERPT

October 21, 2002

CONDUCTED BY:

MATHEW GREENWALD & ASSOCIATES, INC.

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Introduction

This report presents the results of a mall intercept study conducted for Chen-Yu Enterprises by Mathew Greenwald & Associates, Inc. The two primary objectives of this research were to:

1) assess the level of interest in using *Checkflo*™, and
2) determine appropriate pricing structures for the *Checkflo*™ check and report.

In addition, the study was designed to determine whether receptivity to *Checkflo*™ is related to consumer demographics.

The mall interviews were held in Atlanta, Houston, Kansas City, and New York City from September 3 through September 15, 2002, with 50 interviews conducted in each city. An additional 50 interviews were held in Woodbridge, NJ from September 18 through September 25, 2002. The New Jersey site was selected to elicit further consumer preferences toward paper checks, canceled checks and check image statements. The survey was conducted in a single mall location within each market. In order to qualify for participation, respondents had to be primary check writers who write at least three checks per month, and fall between the ages of 18 years to 75 years of age.

During the course of each interview, respondents were shown a sample of the *Checkflo*™ check, as well as a sample of a *Checkflo*™ monthly report. These concepts allow check writers to categorize their payments according to purpose. Reactions of respondents were gathered. Survey respondents received a $2 cooperation incentive in exchange for their participation.

Following this introduction is a section containing key findings from the interviews and a detailed report of findings. Appended to this report is a copy of the survey used in the five cities, noting variations used at the New Jersey site. A description of Mathew Greenwald & Associates is also included as an appendix.

Note: Qualitative research, including mall intercept interviews, provides an excellent tool to discover the breadth of issues surrounding any particular situation and to provide directional insights. However, qualitative research findings are not statistically projectible to the population under study because recruiting is rarely representative and because sample sizes are too small.

Key Findings

1) [OMITTED]

2) [OMITTED]

3) [OMITTED]

4) [OMITTED]

5) [OMITTED]

6) [OMITTED]

7) About half of New Jersey respondents receive canceled checks from their bank (54%), while one-third receive check image statements (34%). **Most (70%) of those who receive canceled checks say, if their bank stopped sending them, they would still request them even if they had to pay a small monthly fee.**

8) Of those who currently receive either canceled checks or check image statements, two-thirds think the physical viewing and sorting of checks is helpful in preparing annual tax returns (66%).

9) Four in ten New Jersey check writers say physical canceled checks are the most helpful in preparing tax returns (38%), while one-quarter prefer check image statements for this purpose (24%). Another one in five say both are equal (22%).

10) [OMITTED]

Detailed Findings

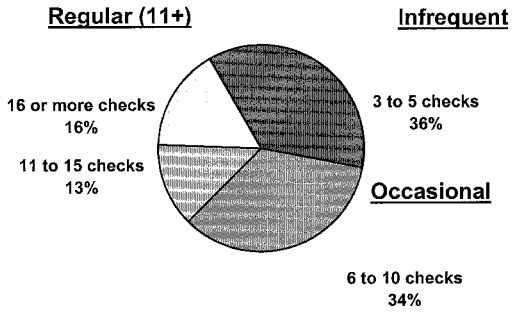
A. Number of Paper Checks Written

Most of the respondents report writing no more than 10 checks in a month, with one-third saying they write 3 to 5 checks per month (36%) and an equal proportion saying they write 6 to 10 (34%). Thirteen percent write 11 to 15 checks, and 16% write 16 or more checks per month.

- Those who are less than 35 years of age tend to write fewer checks, on average. Half of these respondents say they write only 3 to 5 checks per month, compared to one-quarter of older check writers who say the same (54% vs. 25%).

Number of Checks Written per Month (n=250)

"Approximately how many checks do you write per month?"



SECTIONS B. THROUGH I. [OMITTED]

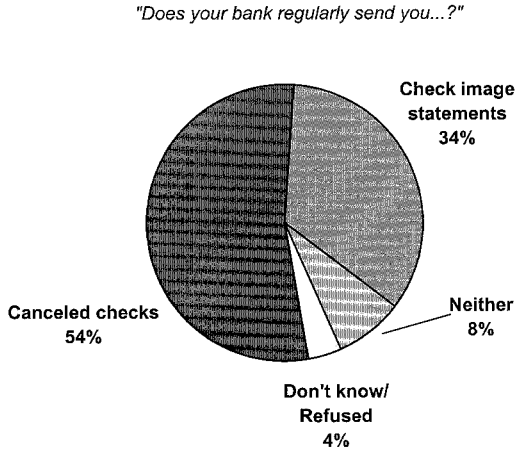
J. New Jersey Segment Analysis

Upon completion of the interviews in the first four cities, the survey instrument was modified to include questions about canceled checks and current behavior associated with those checks. The following percentages are reflective only of the New Jersey respondents.

Half of New Jersey respondents report receiving their original physical canceled checks from their bank (54%), while another third receive check image statements (34%). Less than one in ten say they do not regularly receive either one (8%).

- **Minorities (79%) are more likely than whites (44%) to say they receive their original physical canceled checks (79% vs. 44%).**

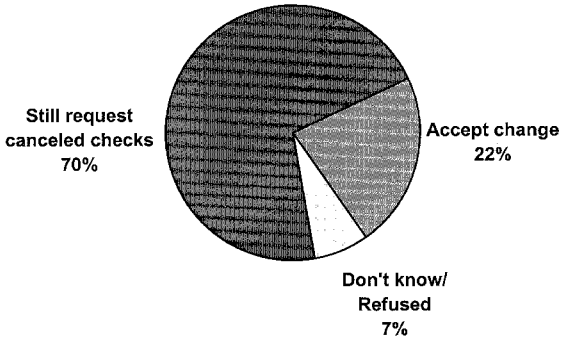
Received from Bank on a Monthly Basis
Among New Jersey respondents (n=50)



When asked how they would respond if their bank decided to stop sending canceled checks, **seven in ten (70%) say they would still request them monthly, even if they had to pay a small monthly fee**. One in five say they would just accept the new change (22%).

Expected Reaction to Bank No Longer Sending Canceled Checks
Among New Jersey respondents who receive canceled checks from bank (n=27)

"If your bank had a policy of keeping your canceled checks rather than returning them to you, would you...?"

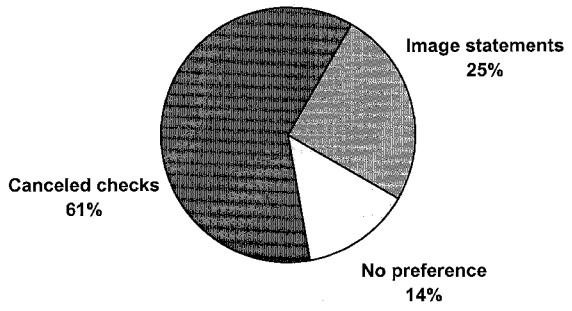


When those who currently receive either canceled checks or check image statements are asked their preference, **six in ten say they prefer to receive the canceled checks (61%)**. Another quarter prefer check image statements (25%), while one in seven express no preference (14%).

- Those who have a household income of under $50,000 are more likely than those with higher incomes to say they would prefer to receive canceled checks (75% vs. 40%).

Canceled Check vs. Check Image Statement Preference
Among New Jersey respondents who receive canceled checks or image statements from bank (n=44)

"If the cost for receiving canceled checks and receiving check image statements were equal, and your bank offered both options, which would you prefer?"

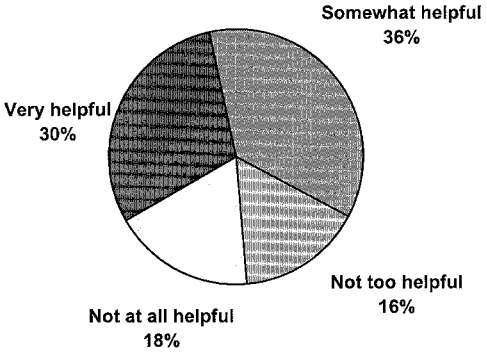


Two-thirds (66%) of New Jersey respondents who receive canceled checks or image statements think the physical viewing and sorting of their checks is helpful in preparing their annual tax returns, with 30% saying the process is "very helpful" (30%).

- Married respondents (89%) are much more likely than those who are not married (50%) to consider the viewing and sorting of physical checks as being "helpful" in preparing their tax returns.

Usefulness of Viewing and Sorting Canceled Checks
Among New Jersey respondents who receive canceled checks or image statements from bank (n=44)

"To what degree does viewing and sorting physical canceled checks help in preparing your tax return?"

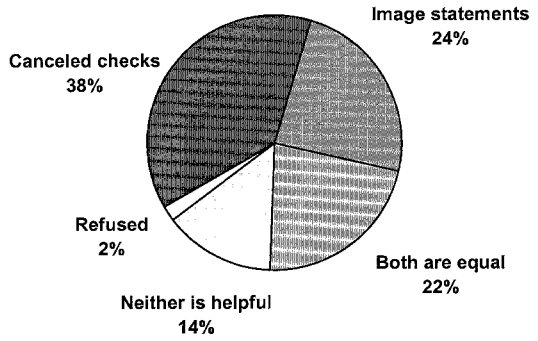


Four in ten New Jersey check writers say physical canceled checks are the most helpful in preparing tax returns (38%), while one-quarter prefer check image statements for this purpose (24%). Another one in five describe both as being equal (22%).

- Those age 50 and older are more likely than younger age groups to feel that physical canceled checks are most helpful in preparing tax returns (56% vs. 28%).

Most Useful Tax Preparation Tool
Among New Jersey respondents (n=50)

"Which do you think would be the most helpful when preparing your tax returns?"

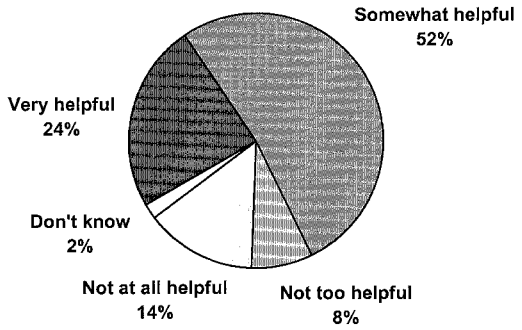


Three-quarters of New Jersey respondents believe *Checkflo*™ would be helpful when preparing tax returns (76%). This includes one-quarter who feel it would be "very helpful" (24%).

- This perception of helpfulness declines with age. Specifically, nine in ten of those under age 35 believe that *Checkflo*™ would be helpful in preparing their tax returns (89%), compared to 61% of those age 50 or older.
- Married respondents are more likely than those who are not married to say the same (100% vs. 57%).

Expected Helpfulness of Using *Checkflo*™ for Tax Preparation
Among New Jersey respondents (n=50)

"How helpful do you think Checkflo would be in assisting with the preparation of your tax returns?"



K. Demographics

Two-thirds of all respondents are women (64%). A similar share are Caucasian (65%), while one in five are African American (22%). Eight percent are Hispanic and 2% are Asian.

Four in ten respondents are under the age of 35 (39%). Equal shares of three in ten are between the ages of 35 and 49 (30%), or 50 and older (31%).

Overall, respondents tend to be well educated. In particular, more than a third say they graduated college or obtained higher degrees (35%). Nearly four in ten completed some college, trade or technical school (37%). The balance graduated high school or had less education (28%).

Married individuals make up half of the respondents (49%). Four in ten describe themselves as being single (37%).

Equal shares say their household income falls above $50,000 as it does below $50,000 (46% each).

Appendix A: Survey

Hello, my name is _____. I'm conducting a survey about a new banking service. If you meet the qualifications for the study, I can offer you $2.00 as a small token of appreciation. I am not trying to sell you anything and all of your answers will be completely confidential. Do you have a few minutes to participate?

1. **Approximately how many checks do you write per month? Please include paper checks and Internet checks, but do not include money orders.** [DO NOT READ]

   ☐ 1 None, one, or two checks (TERMINATE)
   ☐ 2 3 to 5 checks
   ☐ 3 6 to 10 checks
   ☐ 4 11 to 15 checks
   ☐ 5 16 or more checks
   ☐ 9 (VOL) Don't know/Refused (TERMINATE)

2. **Are you the primary check writer, or one of the primary check writers, for this account?**
   ☐ 1 Yes
   ☐ 2 No (TERMINATE)
   ☐ 9 (VOL) Don't know/Refused (TERMINATE)

3. **In which of the following age brackets do you fall?** [READ 1-7]

   ☐ 1 Under 18 years (TERMINATE)
   ☐ 2 18 to 21 years (TERMINATE)
   ☐ 3 22 to 34 years
   ☐ 4 35 to 49 years
   ☐ 5 50 to 64 years
   ☐ 6 65 to 75 years
   ☐ 7 76 years or older (TERMINATE)
   ☐ 9 (VOL) Refused (TERMINATE)

   You do qualify for the study, so we will continue on with the questions.

4. THROUGH 23. [OMITTED]

QUESTIONS #24-29 FOR NEW JERSEY ONLY

24. Does your bank regularly send you… [READ 1-3]
☐ 1 Original physical canceled checks,
☐ 2 Check image statements that show copies of multiple checks on a single page, or *(Skip to Q26)*
☐ 3 Do you not receive either from your bank? *(Skip to Q28)*
☐ 8 **(VOL)** Don't know *(Skip to Q28)*
☐ 9 **(VOL)** Refused *(Skip to Q28)*
A.

25. If your bank had a policy of keeping your canceled checks rather than returning them to you, would you… [READ 1-2]
☐ 1 Still request them monthly, even if you had to pay a monthly fee of $1 or $2, or
☐ 2 Would you accept the change to not view or hold your canceled checks?
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused
B.

26. If the cost for receiving canceled checks and receiving check image statements were equal, and your bank offered both options, which would you prefer… [READ 1-3]
☐ 1 Receiving canceled checks,
☐ 2 Receiving check image statements, or
☐ 3 Would you have no preference?
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused
C.

27. Think for a moment about preparing your tax return. Whether you do this yourself or with outside assistance, to what degree does viewing and sorting physical canceled checks help in preparing your tax return? Is it… [READ 4-1]
☐ 4 Very helpful,
☐ 3 Somewhat helpful,
☐ 2 Not too helpful, or
☐ 1 Not at all helpful?
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused

28. Regardless of which, if any, of these services you receive from your bank on a monthly basis, which do you think would be the most helpful when preparing your tax returns? Would you say physical canceled checks would be more helpful, check image statements would be more helpful, or do you think both would be equally helpful?
☐ 1 Physical canceled checks
☐ 2 Check image statements
☐ 3 Both are equal
☐ 4 **(VOL)** Neither is helpful

☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused

29. [OMITTED]

The last few questions I have are for statistical purposes only…

D1. What is the highest level of education you have completed? **[READ 1-3]**
☐ 1 High school graduate or less
☐ 2 Some college, trade, or technical school
☐ 3 College graduate or more
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused

D2. What is your marital status? **[READ 1-4]**
☐ 1 Single, never married
☐ 2 Married
☐ 3 Divorced or separated
☐ 4 Widowed
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused

D3. Is your household income above or below $50,000?
☐ 1 Above → **Is it above or below $75,000?**
☐ 1 Above ☐ 2 Below ☐ 8 **(VOL)** DK ☐ 9 **(VOL)** REF

☐ 2 Below → **Is it above or below $25,000?**
☐ 1 Above ☐ 2 Below ☐ 8 **(VOL)** DK ☐ 9 **(VOL)** REF
☐ 8 **(VOL)** Don't know
☐ 9 **(VOL)** Refused

QUESTION D4 FOR NEW JERSEY ONLY:
D4. [OMITTED]

For verification purposes, may I please have your name? _____
May I please have your phone number? (_____) _____
May I please have your zip code? _____

Record gender	☐ 1 Male			☐ 2 Female	
Record	☐ 1 W	☐ 2 AA	☐ 3 H	☐ 4 As	☐ 5 Other

Record # on verification sheet: _____

Appendix B: Profile of Mathew Greenwald & Associates

Mathew Greenwald & Associates, Inc. is a premier public opinion and market research company for customized and multi-sponsor research. Our clients include more than 200 organizations made up of many of the nation's largest corporations, trade associations, and non-profit organizations. Founded in 1985, our company has earned a widespread reputation for our research expertise and dedicated commitment to serving the special needs of our clients.

Greenwald & Associates has built an outstanding team of research professionals with extensive experience in both quantitative and qualitative research. Our research includes telephone, mail, and on-line surveys; mall intercepts; focus groups; and in-depth one-on-one interviewing on a variety of topics. These include customer satisfaction evaluation through attitude and usage analysis, product development research, market segmentation, message testing, advertising tracking, and brand-image measurement.

In addition to being knowledgeable in the full scope of research methodologies, our senior staff has a wealth of experience on the topics we research. This expertise helps ensure that our research is designed and conducted with a keen understanding of our clients' needs. Our experience includes both business and consumer research in areas such as insurance, investments, banking, health care, and retirement.

Greenwald & Associates is the parent company for National Research, LLC, a facility for executive and consumer telephone interviewing.

Statement by
The National Association of Federal Credit Unions (NAFCU)

on

The Check Clearing for the 21st Century Act, H.R. 1474

Submitted to the
House Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit

United States House of Representatives

April 8, 2003

The National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, is pleased to have the opportunity to present this testimony on the *Check Clearing for the 21st Century Act*, H.R. 1474, to the Subcommittee on Financial Institutions and Consumer Credit.

NAFCU is comprised of approximately 900 federal credit unions and represents close to 24 million credit union members. NAFCU member credit unions collectively account for over 60 percent of the assets of all federal credit unions.

Established by an act of Congress in 1934, the federal credit union system was then and is today recognized as a way to promote thrift and to make financial services available to people, many of whom otherwise would have no access to credit. Congress established credit unions as an alternative to banks and to fill a precise public need; today more than 82 million Americans are members of America's credit unions. Since the passage of the *Federal Credit Union Act* (FCUA) 69 years ago, two essential principles regarding the operation of credit unions remain as strong as ever:

- Credit unions are committed to providing their members with efficient, low cost personal services; and
- Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

Unlike banks, membership in a credit union is not open to the general public. A credit union may serve only those individuals within its field of membership. Federal credit unions have an independent federal regulator (the National Credit Union Administration – NCUA) and insurance fund (the National Credit Union Share Insurance Fund – NCUSIF) separate from the bank and thrift insurance funds managed by the Federal Deposit Insurance Corporation (FDIC).

Credit Unions and Check Truncation

Federal credit unions began "truncating" share drafts (checks) when NCUA adopted a rule authorizing federal credit unions to participate in pilot programs regarding electronic funds transfers (EFTs) in 1974. At that time, NCUA believed truncation (defined as when the original share draft is not returned to the member) was a critical component to reducing the overall expense of processing share drafts. The pilot program for share drafts proved successful in reducing the total cost necessary for operation in credit unions and NCUA adopted a final rule to make truncation mandatory in 1977.

However, in 1982, after receiving comments from the credit union community, NCUA decided to no longer mandate truncation. These comments requested that NCUA remove the requirement that share drafts be truncated so that credit unions can decide for themselves whether or not to implement truncation. Although truncation has not been compulsory since 1982, the overwhelming majority of credit unions have chosen (and preferred) to truncate share drafts due to the member benefits and cost savings. Today,

64% of credit unions offer share accounts. Ninety-one percent of those credit unions utilize truncation.

Approximately 42.5 billion checks are processed annually in the United States. Out of that sum, credit union share drafts (checks) account for 4.7 billion. Unlike banks and other financial institutions, most credit unions have truncated drafts since they began offering these types of accounts to their members. The actual "truncation" by credit unions is usually done late in the check clearing process by either not returning the share draft to members or having a third-party processor truncate the share draft and submit the information to the credit union.

***Check Clearing for the 21st Century Act,* H.R. 1474**

NAFCU is pleased to see that check truncation legislation is being considered this Congress and thanks Representative Melissa Hart (R-PA) and Representative Harold Ford, Jr. (D-TN) for introducing this legislation. Undoubtedly, this effort would revolutionize the way share drafts are processed by increasing the ability of financial institutions to convert paper checks into electronic transactions earlier in the truncating process. Cost savings can then be passed down to members of credit unions and other financial systems by eliminating the handling, sorting and physical transport of checks in the payment system.

In reviewing the *Check Clearing for the 21st Century Act,* H.R. 1474, NAFCU would suggest one change that does not appear in the legislation -- that Section 7 be amended to

reduce the time frame for a claimant institution to submit a claim to an indemnifying institution for expedited re-credit from 120 days to 90 days. Ninety days (calendar days, not business days) from the statement date should be more than sufficient time for the account holder to receive the statement, to identify an error, and for the institution to make the claim for expedited re-credit.

Credit unions have proven to be extremely successful in truncating share drafts for the past 29 years. NAFCU is pleased that H.R. 1474 allows existing credit union truncation programs to flourish and does not mandate check truncation for credit unions. Further, NAFCU supports the intent of this legislation to help financial institutions expedite their transactions, and in turn lower costs and provide a better service to their customers. We believe that H.R. 1474 is a solid legislative proposal.

NAFCU applauds Chairman Spencer Bachus, Ranking Member Bernie Sanders and the other members of the Subcommittee on Financial Institutions and Consumer Credit for holding this hearing on such an important matter today. We look forward to working with the both the Subcommittee and full Committee on this meaningful legislation. NAFCU thanks the Subcommittee for the opportunity to share our views on the *Check Clearing for the 21st Century Act*, H.R. 1474.

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This is a LEGAL COPY of your check. You can use it the same way you would use the original check.

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140053944

JAMES C. MCCLELLAN
MARY BALLINGTON
[illegible]

Jan. 1, 2002 1166

NORTH POLE, INC. $ 295.45

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Your Bank
Anytown, USA

James C. McClellan

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ACCOUNT 1234567890123
NORTH POLE, INC.

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↓ Do not endorse or write below this line. ↓