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**Federal Reserve Banks Announce Changes to Increase Efficiency
In Check Services as Check Volumes Decline Nationwide**

Boston, MA, February 6, 2003—The Federal Reserve Banks, collectively the nation’s largest processor of checks, today announced changes to their back office check-processing operations intended to improve operating efficiency while maintaining high-quality check services to depository institutions nationwide.

Reflecting the ongoing shift in consumer and business preferences from checks to electronic payments, the Reserve Banks will reduce their check service operating costs through a combination of streamlining their check management structure, reducing staff, decreasing the number of check-processing locations, and increasing processing capacity in other locations.

“The Federal Reserve Banks are committed to remaining a leader in providing payment services, including check processing. Adjusting our operations to respond to changes in the marketplace will position the Banks to continue to fulfill this role,” said Cathy Minehan, President and Chief Executive Officer of the Federal Reserve Bank of Boston and Chair of the Reserve Banks’ Financial Services Policy Committee.

Even though check payments remain the most popular form of noncash retail payment, they make up only 60 percent of all noncash retail payments today compared to 85 percent in 1979. Recent Federal Reserve studies suggest that roughly 40 billion checks were written in the United States in 2002, down from about 50 billion in 1995. The Reserve Banks handle about 17 billion of these checks annually, and this volume is expected to decline as well.

The changes announced today reflect this changing market environment and will enable the Reserve Banks to continue to meet the requirements of the Monetary Control Act of 1980. That act

requires the Reserve Banks to set prices to recover, over the long run, their total costs of providing payment services to depository institutions, including the imputed costs they would have incurred and imputed profits they would have expected to earn had the services been provided by a private business firm.

The changes, approved by the Reserve Banks' Conference of Presidents, are expected to reduce operating costs for check services by about \$60 million in 2005 and about \$300 million over the next five years. The changes also are consistent with a decision reached following a 1998 Federal Reserve study of the payments system that the Reserve Banks would remain a provider of check services.

“Nationwide, consumers and businesses have made a significant shift in how they make payments, substituting electronic payments for checks. This development is good news for the nation's payments system, and the Federal Reserve has strongly supported this shift,” Minehan said. “But declining check volumes are requiring the Reserve Banks to make changes in their check operations to address the challenges posed by the changing market. The changes we are announcing today will help us meet these challenges.”

Reserve Banks will continue to provide check services on a nationwide basis and are working to maintain deposit times and availability as close to current service levels as possible for depository institutions in the affected markets. In addition, new check-imaging and check-adjustments technology should enable the Reserve Banks to provide new services and help maintain the high quality of Reserve Bank check services offered to the nation's depository institutions.

With the changes announced today, Reserve Bank check processing will be performed at 32 sites, down from 45. Additionally, the Reserve Banks will streamline their check-adjustment functions, now being handled in 43 locations, to 12 of their current locations nationwide. (The term “check adjustments” refers to the part of the check-processing operation in which check-processing errors are resolved.) Of the 13 offices that will no longer process checks (see table 1 below), the five regional sites that only process checks will close. The volume from these 13 offices will be handled by nine offices (see table 2 below). (The attachment provides a listing of the affected Reserve Bank offices, including an indication of where each office's check functions will be shifted.)

Table 1
Offices That Will No Longer Process Checks

Pittsburgh, Pa.	Peoria, Ill. ¹
Richmond, Va.	Little Rock, Ark.
Charleston, W.Va. ¹	Louisville, Ky.
Columbia, S.C. ¹	Omaha, Neb.
Miami, Fla.	El Paso, Texas
Indianapolis, Ind. ¹	San Antonio, Texas
Milwaukee, Wis. ¹	

¹ These offices will close.

Table 2
Offices That Will Expand Check-Processing Capacity

Cleveland, Ohio	Chicago, Ill.
Cincinnati, Ohio	Des Moines, Iowa
Baltimore, Md.	Memphis, Tenn.
Charlotte, N.C.	Dallas, Texas
Jacksonville, Fla.	

As a result of these changes, the Reserve Banks will reduce their overall check staff by slightly more than 400 positions, representing about 8 percent of their current check service positions. In the offices where check processing will be eliminated, almost 1,300 positions will be affected. At this time, however, the number of involuntary separations is unclear. Some staff reductions will occur through attrition, and there will be some opportunities for reassignment. In addition, the Reserve Banks estimate that they will add about 900 positions at the offices that will continue processing checks.

The Reserve Banks will offer a variety of programs to assist affected staff. These programs include separation packages, enhanced pension benefits for some longer-service staff nearing retirement, extended medical coverage, and career transition assistance. The changes being announced today are projected to begin in some offices in the second half of this year and to continue through 2004, with an expected completion at all offices by the end of that year.

According to Minehan, "One of the missions of the Federal Reserve System is to foster the efficiency, accessibility, and integrity of the nation's payments system. We believe that the changes we are announcing are essential because they will provide the Reserve Banks greater flexibility to manage check operations in an environment of declining volumes. We regret that this decision will affect a

portion of the Fed's check-processing management and staff, but we have a range of programs in place to help ease the transition for affected staff members.”

From 1992 to 2001, the Reserve Banks earned an average annual after-tax return on equity for all priced payment services of 12.2 percent. In 2002, however, mainly because of declining check volumes, the Reserve Banks' after-tax return on equity for all priced payment services declined to 4.2 percent. In 2003, the Reserve Banks expect to post an after-tax loss reflecting the up-front costs associated with the changes being announced today. The Reserve Banks project that these changes will position check services to return to full cost recovery by 2005.

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Attachment
Federal Reserve Banks
Check-Processing and Check-Adjustment Changes

Office Locations	Move Check Processing to	Move Check Adjustments to
District One (Boston)		
Boston, Mass., main office	----	Windsor Locks, Conn.
Windsor Locks, Conn., check processing site ³	----	----
District Two (New York)		
New York, N.Y., (ops. in E. Rutherford, N.J.) ¹	----	----
Utica, N.Y., check processing site ³	----	----
District Three (Philadelphia)		
Philadelphia, Pa., main office ³	----	----
District Four (Cleveland)		
Cleveland, Ohio, main office ³	----	----
Cincinnati, Ohio, branch	----	Cleveland, Ohio
Columbus, Ohio, check processing site ¹	----	----
Pittsburgh, Pa., branch	Cleveland, Ohio	Cleveland, Ohio
District Five (Richmond)		
Richmond, Va., main office	Baltimore, Md.	Charlotte, N.C.
Baltimore, Md., branch	----	Charlotte, N.C.
Charleston, W.Va., check processing site ²	Cincinnati, Ohio	Cleveland, Ohio
Charlotte, N.C., branch ³	----	----
Columbia, S.C., check processing site ²	Charlotte, N.C.	Charlotte, N.C.
District Six (Atlanta)		
Atlanta, Ga., main office	----	Jacksonville, Fla.
Birmingham, Ala., branch	----	Jacksonville, Fla.
Jacksonville, Fla., branch ³	----	----
Miami, Fla., branch	Jacksonville, Fla.	Jacksonville, Fla.
Nashville, Tenn., branch	----	Jacksonville, Fla.
New Orleans, La., branch	----	Jacksonville, Fla.
District Seven (Chicago)		
Chicago, Ill., main office (ops. at Midway)	----	Detroit, Mich.
Des Moines, Iowa, check processing site	----	Detroit, Mich.
Detroit, Mich., branch ³	----	----
Indianapolis, Ind., check processing site ²	Cincinnati, Ohio	Cleveland, Ohio
Milwaukee, Wis., check processing site ²	Chicago, Ill.	Detroit, Mich.
Peoria, Ill., check processing site ²	Chicago, Ill.	Detroit, Mich.
District Eight (St. Louis)		
St. Louis, Mo., main office ³	----	----
Little Rock, Ark., branch	Memphis, Tenn.	St. Louis, Mo.
Louisville, Ky., branch	Cincinnati, Ohio	Cleveland, Ohio
Memphis, Tenn., branch	----	St. Louis, Mo.
District Nine (Minneapolis)		
Minneapolis, Minn., main office ³	----	----
Helena, Mont., branch	----	Minneapolis, Minn.
District Ten (Kansas City)		
Kansas City, Mo., main office ³	----	----
Denver, Colo., branch	----	Kansas City, Mo.
Oklahoma City, Okla., branch	----	Kansas City, Mo.
Omaha, Neb., branch	Des Moines, Iowa	Detroit, Mich.
District Eleven (Dallas)		
Dallas, Texas, main office	----	Houston, Texas
El Paso, Texas, branch	Dallas, Texas	Houston, Texas
Houston, Texas, branch ³	----	----
San Antonio, Texas, branch	Dallas, Texas	Houston, Texas
District Twelve (San Francisco)		
San Francisco, Calif., main office	----	Portland, Ore.
Los Angeles, Calif., branch	----	Portland, Ore.
Portland, Ore., branch ³	----	----
Salt Lake City, Utah, branch	----	Portland, Ore.
Seattle, Wash., branch	----	Portland, Ore.

¹ The check adjustment function at the Federal Reserve Bank of New York's East Rutherford, N.J., payments processing office was previously moved to the Utica, N.Y., office. The check adjustment function at the Federal Reserve Bank of Cleveland's Columbus, Ohio, office was previously moved to the Cincinnati, Ohio, office. Cincinnati's check adjustment function will now move to the Cleveland, Ohio, office.

² Site will close.

³ Indicates no change in the processing site or the adjustment site.

**Federal Reserve
System Check Re-engineering Initiative
Fact Sheet**

Federal Reserve locations: In addition to the Board of Governors in Washington, D.C., the Federal Reserve System has the following locations nationwide:

- 12 Reserve Bank head offices in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Kansas City, Chicago, Minneapolis, Dallas, and San Francisco
- 25 branch offices
- 9 other locations where checks are processed.

Currently, checks are processed at 45 of these locations (see a listing of specific locations below).

Locations after changes are implemented: Based on the Systemwide changes announced today, check processing will continue to take place in 32 of the current 45 processing locations. Five of the offices that will no longer process checks will close. The offices that are closing are Peoria, IL; Milwaukee, WI; Indianapolis, IN; Charleston, WV; and Columbia, SC. Additionally, the Reserve Banks will streamline their check adjustment functions, now being handled in 43 locations, to 12 of their current locations nationwide.

Staff levels: The Federal Reserve System, including the Board of Governors, employs approximately 24,000 staff nationwide; approximately 5,000 of these employees work in the check function.

As a result of the changes announced today, the Reserve Banks will reduce their overall check staff by slightly more than 400 positions, representing about 8 percent of their current check service positions. In the offices where check processing will be eliminated, almost 1,300 positions will be affected. At this time, however, the number of involuntary separations is unclear. Some staff reductions will occur through attrition, and there will be some opportunities for reassignment. In addition, the Reserve Banks estimate that they will add about 900 positions at the offices that will continue processing checks.

National check volumes: By Federal Reserve estimates, roughly 40 billion checks were written in the United States in 2002, down from about 50 billion in 1995. The Reserve Banks handle about 17 billion, or 42 percent, of these checks today. Despite the decline in check volume, checks remain the most popular form of noncash retail payment

Federal Reserve Locations

District 1: Boston, Mass. (head office); Windsor Locks, Conn. (check processing site)

District 2: New York City, N.Y. (head office; the payments processing center is located in East Rutherford, N.J.); Buffalo, N.Y. (branch, but no check processing); Utica, N.Y. (check processing site)

District 3: Philadelphia, Pa. (head office)

District 4: Cleveland, Ohio (head office); Cincinnati, Ohio (branch); Pittsburgh, Pa. (branch); Columbus, Ohio (check processing site)

District 5: Richmond, Va. (head office); Baltimore, Md. (branch); Charlotte, N.C. (branch); Columbia, S.C. (check processing site); Charleston, W.Va. (check processing site)

District 6: Atlanta, Ga. (head office); Birmingham, Ala. (branch); Jacksonville, Fla. (branch); Miami, Fla. (branch); Nashville, Tenn. (branch); New Orleans, La. (branch)

District 7: Chicago, Ill. (head office; the payments processing center is located at Midway Airport); Detroit, Mich. (branch); Des Moines, Iowa (check processing site); Indianapolis, Ind. (check processing site); Milwaukee, Wis. (check processing site); Peoria, Ill. (check processing site)

District 8: St. Louis, Mo. (head office); Little Rock, Ark. (branch); Louisville, Ky. (branch); Memphis, Tenn. (branch)

District 9: Minneapolis, Minn. (head office); Helena, Mont. (branch)

District 10: Kansas City, Mo. (head office); Denver, Colo. (branch); Oklahoma City, Okla. (branch); Omaha, Neb. (branch)

District 11: Dallas, Texas (head office); El Paso, Texas (branch); Houston, Texas (branch); San Antonio, Texas (branch)

District 12: San Francisco, Calif. (head office); Los Angeles, Calif. (branch; additional cash processing facility in Phoenix, Ariz.); Portland, Ore. (branch); Salt Lake City, Utah (branch); Seattle, Wash. (branch)

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