

# Less Travel for your Checks

If you use checks – and a lot of you still do – you ought to be aware of a federal law that took effect on October 28, 2004. The *Check Clearing for the 21st Century Act* – “Check 21” for short – dramatically changes the way banks process checks and is certain to have an impact on consumers – especially those who’ve been known to “play the float.”

The float?

OK. Let's assume you're not just playing the innocent, and you really don't understand the concept of “playing the float.” Here's a recap.

## The Float: A Hypothetical Example

You don't have enough money in your checking account to cover the mortgage payment, but you will by payday, which is only three days away. So, you write the mortgage check, drop it in the mail, and cross your fingers that it won't make its way through the banking system before you get paid.

Yes, you know you're not supposed to write a check if you don't have enough money in your account to cover it. But you're not out to cheat anyone. You're just “playing the float.”

Your mortgage company is in another state, so your check will take two or three days to get there.

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## Facts about Checks and the Payments System

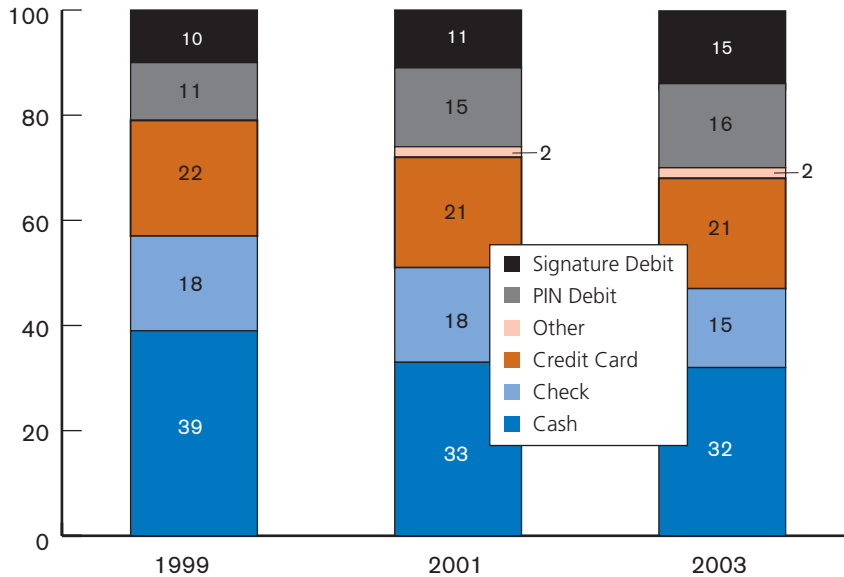
News coverage of Check 21 contained some interesting and enlightening facts about checks and the payments system.

- Only 36 percent of Americans now receive canceled checks in the mail with their bank statements.  
From a study conducted by the American Bankers Association and Dove Consulting. Reported in *The Wall Street Journal*, 10/28/04
- Cash and checks accounted for 47 percent of consumer purchases in stores in 2003, down from 51 percent in 2001, and 57 percent in 1999.  
From the American Bankers Association and Dove Consulting study.
- More than 75 percent of business-to-business transactions are made with paper checks.  
From a survey conducted by the Association for Financial Professionals. Reported in *The Wall Street Journal*, 10/28/04
- Only 1 in 8 Americans balance their checkbook.  
CNN/Money web site, 10/28/04
- According to the American Bankers Association, 23 percent of Americans aged 18 to 34 and 50 percent of Americans aged 55 and up get their original checks back in the mail.  
CNN/Money web site, 10/28/04
- In 2003, Americans used checks to pay 60 percent of recurring bills. That's down from 72 percent in 2001.  
Source: American Financial Services Association



## Consumers' Shifting Preferences for Making In-Store Payments

Percent Using Each Payment Method



Source: ABA/Dove Consulting, 2003/2004 Study of Consumer Payment Preferences

tal images of the check instead, which means that float times will be shorter because electronic images will move through the banking system much faster than paper checks. Bank customers who don't receive their canceled checks in the mail with their account statements won't experience much of a change – but their checks may still clear faster. As a senior attorney for Consumers Union told *The New York Times*, "We need to treat every one of our checks as if it is the one that's going to clear today, and that's new."

The other big change is that banks can now create substitute checks – special paper copies of the front and back of original checks. You can use the substitute checks to prove payment,

Then your mortgage company will deposit the check in its bank, which will process it, bundle it, and load it on a plane for the trip back to your bank. Finally, your bank will deduct the amount of the check from your account, and if there's money in your account to cover it, the check "clears."

The elapsed time between writing a check and actually having the money deducted from your account is known as "float," and over the years many consumers have used float time as a sort of "financial management tool" to bridge the gap between payday and the due date on their monthly bills. Of course, there was always a certain amount of risk involved because checks sometimes clear faster than expected. But after Check 21 takes full effect, "playing the float" will be more of a gamble than ever.

### Two Big Changes

Under Check 21, banks no longer have to send paper checks to other banks in order to receive payment. They can electronically transfer digi-

just as you might have used canceled original checks in the past. Or your bank might provide a substitute check to you when returning a "bounced" check that you deposited in your account.



According to *Frequently Asked Questions About Check 21*, a section on the Federal Reserve Board's web site, "A substitute check is legally the same as the original check if it accurately represents the information on the original check and includes the following statement: *This is a legal copy of your check. You can use it the same way you would use the original check.* The substitute check must also have been handled by a bank."

You can view the entire section, *Frequently Asked Questions About Check 21*, at <http://www.federalreserve.gov/check21/faqs2.htm>. And for other resources, including *Consumer Guide to Check 21 and Substitute Checks*, go to <http://www.federalreserve.gov/check21/>

Another good resource is on the Federal Reserve Bank of Boston's web site: <http://www.bos.frb.org/consumer/check21/index.htm> ■

