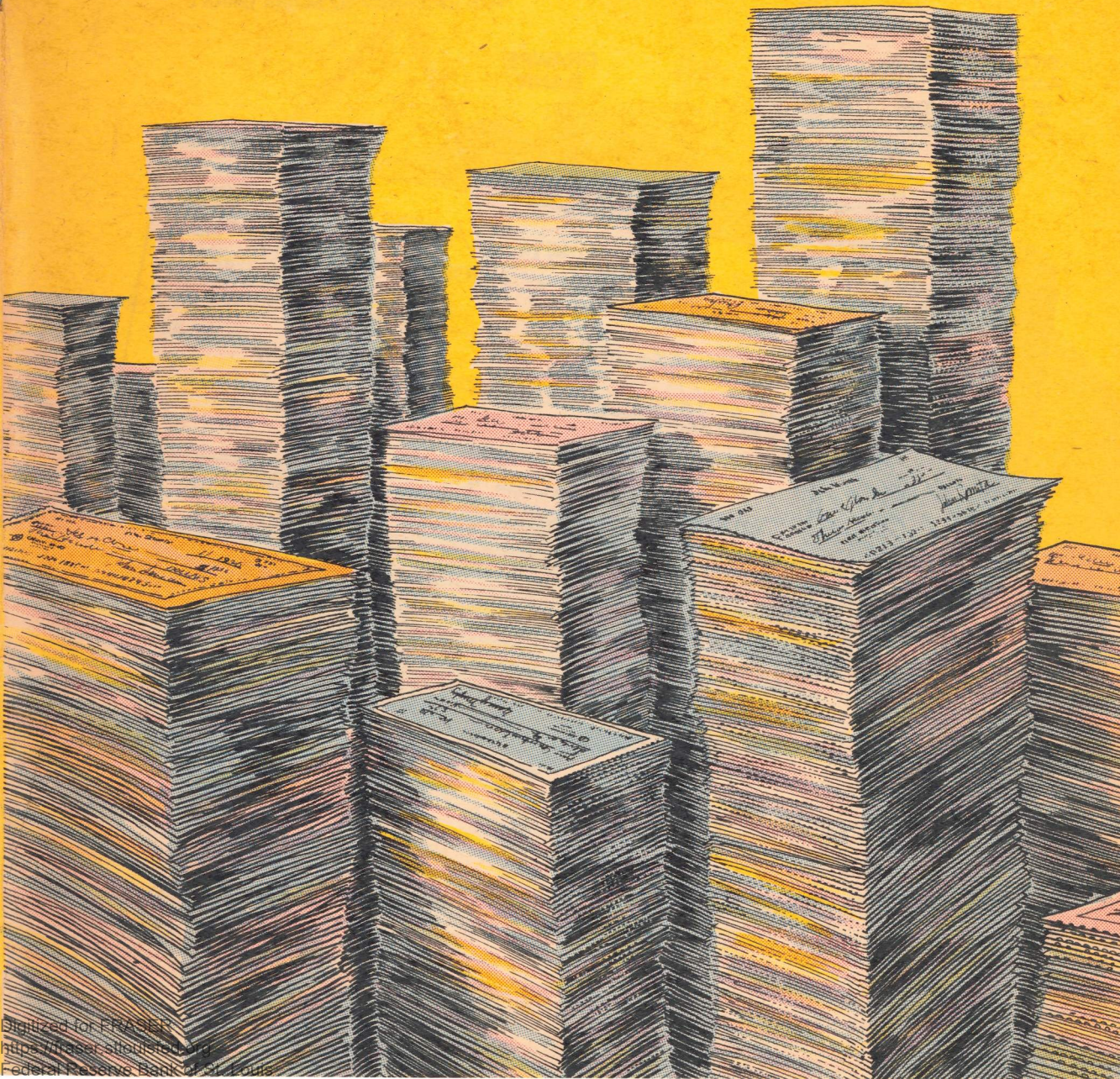


# THE STORY OF CHECKS

FEDERAL RESERVE BANK OF NEW YORK



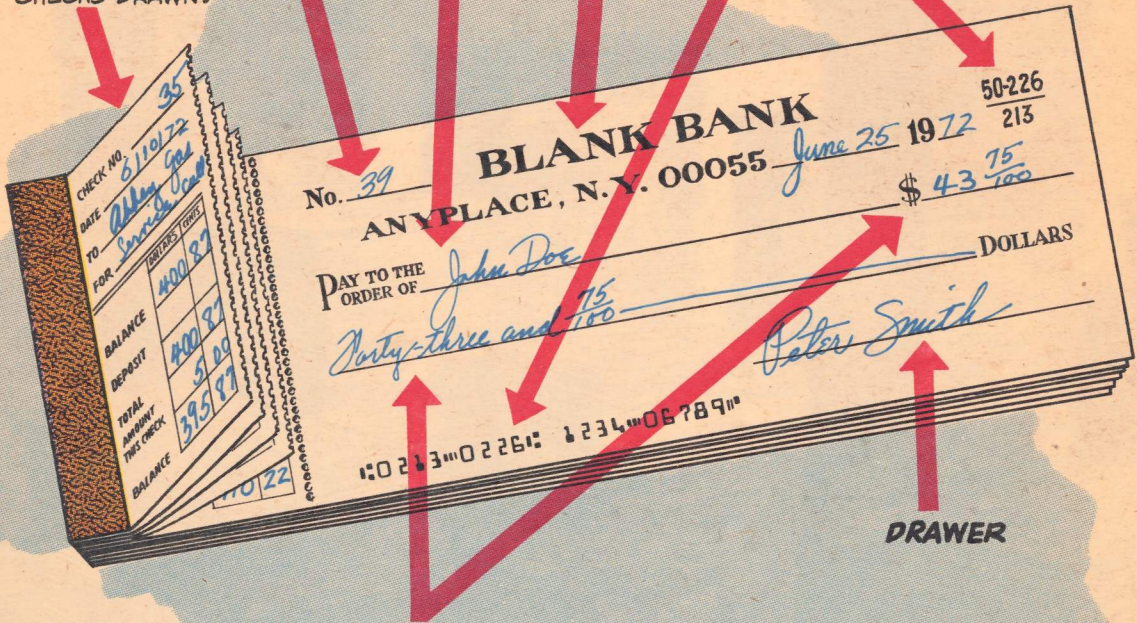
STUBS WHERE AN ACCURATE RECORD IS KEPT OF THE CHECKS DRAWN.

NUMBER OF CHECK

PAYEE

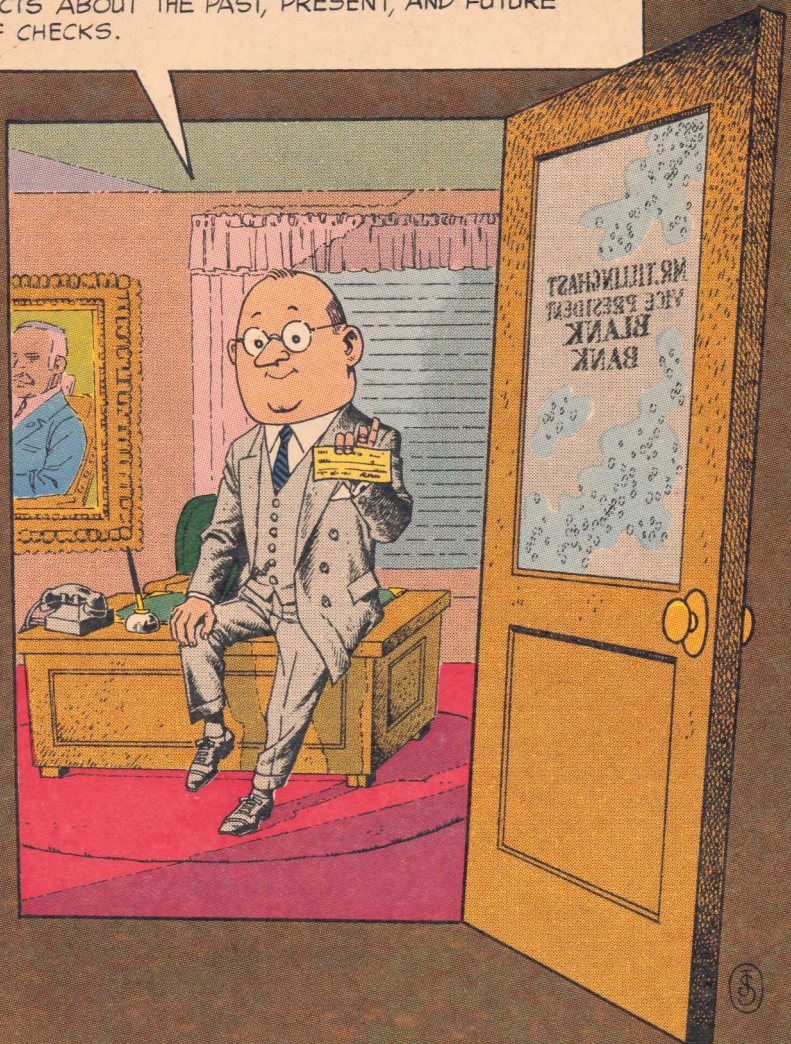
DRAWEE BANK

BLANK BANK'S IDENTIFICATION NUMBER--- A NUMERICALLY CODED "ADDRESS" BY WHICH CHECKS ARE RETURNED TO BLANK BANK.



AMOUNT OF CHECK WRITTEN BOTH IN FIGURES AND WORDS AS A PRE-CAUTION AGAINST MISTAKES.

IN MY HAND I HOLD ONE OF THE MOST IMPORTANT  
PIECES OF PAPER IN THE WORLD... A CHECK. WE USE  
CHECKS TO PAY \$9 OUT OF EVERY \$10 WE SPEND.  
TODAY, THERE ARE ABOUT 91 MILLION CHECKING  
ACCOUNTS IN THE UNITED STATES. I WANT TO TELL  
YOU WHAT HAPPENS TO THE CHECKS EXCHANGED  
BETWEEN THESE ACCOUNTS, AND ALSO, SOME  
FACTS ABOUT THE PAST, PRESENT, AND FUTURE  
OF CHECKS.



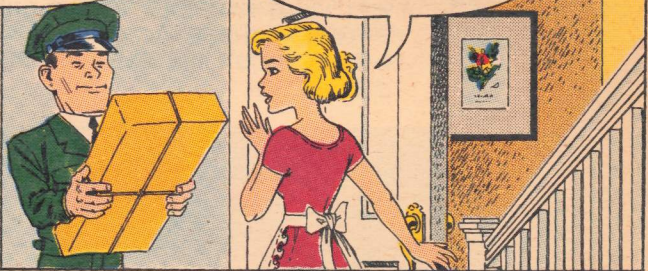
# CHECKBOOK MONEY

A TYPICAL AMERICAN FAMILY, THE HENDERSONS, HAS ONE OF THE 91 MILLION CHECKING ACCOUNTS IN THE UNITED STATES. AT THE MOMENT, MRS. HENDERSON IS FACED WITH A SITUATION WHICH WE CAN ALL FULLY APPRECIATE ...

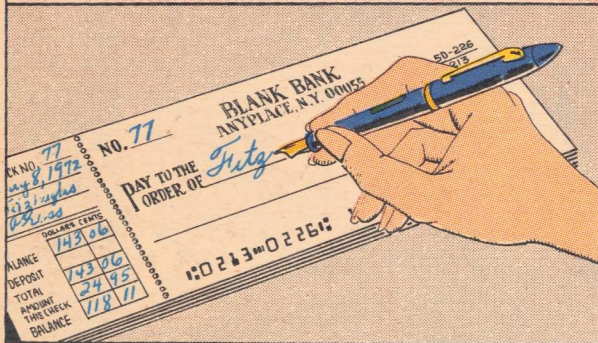


MRS. HENDERSON? I HAVE A C.O.D. PACKAGE FROM FITZHUGH'S DEPT. STORE. THE AMOUNT DUE IS \$24.95.

OH, MY GOODNESS! I DON'T HAVE THE CASH... WAIT A MINUTE, I'LL WRITE A CHECK!

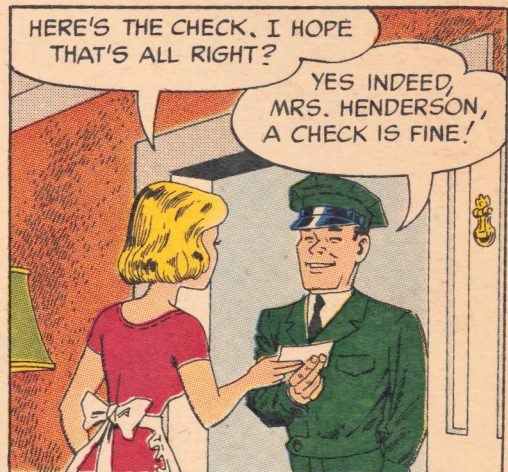


BY FILLING IN THE BLANKS OF A CHECK FORM ... MRS. HENDERSON SPENDS \$24.95, AS EASILY AS IF IT WERE OFFICIAL UNITED STATES CURRENCY AND COIN.



HERE'S THE CHECK, I HOPE THAT'S ALL RIGHT?

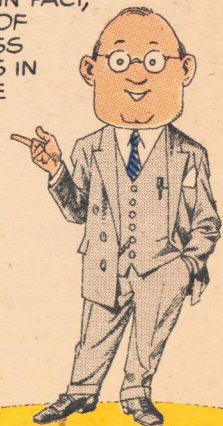
YES INDEED, MRS. HENDERSON, A CHECK IS FINE!



THANK GOODNESS WE HAVE A CHECKING ACCOUNT! I FORGOT I'D HAVE TO PAY FOR THIS TODAY, I DON'T SEE HOW PEOPLE EVER DID WITHOUT CHECKS!

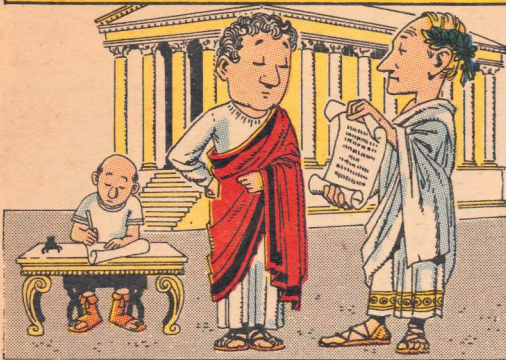


MOST OF US, LIKE MRS. HENDERSON, AGREE THAT CHECKS ARE CONVENIENT, BUT LIKE HER WE THINK VERY LITTLE, IF AT ALL, ABOUT HOW CHECKS DO THEIR JOB. A LOT OF MONEY MOVES AROUND THE UNITED STATES BY CHECK. IN FACT, SUMS ADDING UP TO BILLIONS OF DOLLARS EACH DAY CRISS-CROSS AMONG OUR CITIES AND TOWNS IN A COMPLEX PATTERN TO SETTLE MILLIONS OF PAYMENTS LIKE MRS. HENDERSON'S THAT MAKE UP THE ORDINARY BUSINESS OF OUR LIVES. CHECKS ALSO SETTLE BILLIONS OF DOLLARS OF GOVERNMENT AND BUSINESS PAYMENTS.



# HOW IT ALL BEGAN...

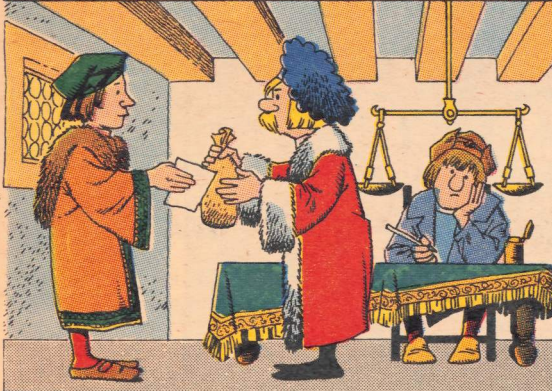
EXPERTS AREN'T SURE... SOME SAY THE ROMANS INVENTED THE CHECK ABOUT 352 B.C.



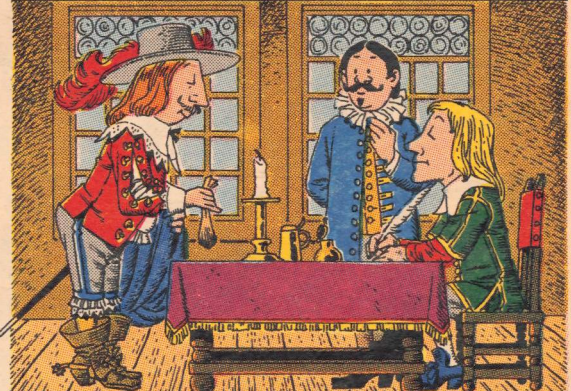
OTHERS GIVE CREDIT TO HOLLAND IN THE 16<sup>TH</sup> CENTURY. IN AMSTERDAM, ABOUT 1500 A.D., PEOPLE LEARNED TO DEPOSIT THEIR CASH WITH "CASHIERS" FOR A FEE, RATHER THAN RISK STORING IT AT HOME.



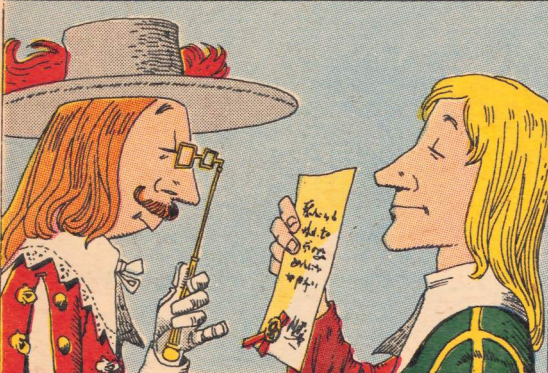
THE CASHIERS AGREED TO COLLECT AND CANCEL DEBTS BY WAY OF THEIR DEPOSITORS' WRITTEN ORDERS... IN OTHER WORDS, CHECKS.



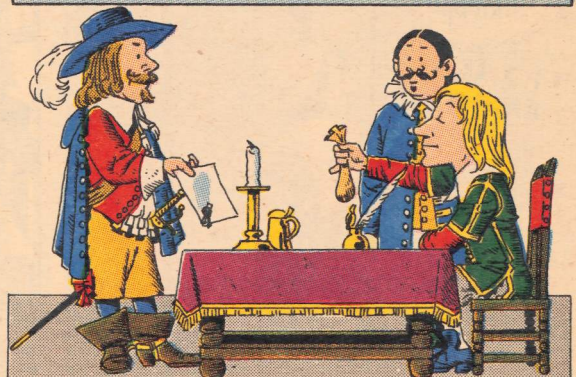
IN ENGLAND, IN THE LATTER PART OF THE 17<sup>TH</sup> CENTURY, PEOPLE BEGAN TO MAKE DEPOSITS OF CASH WITH GOLDSMITHS...



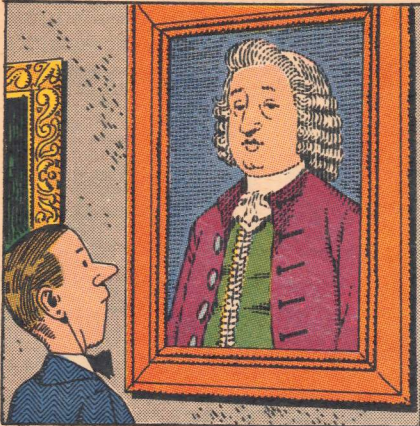
THE GOLDSMITH GAVE HIS CUSTOMER "GOLDSMITH NOTES" (THE FORERUNNERS OF BANK-ISSUED CURRENCY). THESE WERE SIMPLE PEN-AND-INK RECEIPTS — WRITTEN PROMISES TO PAY THE CUSTOMER, OR TO HIS ORDER, BUT IN ADDITION...



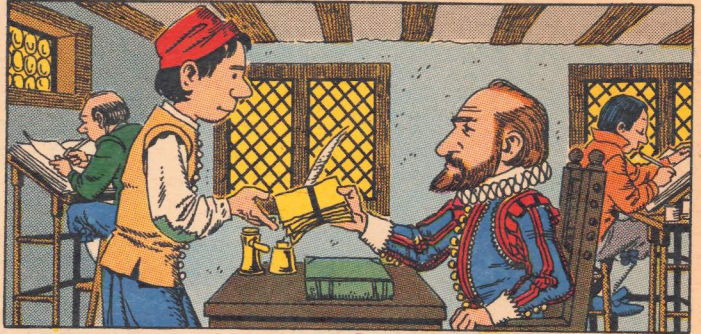
THE CUSTOMER MIGHT WRITE THE GOLDSMITH DIRECTING HIM TO PAY A CERTAIN SUM TO A PERSON, OR TO HIS ORDER, OR TO THE BEARER OF THE NOTE. THE ORDERS TO PAY DIFFERED FROM MODERN CHECKS ONLY IN BEING LESS UNIFORM.



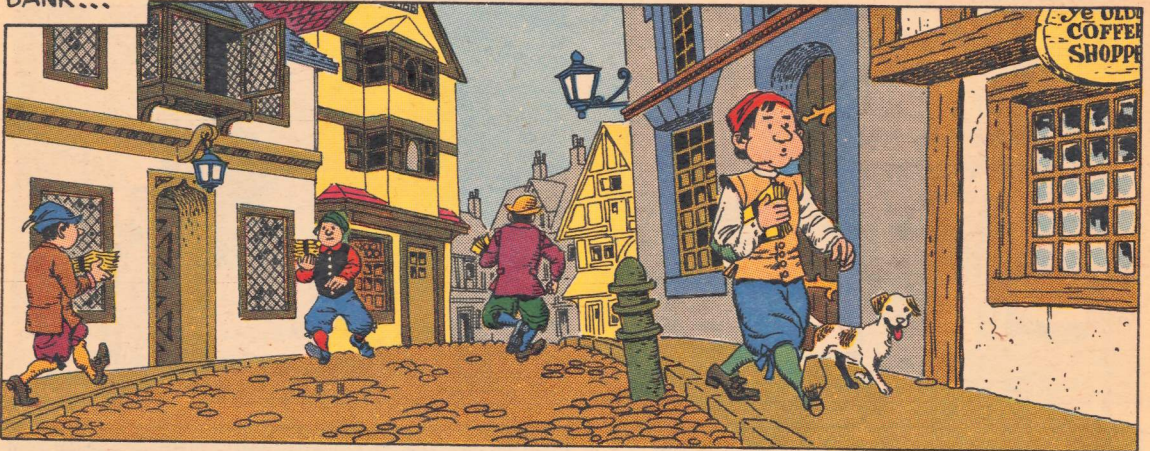
THE EARLIEST PRINTED CHECKS, BELIEVED TO DATE FROM 1762, WERE MADE BY LAWRENCE CHILDS IN ENGLAND. HE WAS THE FIRST BANKER IN THE MODERN SENSE.



BUT, BEFORE THAT, IN ENGLAND, THE USE OF CHECKS HAD BEGUN TO SPREAD... SOMEONE RECEIVING CHECKS FROM DIFFERENT PEOPLE DRAWN ON DIFFERENT BANKS FOUND IT INCONVENIENT TO GO TO THE VARIOUS BANKS TO GET PAYMENT. HE DEPOSITED THE CHECKS IN HIS OWN BANK, WHICH DID THE COLLECTING. PRESENTING CHECKS TO OTHER BANKS WAS ACCOMPLISHED BY USE OF MESSENGERS.

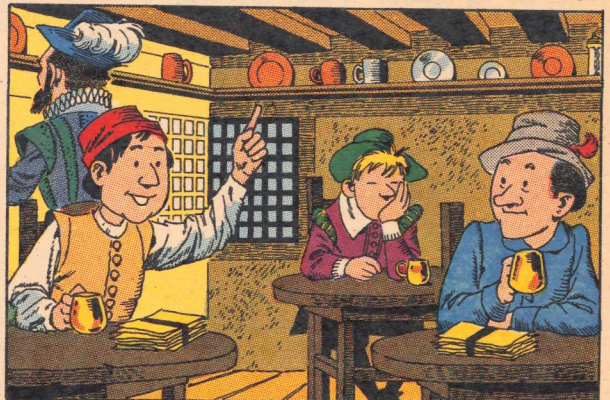
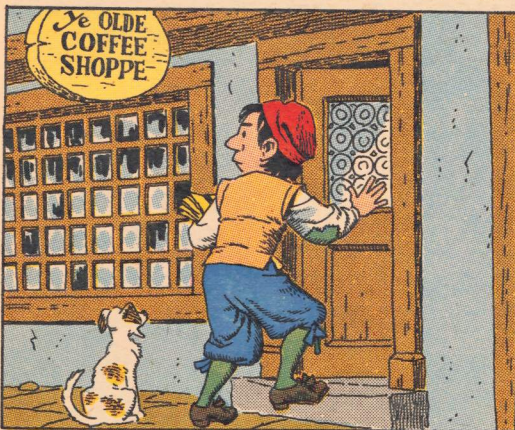


THIS MEANT THAT EACH BANK'S MESSENGER MADE MANY TRIPS EVERY DAY TO EVERY OTHER BANK...

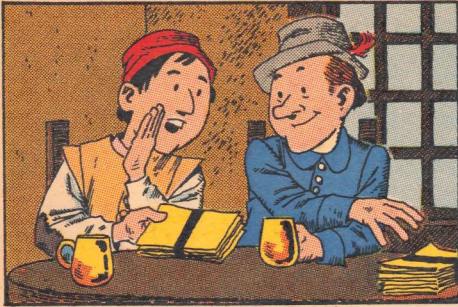


THE STORY GOES... THAT ONE DAY A WEARY MESSENGER STOPPED OFF ON THE WAY AT A LOCAL COFFEE SHOP...

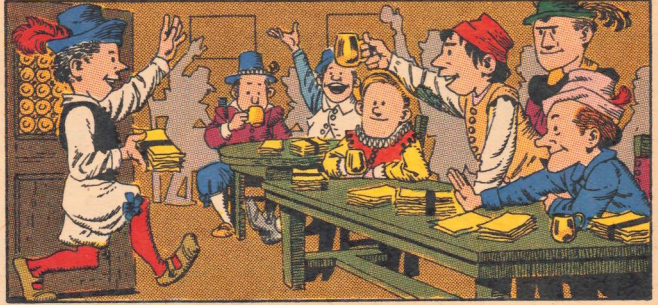
AS HE SETTLED DOWN TO HAVE HIS COFFEE, HE NOTICED ANOTHER BANK MESSENGER... AND AS IT TURNED OUT, EACH CARRIED A BUNDLE OF CHECKS DRAWN ON THE OTHER'S BANK.



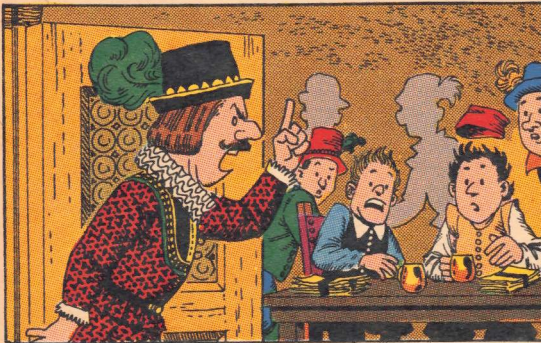
IN THE COURSE OF CONVERSATION, THEY DECIDED TO EXCHANGE THEIR BUNDLES OF CHECKS. THEY WOULD RETURN TO THEIR OWN BANKS, THUS SHORTENING THEIR TRIP.



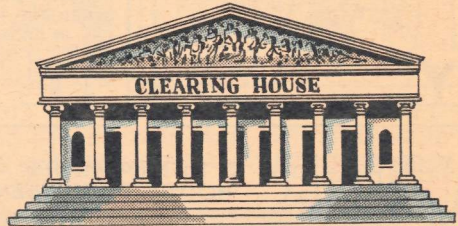
SOON OTHER MESSENGERS, HEARING OF THIS SIMPLE METHOD, STARTED TO MEET AT THE COFFEE HOUSE... THEY ALL WOULD EXCHANGE CHECKS AND RETURN TO THEIR RESPECTIVE BANKS, SAVING MANY EXTRA TRIPS.



WHEN THE BANKERS FOUND OUT ABOUT THIS, MANY OBJECTED...

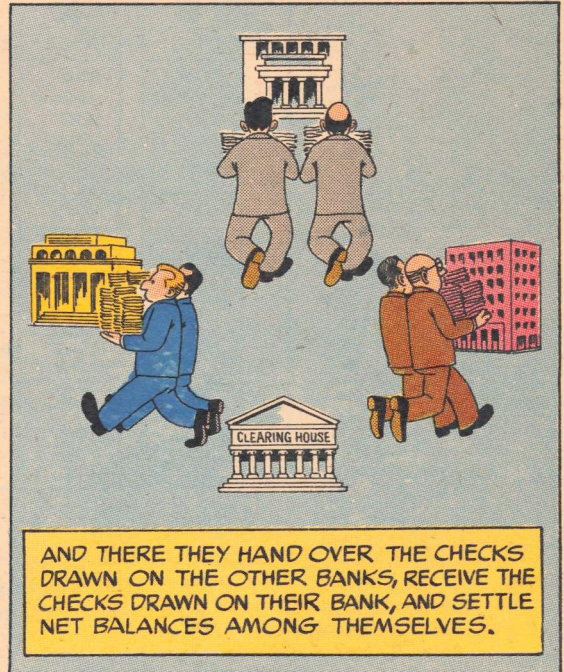
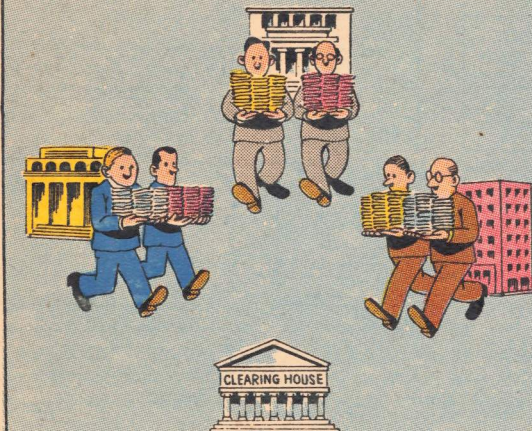


BUT AS TIME WENT ON, THEY REALIZED THE VALUE OF THIS SYSTEM AND IT HAS PROVED ITSELF OVER THE YEARS... TODAY THE LOCAL "CLEARING HOUSE" IS AN INTEGRAL PART OF THE CHECK COLLECTION OPERATION.



THE CLEARING HOUSE OPERATES ALMOST THE SAME AS THE ORIGINAL COFFEE HOUSE GATHERINGS...

BANKS SEND A **DELIVERY CLERK** AND A **SETTLING CLERK** TO THE CLEARING HOUSE. THEY BRING BUNDLES OF CHECKS, ONE BUNDLE FOR EACH OF THE OTHER BANKS, AND A **LIST OF THE AMOUNTS DUE** THEIR BANKS FROM EACH OTHER BANK.

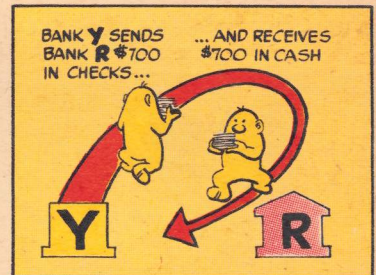
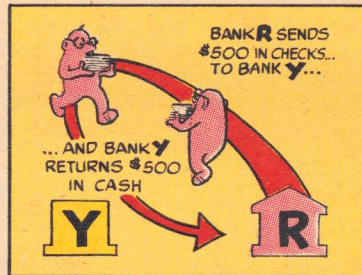
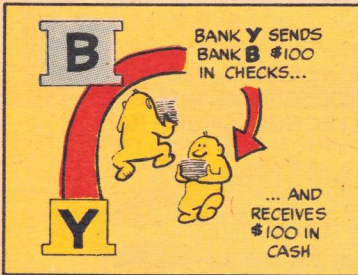
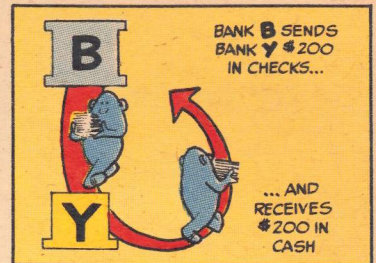
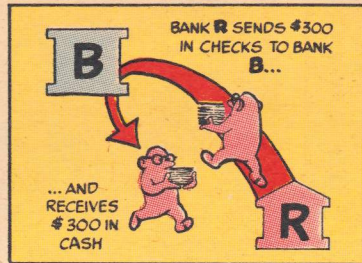
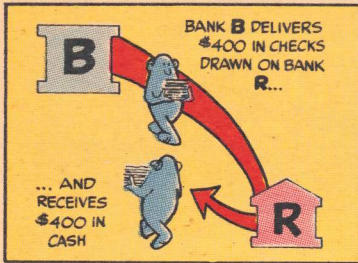


AND THERE THEY HAND OVER THE CHECKS DRAWN ON THE OTHER BANKS, RECEIVE THE CHECKS DRAWN ON THEIR BANK, AND SETTLE NET BALANCES AMONG THEMSELVES.

SO THE CLEARING HOUSE SIMPLIFIES THE CHECK CLEARING OPERATION...

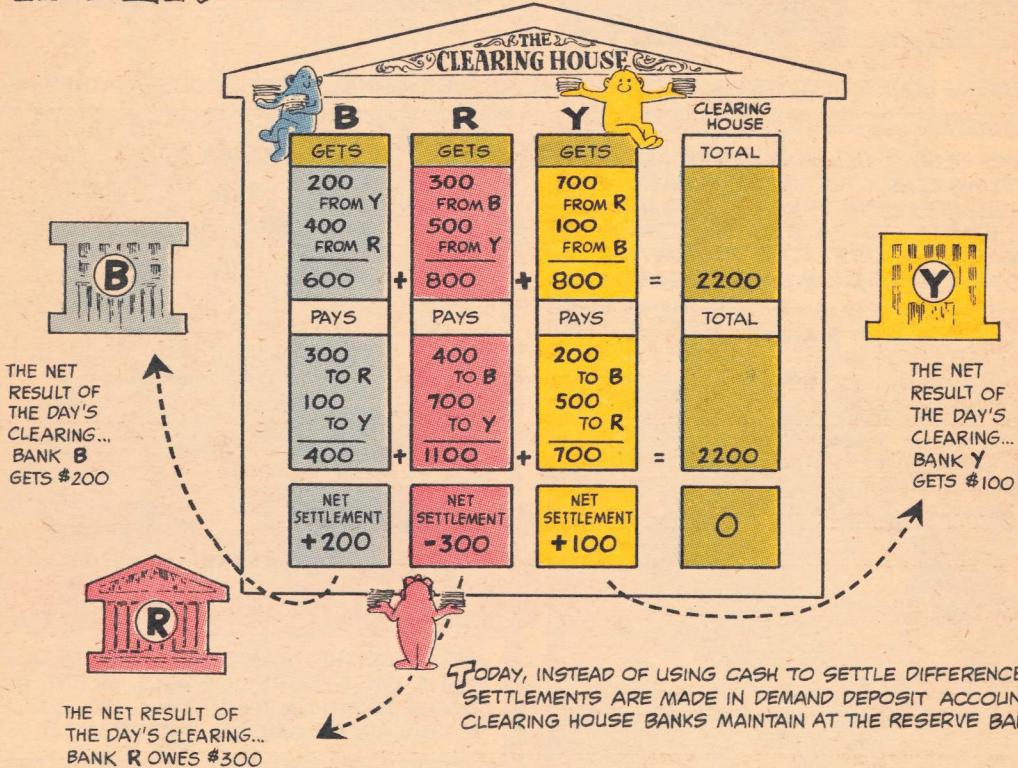
# BEFORE

6 PAYMENTS AND 6 SEPARATE ROUND TRIPS BY MESSENGERS BETWEEN ANY 3 BANKS.

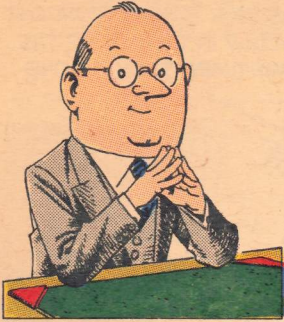


# AFTER

3 NET PAYMENTS AND 3 ROUND TRIPS TO THE CLEARING HOUSE BY MESSENGERS.

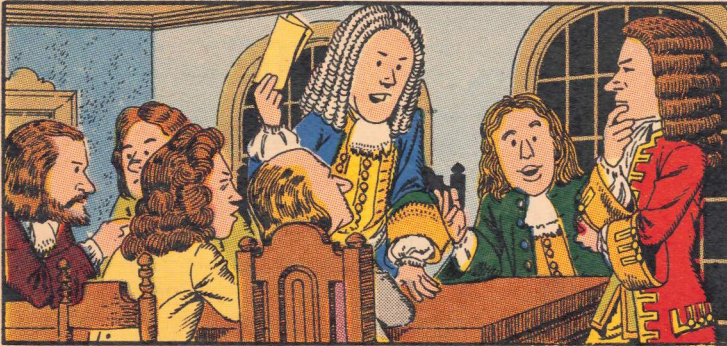






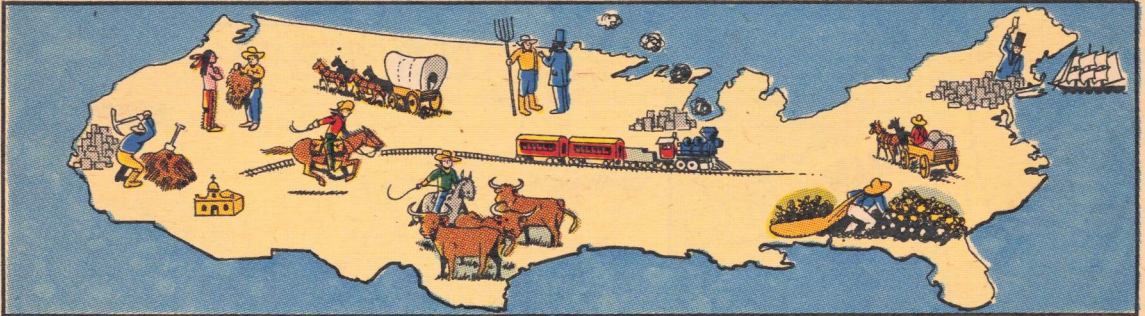
# CHECKS *in the* UNITED STATES

**MORE CHECKS ARE USED IN THE UNITED STATES TODAY THAN IN ANY OTHER COUNTRY. THEIR HISTORY HERE BEGAN IN 1681 WITH A FAMOUS EXPERIMENT CALLED "THE FUND AT BOSTON IN NEW ENGLAND." TO MEET THE SHORTAGE OF HARD CASH FOR TRADE, THE BUSINESSMEN OF BOSTON MORTGAGED THEIR LAND AND WARES TO THE FUND. THEY IN TURN RECEIVED A CREDIT AGAINST WHICH THEY COULD DRAW CHECKS.**



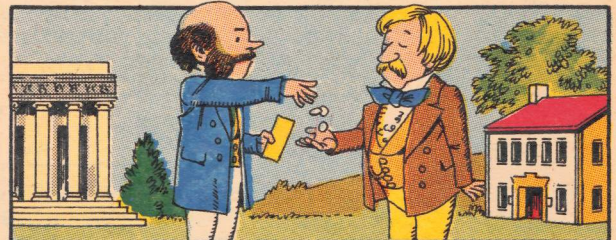
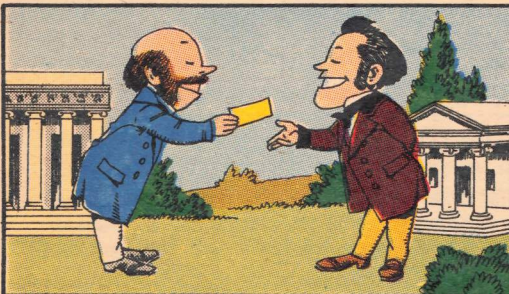
THE MERCHANTS HOPED THAT USE OF THESE CHECKS WOULD SPREAD AMONG THE PUBLIC. CHECKBOOK MONEY IN THE COLONIES, HOWEVER, WAS SOON REPLACED BY PAPER CURRENCY WHICH BETTER SUITED THE NEEDS OF THE TIME.

ONLY AFTER THE REVOLUTIONARY WAR, WHEN DEPOSIT BANKING BECAME ESTABLISHED, DID CHECKS COME INTO WIDESPREAD USE. BY THE TIME OF THE CIVIL WAR, WITH THE GROWTH OF CITIES, IMPROVED TRANSPORTATION AND CHEAP UNIFORM POSTAL RATES, CHECKBOOK MONEY HAD SURPASSED BANK NOTE CURRENCY IN VOLUME.



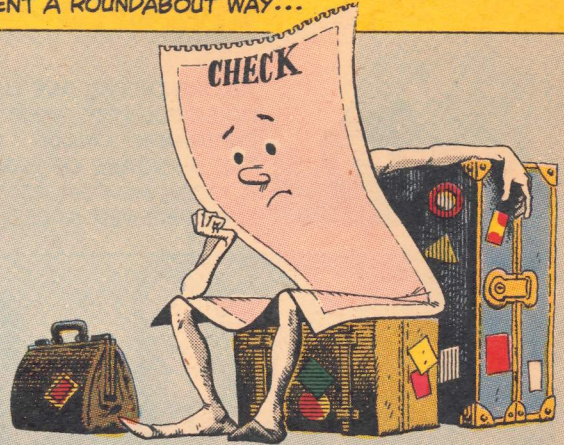
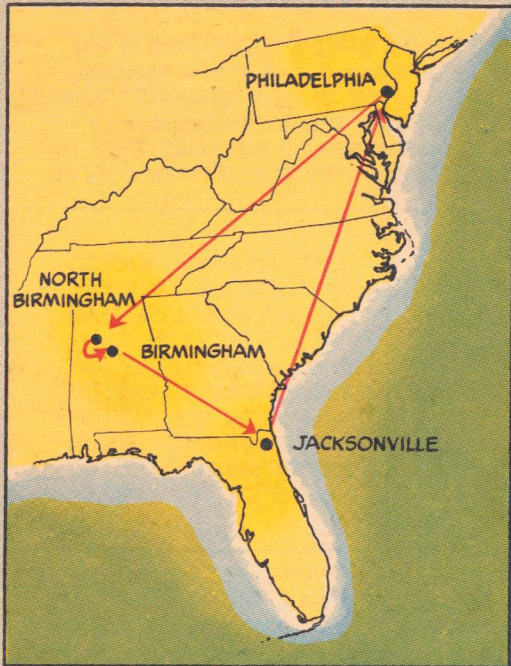
BUT THE COUNTRY LACKED A CENTRAL CLEARING MECHANISM FOR CHECKS. BANKS THAT HAD FREQUENT TRANSACTIONS WITH EACH OTHER SET UP ACCOUNTS WITH EACH OTHER AND THUS CHECKS WERE HANDLED WITH EASE BETWEEN SUCH "CORRESPONDENT" BANKS.

HOWEVER, SOME BANKS CHARGED THE PRESENTING OUT-OF-TOWN BANK A FEE CALLED AN "EXCHANGE CHARGE."

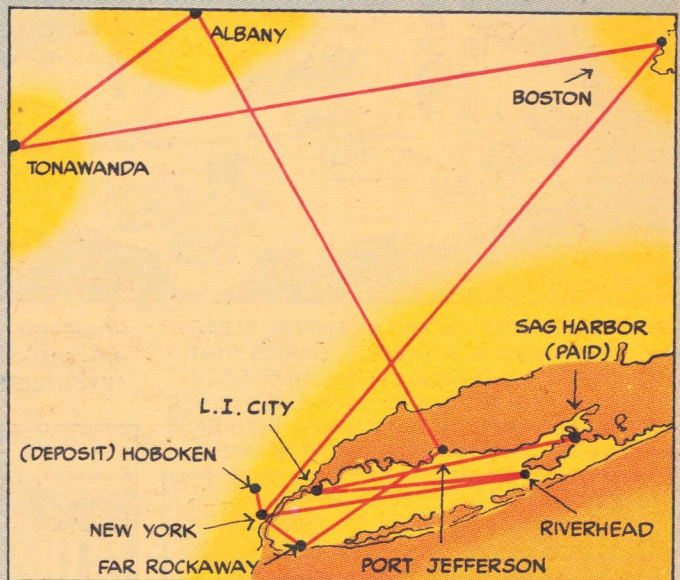
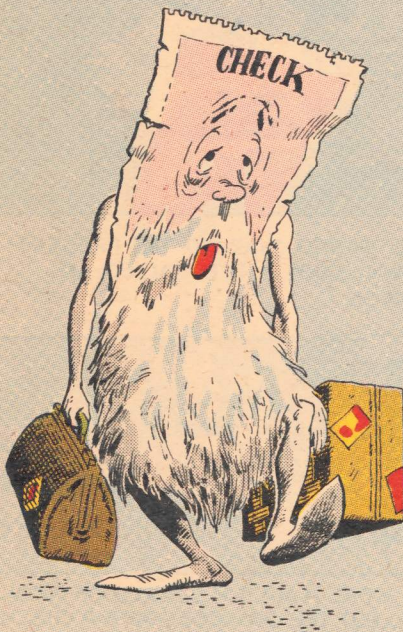


THESE CHARGES WERE A MAJOR SOURCE OF INCOME TO MANY BANKS... BUT THE CHARGES MADE A CHECK DRAWN ON, SAY, A CHICAGO BANK, WORTH LESS IN NEW YORK THAN ITS FACE VALUE.

TO AVOID THE EXCHANGE CHARGE, A BANK WOULD SEND OUT-OF-TOWN CHECKS TO A "CORRESPONDENT" BANK RATHER THAN BY THE MOST DIRECT ROUTE. THE CORRESPONDENT WOULD IN TURN SEND THE CHECK TO ONE OF ITS CORRESPONDENTS... THE RESULT - CHECKS SOMETIMES TOOK A LONG TIME TO BE COLLECTED AND WENT A ROUNDABOUT WAY...



HERE IS ONE EXAMPLE: A CHECK DRAWN ON A NORTH BIRMINGHAM BANK AND DEPOSITED IN A BIRMINGHAM BANK 4 MILES AWAY, TRAVELED 4,500 MILES AND TOOK 14 DAYS TO GET TO THE BANK ON WHICH IT WAS DRAWN. THE CHECK WENT FROM BIRMINGHAM TO JACKSONVILLE AND THEN TO PHILADELPHIA TO GET TO NORTH BIRMINGHAM. IF PAYMENT WAS REFUSED, IT TRAVELED THE SAME ROUTE IN REVERSE TO GET BACK TO BIRMINGHAM.



ANOTHER EXAMPLE IS THAT OF A CHECK DRAWN ON A SAG HARBOR, N.Y. BANK AND DEPOSITED IN HOBOKEN, N.J. 93 MILES AWAY, THAT PASSED THROUGH 11 BANKS, TRAVELED 1,233 MILES IN 11 DAYS TO AVOID EXCHANGE CHARGES. TODAY IT WOULD GO 93 MILES IN LESS THAN TWO DAYS, IF COLLECTED THROUGH THE FEDERAL RESERVE BANK OF NEW YORK.

# THE FEDERAL RESERVE SYSTEM

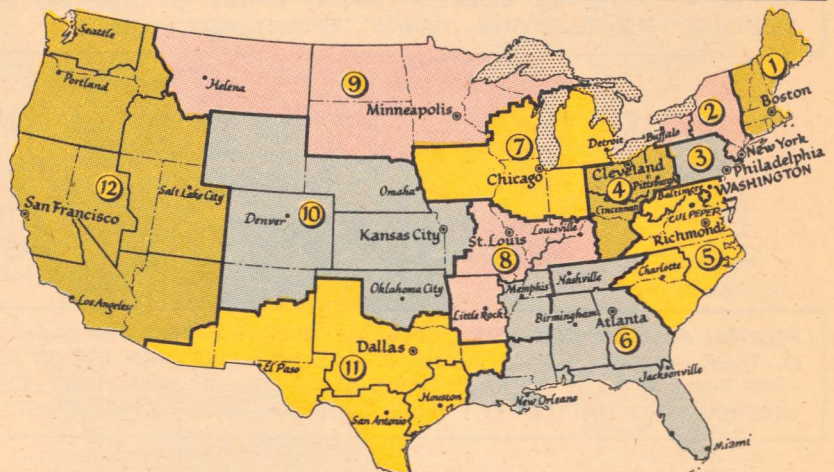
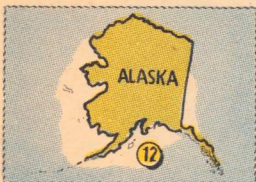
WHEN PRESIDENT WILSON SIGNED THE FEDERAL RESERVE ACT IN 1913, A NEW ERA BEGAN IN THE STORY OF CHECKS IN THE UNITED STATES.



THE ACT PROVIDES THAT EACH FEDERAL RESERVE BANK SERVE AS A CHECK CLEARING AND COLLECTION CENTER FOR THE BANKS IN ITS DISTRICT THAT HAVE ACCOUNTS WITH IT. THE SYSTEM PROVIDES A NATIONAL CLEARING MECHANISM THAT ELIMINATES THE LENGTHY REROUTING AND EXCHANGE CHARGES ON CHECKS. A MEMBER BANK THAT RECEIVES CHECKS PAYABLE OUT OF TOWN MAY NOW CLEAR THE CHECKS THROUGH ITS FEDERAL RESERVE BANK OR BRANCH OR CITY CORRESPONDENTS. CITY BANKS ENCOURAGE THEIR COUNTRY BANK "COUSINS" TO USE THEIR SPECIAL COLLECTION FACILITIES. THE CORRESPONDENT BANKING NETWORK AND THE FEDERAL RESERVE SYSTEM WORK HAND IN HAND TO PROCESS THE EVER-RISING VOLUME OF CHECKS THAT NEED TO BE COLLECTED.

DURING 1971 THE FEDERAL RESERVE SYSTEM HANDLED MORE THAN 7.7 BILLION CHECKS, AMOUNTING TO OVER 3.8 TRILLION DOLLARS. ALSO, OF COURSE, MANY OTHER CHECKS WERE COLLECTED BY CITY CORRESPONDENT BANKS, OR LOCAL CLEARING HOUSES, OR BY DIRECT PRESENTATION FROM ONE BANK TO ANOTHER.

## THE FEDERAL RESERVE SYSTEM DISTRICTS AND BRANCH TERRITORIES



- FEDERAL RESERVE BANK CITIES
- FEDERAL RESERVE BRANCH CITIES
- BOUNDARIES OF FEDERAL RESERVE DISTRICTS
- - - BOUNDARIES OF FEDERAL RESERVE BRANCH TERRITORIES
- ★ BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTE: PUERTO RICO AND VIRGIN ISLANDS INCLUDED IN 2ND DISTRICT FOR CHECK CLEARING AND COLLECTIONS.

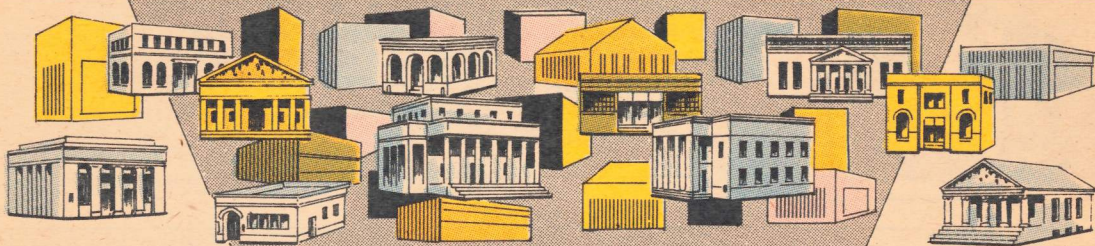
# DOLLAR-SWITCHING

TO MOVE MONEY AROUND, A CHECK HAS TO FIND A SINGLE SET OF BOOKS SOMEWHERE — A DOLLAR-SWITCHING CENTER IN THE PAYMENTS CIRCUIT—WHERE A BOOKKEEPER CAN SUBTRACT THE AMOUNT OF THE CHECK FROM ONE ACCOUNT AND ADD IT TO ANOTHER.

## HOW THE SYSTEM WORKS



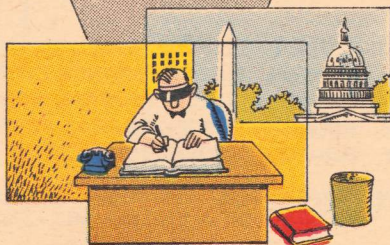
**LOCAL CENTERS...** PEOPLE AND ORGANIZATIONS HAVE THEIR DEPOSITS IN COMMERCIAL BANKS. A BANK SERVES AS A SET OF BOOKS FOR ITS CUSTOMERS, AND A CLEARING HOUSE DOES THE SAME FOR LOCAL BANKS.



**REGIONAL AND NATIONAL CENTERS...** LOCAL BANKS, IN TURN, HAVE DEPOSITS AT FEDERAL RESERVE OR CORRESPONDENT BANKS, OR BOTH. TRANSACTIONS ARE SETTLED AT THE RESERVE AND CORRESPONDENT BANKS BY CREDITING THE SENDING, AND DEBITING THE RECEIVING, BANKS' DEPOSIT ACCOUNTS.

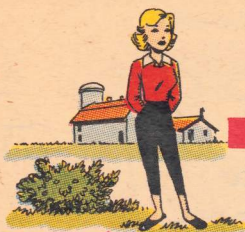


**FEDERAL RESERVE CENTERS...** FEDERAL RESERVE BANKS PAY EACH OTHER FOR THE RESULTS OF THEIR NUMEROUS DAILY TRANSACTIONS WITH ONE ANOTHER BY SETTLING NET BALANCES — THE FINAL RESULTS OF EACH DAY'S TOTAL DOLLAR-SWITCHING — ON THE BOOKS OF THE INTERDISTRICT SETTLEMENT FUND THEY MAINTAIN IN WASHINGTON.



**TO SEE HOW THE FEDERAL RESERVE SYSTEM FITS TOGETHER, LET'S TRACE A CHECK THROUGH ITS COLLECTION AND CLEARING FACILITIES --**

SUPPOSE MRS. HENDERSON, LIVING IN ALBANY, N. Y., BUYS A PAINTING FROM AN ART DEALER IN SACRAMENTO, CALIFORNIA.



**SHE SENDS HER CHECK**



**1**

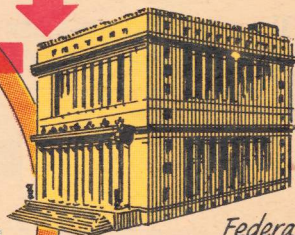
THE DEALER DEPOSITS THE CHECK IN HIS ACCOUNT AT A SACRAMENTO BANK.



*Sacramento Bank*

**2**

THE SACRAMENTO BANK DEPOSITS THE CHECK FOR CREDIT IN ITS ACCOUNT AT THE FEDERAL RESERVE BANK OF SAN FRANCISCO.



*Federal Reserve Bank of San Francisco*

**3**

THE FEDERAL RESERVE BANK OF SAN FRANCISCO SENDS THE CHECK TO THE FEDERAL RESERVE BANK OF NEW YORK FOR COLLECTION.

*Interdistrict Settlement Fund*



**6**

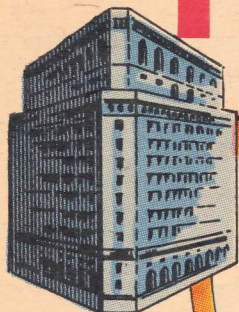
THE FEDERAL RESERVE BANK OF NEW YORK PAYS THE FEDERAL RESERVE BANK OF SAN FRANCISCO BY PAYMENT FROM ITS SHARE IN THE INTERDISTRICT SETTLEMENT FUND.



*Albany Bank*

**4**

THE FEDERAL RESERVE BANK OF NEW YORK FORWARDS THE CHECK TO THE ALBANY BANK WHICH DEDUCTS THE AMOUNT OF THE CHECK FROM MRS. HENDERSON'S ACCOUNT.



*Federal Reserve Bank of New York*

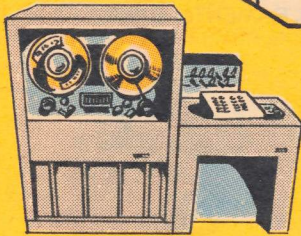
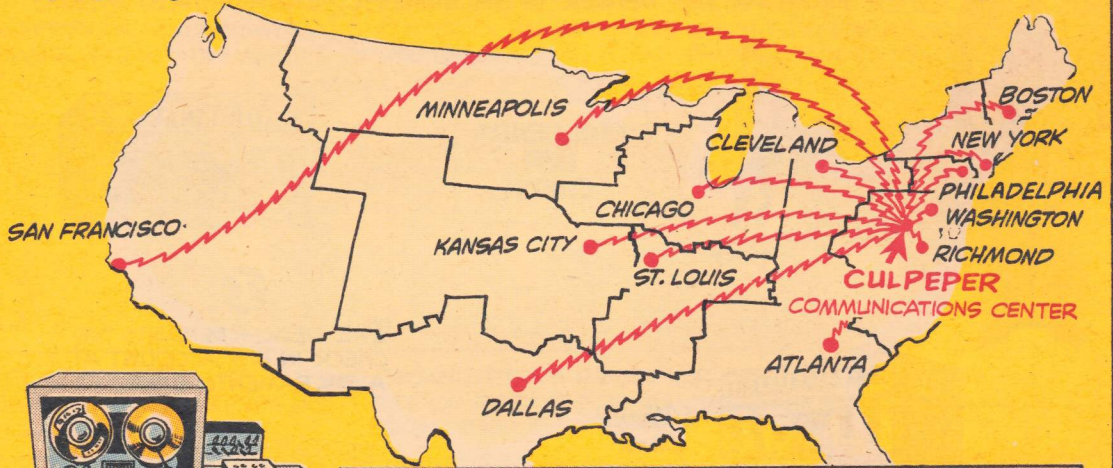
**5**

THE ALBANY BANK AUTHORIZES THE FEDERAL RESERVE BANK OF NEW YORK TO DEDUCT THE AMOUNT OF THE CHECK FROM ITS DEPOSIT ACCOUNT WITH THE RESERVE BANK.

**7**

THE FEDERAL RESERVE BANK OF SAN FRANCISCO CREDITS THE SACRAMENTO BANK'S DEPOSIT ACCOUNT, AND THE SACRAMENTO BANK CREDITS THE ART DEALER'S ACCOUNT.

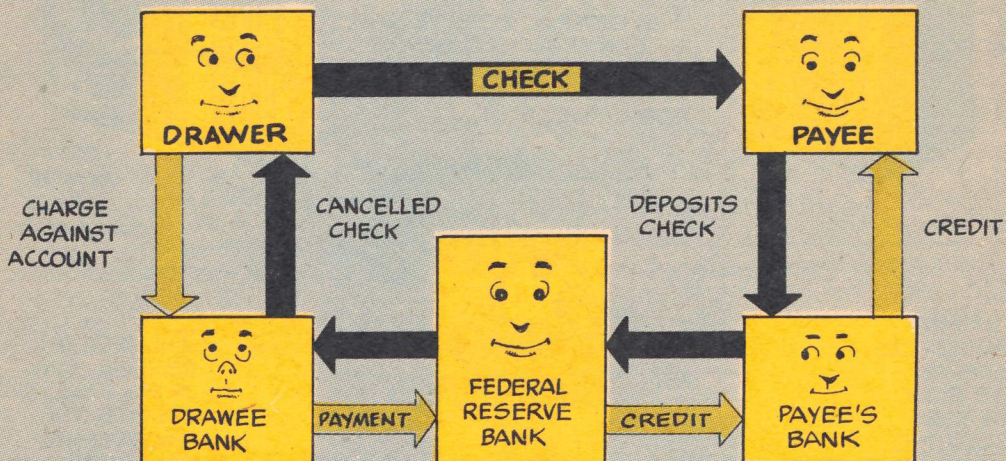
THE CENTRAL NERVOUS SYSTEM OF THE FEDERAL RESERVE IS ITS ELECTRONIC WIRE TRANSFER SYSTEM. IT LINKS THE RESERVE BANKS WITH EACH OTHER AND THE INTERDISTRICT SETTLEMENT FUND. THROUGH IT MONEY IS CONSTANTLY BEING TRANSFERRED FROM ONE RESERVE BANK TO ANOTHER... ALMOST \$60 BILLION A DAY.



MUCH OF THIS IS SETTLEMENT FOR COLLECTED CHECKS, BUT IT ALSO INCLUDES TRANSFERS OF FUNDS FOR MEMBER BANKS, THEIR CUSTOMERS, AND THE U.S. TREASURY.

THE COST OF COLLECTING AND CLEARING CHECKS IS A MAJOR PART OF RESERVE BANK EXPENSES. BUT, CONSISTENT WITH THE IDEAL OF A MONEY THAT CIRCULATES AT THE SAME VALUE THROUGHOUT THE COUNTRY, THESE AND OTHER SERVICES ARE RENDERED FREE OF CHARGE...

TO SUM UP THE ELEMENTS OF OUR CHECK COLLECTION OR DOLLAR SWITCHING SYSTEM, THEN, WE HAVE...

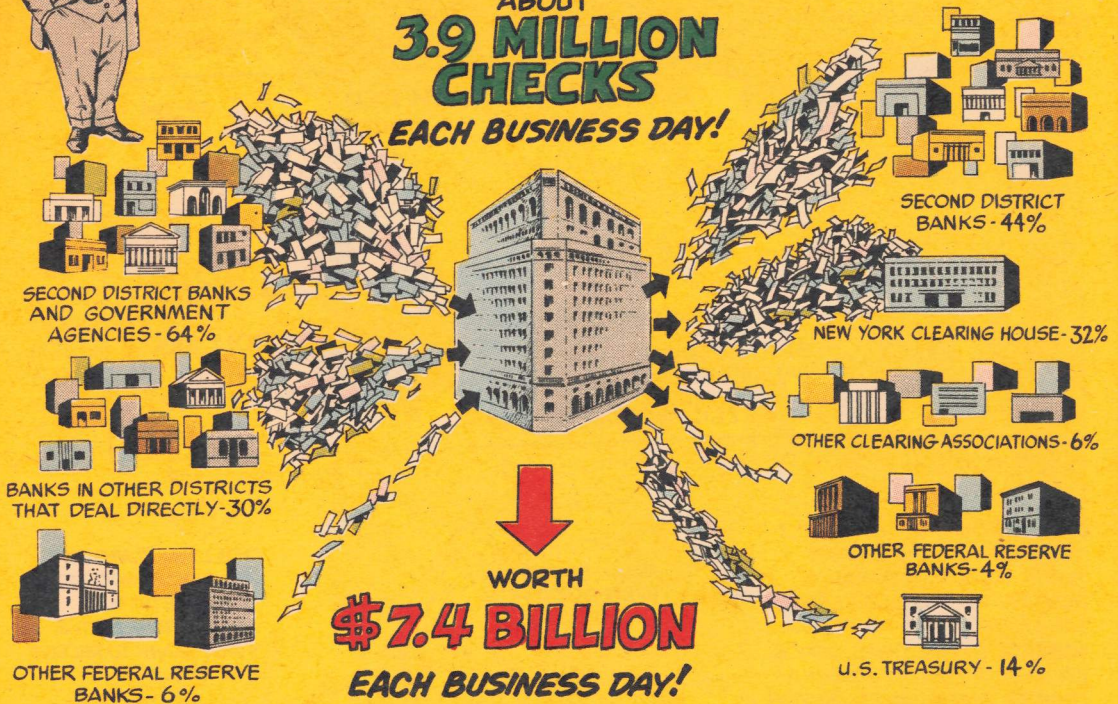
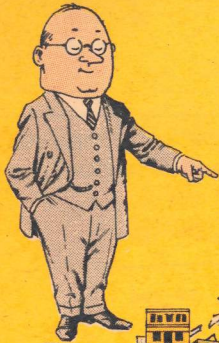


- MONEY MOVING AROUND THE COUNTRY IN BILLIONS BY TRANSFER OF CREDIT FROM ONE BANK ACCOUNT TO ANOTHER - CHEAPLY, QUICKLY, AND SAFELY TO PROMOTE COMMERCE.

**NEARLY 24 BILLION CHECKS WERE WRITTEN IN 1971, TRANSFERRING TRILLIONS OF CHECKBOOK DOLLARS AROUND THE NATION. ASSUMING NONE OF THE CHECKS WERE WRITTEN ON WEEKENDS OR HOLIDAYS, THAT'S SOME 95 MILLION CHECKS EACH BUSINESS DAY. COLLECTING THESE CHECKS QUICKLY IS A VERY BIG JOB-- AND IMPORTANT TO THE EFFICIENCY OF OUR MONEY SYSTEM. LET'S LOOK AT THE FLOW OF CHECKS THROUGH ONE OF THE BUSIEST CHECK-PROCESSING OPERATIONS IN THE NATION AT...**

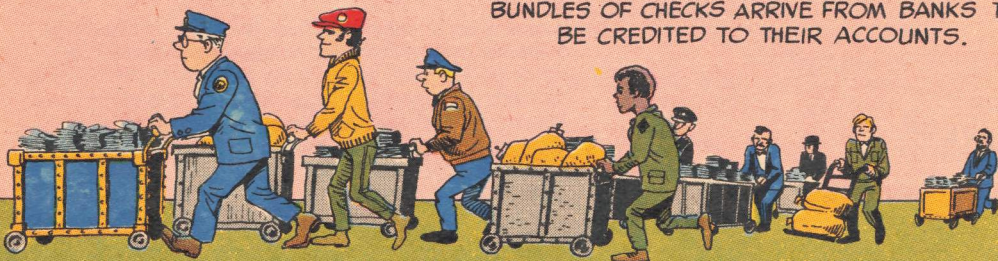
# THE FEDERAL RESERVE BANK OF NEW YORK

IN 1971 THE BANK'S HEAD OFFICE HANDLED ALMOST 1 BILLION CHECKS-- ABOUT **3.9 MILLION CHECKS EACH BUSINESS DAY!**



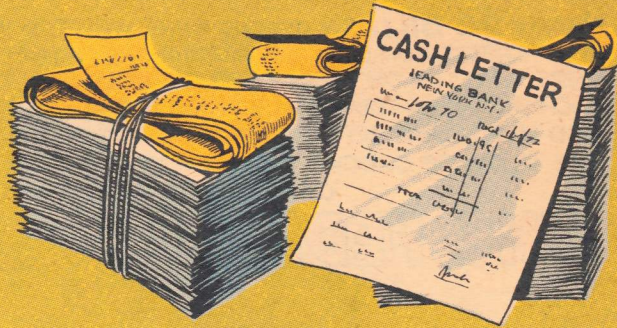
AT THE FEDERAL RESERVE BANK OF NEW YORK THE TREMENDOUS VOLUME OF CHECKS IS HANDLED IN THIS WAY.

BUNDLES OF CHECKS ARRIVE FROM BANKS TO BE CREDITED TO THEIR ACCOUNTS.

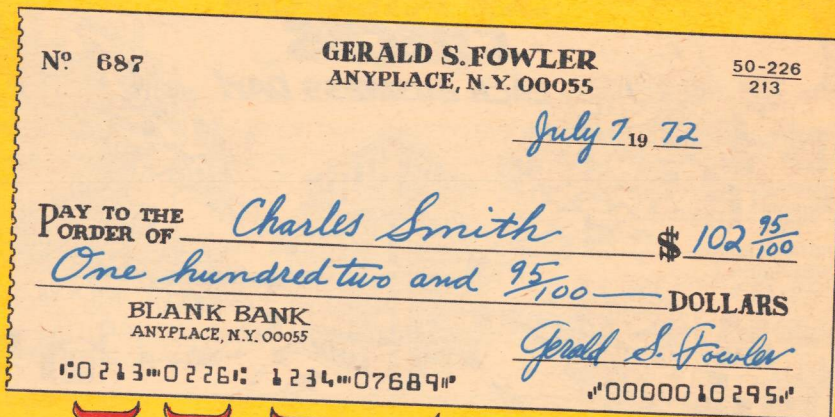


**A**TTACHED TO EACH PACKAGE IN THE BUNDLE IS A TAPE LISTING THE AMOUNT OF EACH CHECK.

EACH BANK ALSO SENDS A "CASH LETTER" WHICH BEARS THE TOTAL OF ALL THE PACKAGES. THE FEDERAL RESERVE BANK VERIFIES THIS AMOUNT AND CREDITS THE DEPOSITING BANK.



CHECK PROCESSING IS AUTOMATED. HIGH-SPEED ELECTRONIC MACHINES SORT CHECKS BY "READING" MAGNETIC INK CHARACTERS PRINTED ALONG THE BOTTOM OF CHECKS... AT A SPEED OF ABOUT 60,000 CHECKS AN HOUR.



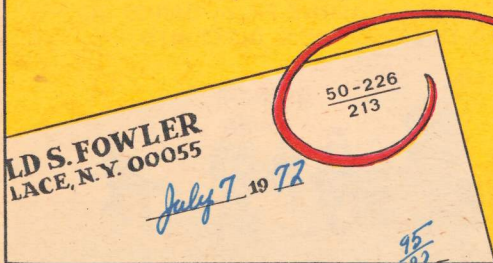
**CHECK ROUTING SYMBOL:**  
THE FIRST TWO DIGITS ARE BLANK BANK'S FEDERAL RESERVE DISTRICT NUMBER. THE THIRD DIGIT IS THE FEDERAL RESERVE OFFICE (HEAD OFFICE OR BRANCH) OR THE DESIGNATION OF A SPECIAL COLLECTION ARRANGEMENT. THE FOURTH DIGIT DESIGNATES BLANK BANK'S STATE OR A SPECIAL COLLECTION ARRANGEMENT.

**BLANK BANK'S IDENTIFICATION NUMBER.**

**DOLLAR AMOUNT**  
--- USUALLY ENCODED IN MAGNETIC INK CHARACTERS BY THE FIRST BANK TO RECEIVE THE CHECK.

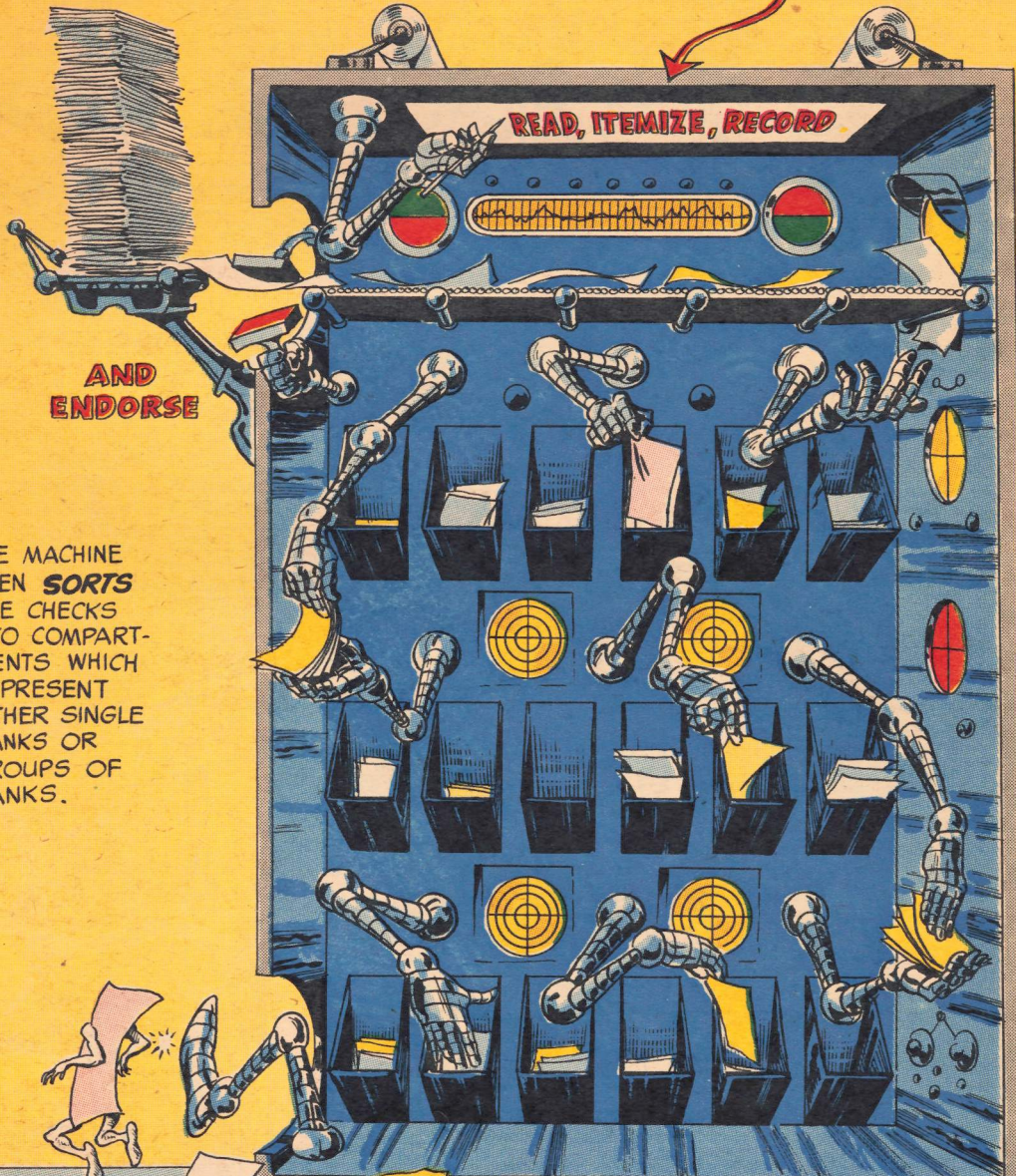
**MR. FOWLER'S ACCOUNT NUMBER.**

BLANK BANK'S IDENTIFICATION NUMBER (NUMERATOR) OVER ITS CHECK ROUTING SYMBOL (DENOMINATOR). BOTH PARTS ARE ENCODED IN MAGNETIC INK ACROSS THE BOTTOM OF THE CHECK, EXCEPT THE FIRST TWO DIGITS OF THE NUMERATOR. THESE DIGITS ARE CITY, STATE OR OTHER TERRITORIAL DESIGNATIONS NEEDED FOR HAND PROCESSING BUT NOT FOR ELECTRONIC SORTING.





**T**HE CHECKS ARE FED INTO MACHINES THAT...



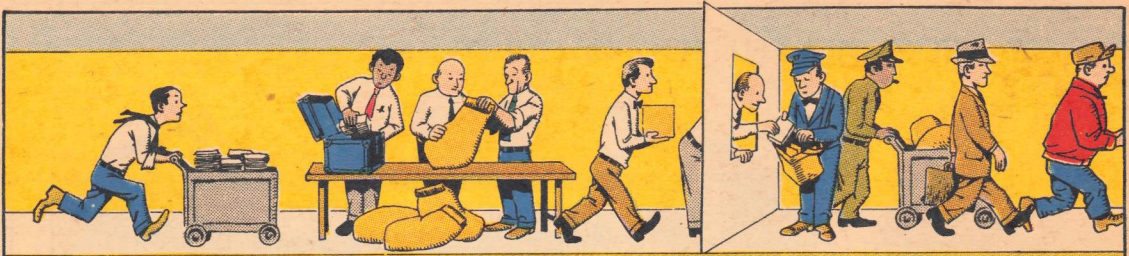
**AND  
ENDORSE**

THE MACHINE THEN **SORTS** THE CHECKS INTO COMPARTMENTS WHICH REPRESENT EITHER SINGLE BANKS OR GROUPS OF BANKS.

SOME CHECKS ARE REJECTED.

THE CHECKS REJECTED BECAUSE OF MUTILATION, INCORRECT CODING OR FAILURE TO FIT THE MACHINE PATTERN, AS WELL AS THOSE CHECKS LACKING MAGNETIC SYMBOLS, ARE PROCESSED BY HAND.

WHEN THE WHOLE PROCESS IS COMPLETED, THE MACHINE'S TABULATION IS RECONCILED TO THE "CASH LETTER" TOTAL SENT BY THE DEPOSITING BANK.



**AFTER VERIFICATION, THE CHECKS ARE PACKAGED AND SENT ON THEIR WAY BY ROAD, RAIL, AND AIR. FASTER TRANSPORTATION HAS SPEEDED UP CHECK COLLECTION.**

**H**OWEVER, SOME CHECKS CANNOT COMPLETE THEIR INTENDED TASKS...

ABOUT **ONE** OUT OF EVERY **200 CHECKS** PASSING THROUGH THE SECOND DISTRICT CLEARING OPERATION IS **RETURNED** TO THE DEPOSITING BANK.

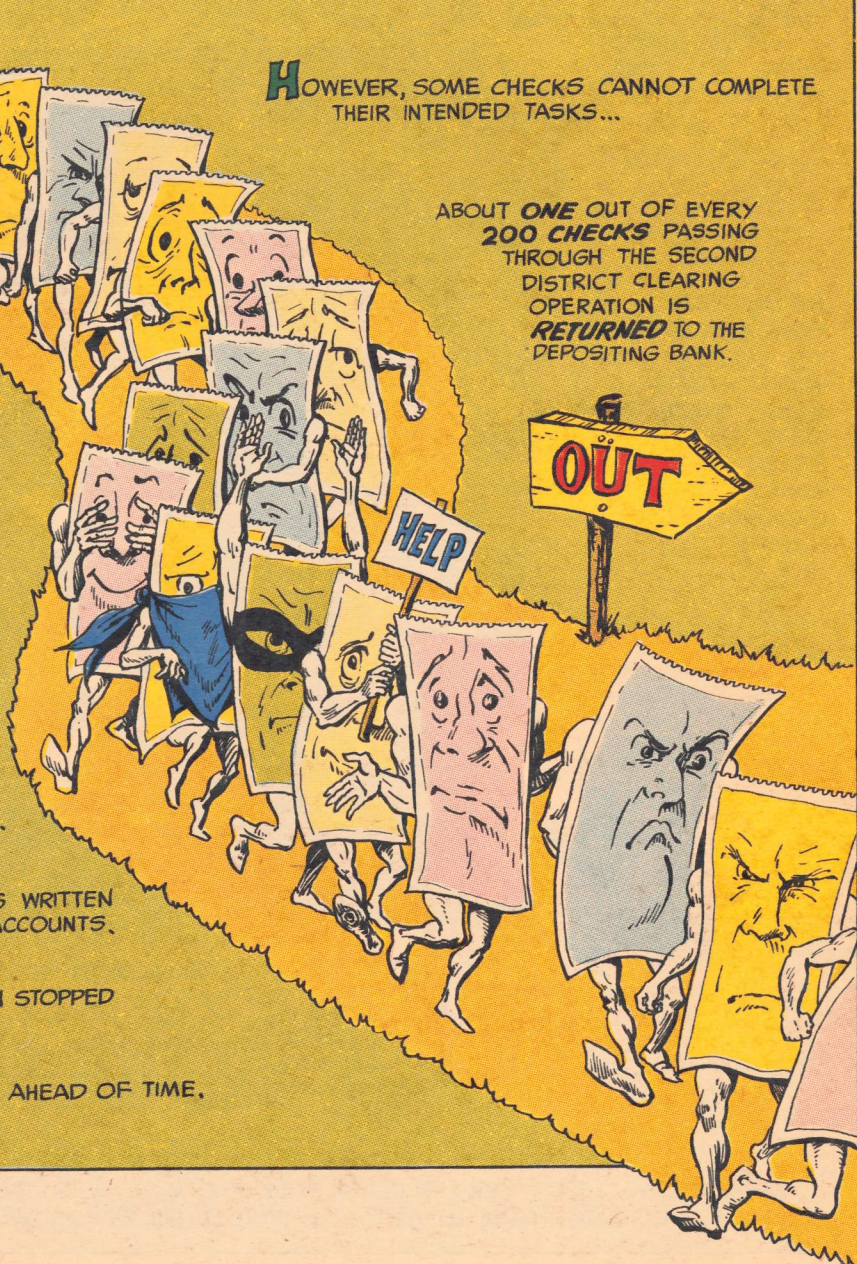
**M**OST OF THESE CHECKS ARE IMPROPERLY ENDORSED OR ARE DRAWN ON ACCOUNTS WITH INSUFFICIENT FUNDS.

SOME ARE FORGERIES, A CRIMINAL OFFENSE.

A FEW ARE CHECKS WRITTEN ON NONEXISTENT ACCOUNTS.

PAYMENT HAS BEEN STOPPED ON OTHERS.

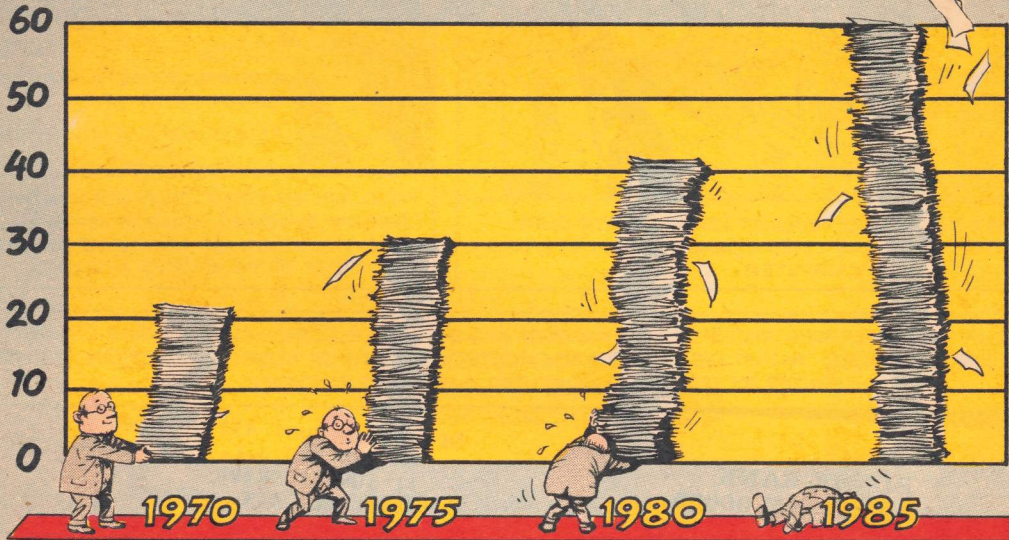
SOME ARE DATED AHEAD OF TIME.



# A LOOK INTO THE FUTURE

THE NUMBER OF CHECKS WRITTEN INCREASES ABOUT 7 PER CENT EACH YEAR.

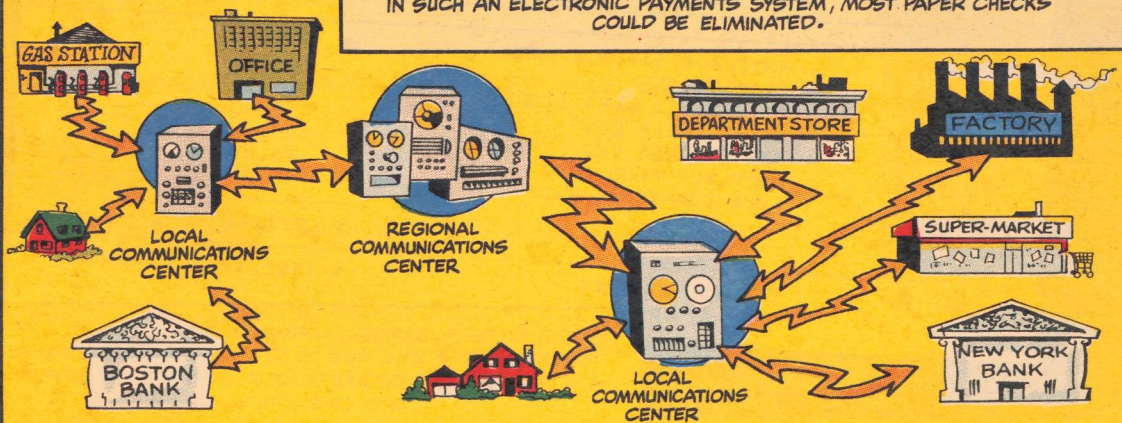
BILLIONS



AT THIS PACE WE CAN ANTICIPATE NEARLY  
**60 BILLION CHECKS  
 BY 1985!**

BUT SUCH A LARGE VOLUME MAY BE IMPRACTICAL  
 TO HANDLE.

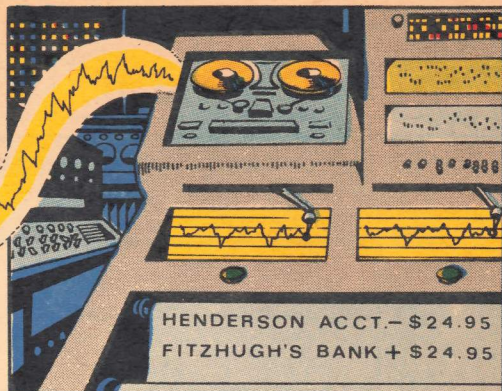
SOME PEOPLE FORESEE THE DAY WHEN MOST PAYMENTS WILL BE HANDLED COMPLETELY BY BANKS' COMPUTERS LINKED TOGETHER AND TO THEIR CUSTOMERS BY AN ELECTRONIC COMMUNICATIONS NETWORK. IN SUCH AN ELECTRONIC PAYMENTS SYSTEM, MOST PAPER CHECKS COULD BE ELIMINATED.



**L**OOKING BACK TO THE TYPICAL AMERICAN FAMILY, MRS. HENDERSON MIGHT EVENTUALLY BE ABLE TO PAY FOR HER C.O.D. PACKAGE FROM FITZHUGH'S DEPARTMENT STORE DIRECTLY FROM HER HOME USING THE ELECTRONIC PAYMENTS SYSTEM.



**S**HE MAY BE ABLE TO TRANSMIT HER PAYMENTS OVER ORDINARY TELEPHONE LINES CONNECTED TO HER BANK'S COMPUTER.



**T**HE COMPUTER WOULD VERIFY HER IDENTITY (PERHAPS BY VOICE), CHARGE HER BANK DEMAND ACCOUNT, AND PAY FITZHUGH'S BANK FOR CREDIT TO THE STORE'S ACCOUNT.

**M**OST OF THE HENDERSONS' RECEIPTS AND PAYMENTS WILL BE MADE ELECTRONICALLY BY THEIR BANK WITHOUT THE USE OF CHECKS. AND AT THE END OF EACH MONTH, A RECORD OF THESE TRANSACTIONS WILL BE PRINTED BY THE BANK'S COMPUTER AND MAILED TO THEM.

**BLANK BANK**  
Anyplace, N.Y. 00055

DEMAND ACCOUNT 435-72-2485  
MR AND MRS J.C. HENDERSON  
11 SUNSET DRIVE  
ANYPLACE, N.Y. 00055

Date	Transaction	Amount
APRIL 30	OPENING BALANCE	\$ 1000.43
<b>RECEIPTS</b>		
MAY 1	BLANK BANK	\$ 15.48
MAY 3	BIG CITY MANUFACTURING CORP.	1235.75
	ABC CORP.	27.30
MAY 5	ABC CORP.	41.12
MAY 23	ANYPLACE FURNITURE CO.	
		\$ 1319.65
<b>PAYMENTS</b>		
MAY 1	ANYPLACE SAVINGS BANK	\$ 276.50
MAY 3	BLANK BANK	100.00
MAY 8	FITZHUGH'S DEPT STORE	24.95
MAY 10	LOCAL POWER CO.	32.60
MAY 15	XYZ FINANCE CO.	100.00
MAY 18	ANYPLACE FOOD MART	160.38
MAY 28	FOUR CORNERS GARAGE	33.28
		\$ 727.71
MAY 31	CLOSING BALANCE	\$ 1592.37

**B**UT SCIENTISTS, BANKERS, LAWYERS AND EQUIPMENT MANUFACTURERS WILL HAVE TO GET TOGETHER ON PLANNING AND DEVELOPMENT BEFORE SUCH A SYSTEM CAN BE PUT INTO OPERATION.

# Glossary

**ASSET**— ANYTHING OF VALUE IS AN ASSET OF THE OWNER. ASSETS CONSIST OF PROPERTY AND CLAIMS AGAINST OTHERS.

**CASH LETTER**— A DEPOSIT TICKET WITH CHECKS THAT ARE TO BE CREDITED TO THE DEPOSITING BANK'S ACCOUNT.

**CENTRAL BANK**— A BANK WHICH DEALS CHIEFLY WITH OTHER BANKS IN HOLDING THE BANKING RESERVES OF ITS COUNTRY OR DISTRICT AND REGULATING AVAILABLE BANKING CREDIT. CENTRAL BANKS ARE USUALLY GOVERNMENT AGENCIES AND OPERATE IN THE BROAD PUBLIC INTEREST. IN THE UNITED STATES, CENTRAL BANKING FUNCTIONS ARE CARRIED ON BY THE TWELVE REGIONAL FEDERAL RESERVE BANKS UNDER THE SUPERVISION OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM. IN MOST OTHER COUNTRIES A SINGLE INSTITUTION FUNCTIONS AS A CENTRAL BANK.

**CHECK**— A WRITTEN ORDER INSTRUCTING A BANK TO PAY MONEY. IT IS DRAWN ON A DEPOSIT ACCOUNT PAYABLE ON DEMAND. A CHECK MAY BE TRANSFERRED FROM ONE PERSON TO ANOTHER BY ENDORSEMENT.

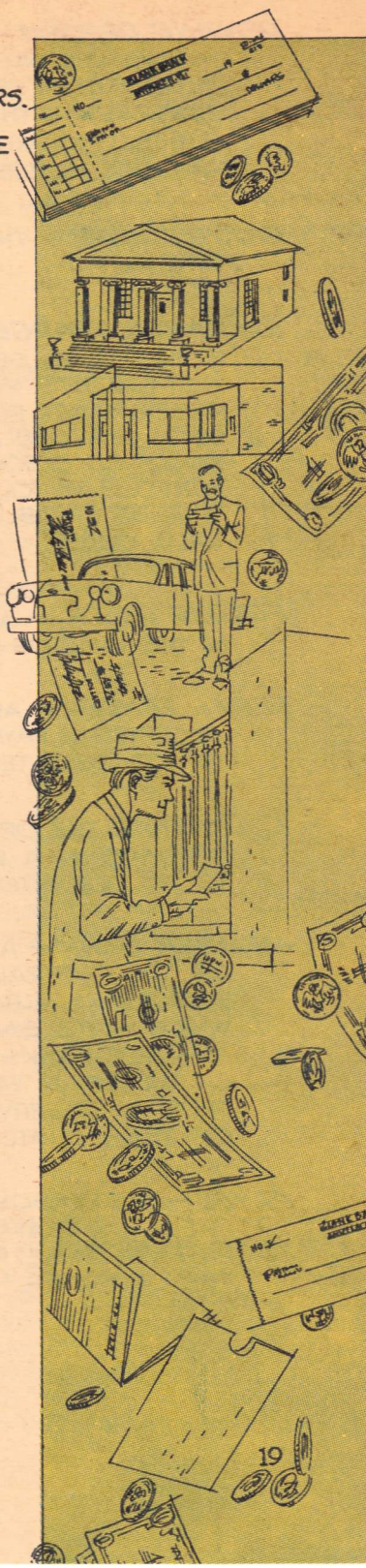
**CLEARING HOUSE**— AN ORGANIZATION, ESTABLISHED BY BANKS IN THE SAME LOCALITY, THROUGH WHICH CHECKS AND OTHER INSTRUMENTS ARE EXCHANGED AND NET BALANCES SETTLED.

**COMMERCIAL BANK**— A FINANCIAL INSTITUTION THAT ACCEPTS DEPOSITS THAT ARE TRANSFERABLE BY THE DEPOSITOR'S CHECK. THE BANKS MAKE LOANS TO BUSINESS CONCERNS, FARMERS, AND INDIVIDUALS. THEY ARE MAJOR INVESTORS IN GOVERNMENT SECURITIES, AND IN MUNICIPAL AND CORPORATE BONDS, AND PROVIDE VARIOUS FINANCIAL SERVICES TO CUSTOMERS.

**CORRESPONDENT BANK**— A BANK THAT SERVES AS A DEPOSITORY AND PERFORMS BANKING SERVICES FOR OTHER BANKS, USUALLY LOCATED OUT OF TOWN.

**CREDIT**— A SUM A BANK MAKES AVAILABLE IN AN ACCOUNT.

**CURRENCY**— COIN OR PAPER MONEY, ISSUED BY A GOVERNMENT OR CENTRAL BANK, WHICH CIRCULATES AS A LEGAL MEDIUM OF EXCHANGE.



**DEBIT**— A CHARGE AGAINST A BANK DEPOSIT ACCOUNT.

**DEMAND DEPOSIT**— A DEPOSIT IN A BANK WHICH MAY BE WITHDRAWN WITHOUT ADVANCE NOTICE; FOR EXAMPLE, MONEY IN A CHECKING ACCOUNT. DEMAND DEPOSITS CONTRAST WITH TIME DEPOSITS, WHICH ARE NOT SUBJECT TO WITHDRAWAL BY CHECK AND MAY REQUIRE ADVANCE NOTICE BEFORE FUNDS CAN BE WITHDRAWN.

**DRAWEE BANK**— THE BANK UPON WHICH A CHECK IS DRAWN.

**EXCHANGE CHARGE**— A CHARGE MADE BY THE DRAWEE BANK FOR ITS SERVICES IN PAYING CHECKS AND OTHER INSTRUMENTS PRESENTED TO IT. THE FEDERAL RESERVE ACT FORBIDS DRAWEE BANKS TO MAKE SUCH CHARGES AGAINST FEDERAL RESERVE BANKS ON CHECKS IN PROCESS OF COLLECTION. THE PURPOSE IS TO ASSURE THAT CHECKBOOK MONEY WILL BE PAYABLE THROUGHOUT THE COUNTRY AT ITS FACE VALUE.

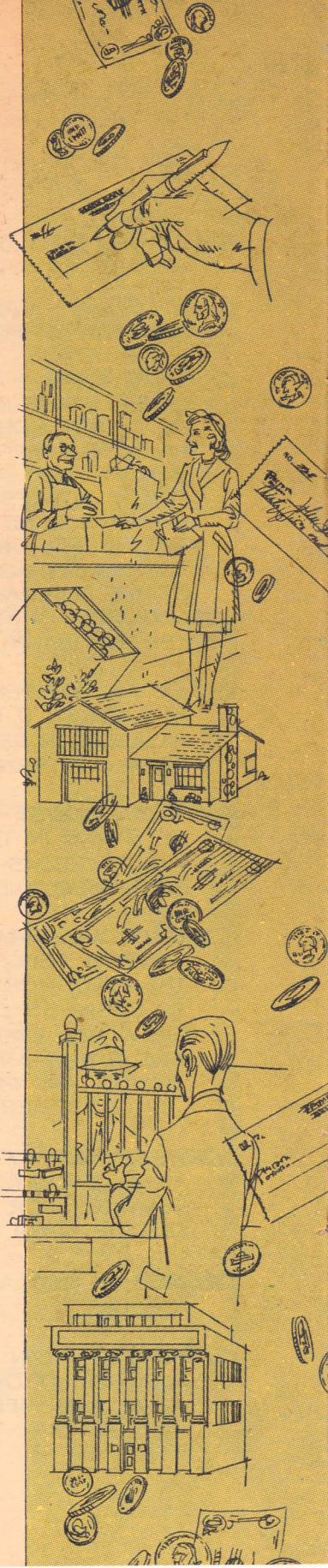
**FORGED CHECK**— A CHECK WRITTEN OR SIGNED FRAUDULENTLY IN THE NAME OF EITHER A REAL OR A FICTITIOUS PERSON.

**LEGAL TENDER**— ANY MONEY THAT MUST, BY LAW, BE ACCEPTED IN PAYMENT OF DEBTS. CHECKBOOK MONEY IS NOT LEGAL TENDER.

**LIABILITY**— THE OPPOSITE OF AN ASSET; A DEBT. DEPOSITS IN A BANK ARE OBLIGATIONS OF THE BANK TO ITS DEPOSITORS.

**MEMBER BANK**— A COMMERCIAL BANK THAT IS A MEMBER OF THE FEDERAL RESERVE SYSTEM. ALL NATIONAL BANKS ARE AUTOMATICALLY MEMBERS OF THE SYSTEM, WHILE STATE BANKS MAY BE ADMITTED. BY LAW, MEMBER BANKS MUST HOLD RESERVES (CONSISTING OF THEIR OWN VAULT CASH AND DEPOSITS WITH THEIR FEDERAL RESERVE BANK) EQUAL TO A PERCENTAGE OF THEIR CUSTOMERS' DEPOSITS.

**PAYEE**— THE PERSON OR ORGANIZATION TO WHOM A CHECK OR DRAFT OR NOTE IS MADE PAYABLE. THE PAYEE'S NAME FOLLOWS THE EXPRESSION "PAY TO THE ORDER OF."



# How to Write a Check

WRITE YOUR CHECK CLEARLY AND COMPLETELY... DON'T LEAVE ANY BLANKS. AFTER YOU HAVE FILLED OUT THE STUB IN YOUR CHECKBOOK AND COMPLETED THE ARITHMETIC (TO MAKE SURE YOUR BALANCE COVERS THE CHECK YOU PLAN TO DRAW), WRITE THESE FIVE ITEMS IN INK ON THE FACE OF THE CHECK:

**1 THE DATE** YOU WRITE THE CHECK, NEVER WRITE A FUTURE DATE.

**2 THE PAYEE'S NAME** AFTER "PAY TO THE ORDER OF."



CHECK NO. 451

TO Kendrick DATE 6/27

FOR Repairs AMT. 9.50

PREVIOUS BALANCE	135 62
AMOUNT DEPOSITED	40 -
AMOUNT THIS CHECK	9 50
PRESENT BALANCE	166 12

CHECK NO. 451

ANYTOWN NATIONAL BANK

ANYTOWN, N.Y. 00056 DATE June 27, 1972

PAY TO THE ORDER OF J. Bryan Kendrick

nine and 50/100

\$ 9 50/100

DOLLARS

John Jones

50-271  
213

⑆0263⑆0271⑆1234⑆06789⑆

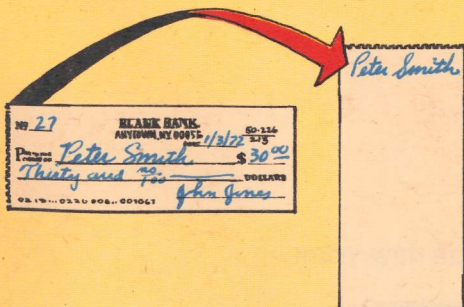
**3 THE AMOUNT IN WORDS** AS FAR TO THE LEFT AS POSSIBLE. FINISH THE SPACE WITH A LINE. THAT PREVENTS THE INSERTION OF WORDS THAT INCREASE THE AMOUNT.

**4 THE AMOUNT IN NUMBERS.** CLOSE TO THE \$ SIGN. IF THESE NUMBERS DO NOT AGREE WITH THE AMOUNT IN WORDS, YOUR BANK WILL PROBABLY PAY THE AMOUNT IN WORDS, BUT THIS WILL TAKE EXTRA TIME.

**5 YOUR SIGNATURE.** IT SHOULD MATCH THE ONE FILED WHEN YOU OPENED THE ACCOUNT. DON'T SIGN UNTIL YOU ARE SURE THAT THE CHECK SAYS WHAT YOU MEAN.

DON'T CROSS OUT OR CHANGE ANY PART OF YOUR CHECK. IF YOU MAKE A MISTAKE, START A NEW CHECK. DON'T LEND YOUR CHECK FORM TO OTHERS.

## How to Endorse a Check



TO CASH, DEPOSIT, OR TRANSFER TO SOMEONE ELSE A CHECK PAYABLE TO YOU, YOU "ENDORSE" IT. SIMPLY WRITE YOUR NAME (AS IT APPEARS ON THE CHECK) ON THE BACK AT THE LEFT END. IF THE FORM DIFFERS FROM THE WAY YOU REGULARLY SIGN, YOU MAY ADD YOUR PROPER SIGNATURE. UNLESS YOU ENDORSE WITH A RESTRICTIVE PHRASE LIKE "FOR DEPOSIT ONLY," THE ENDORSED CHECK IS THE SAME AS CASH.

**FEDERAL RESERVE BANK OF NEW YORK**

**Public Information Department**

**33 Liberty Street • New York, N.Y. 10045**