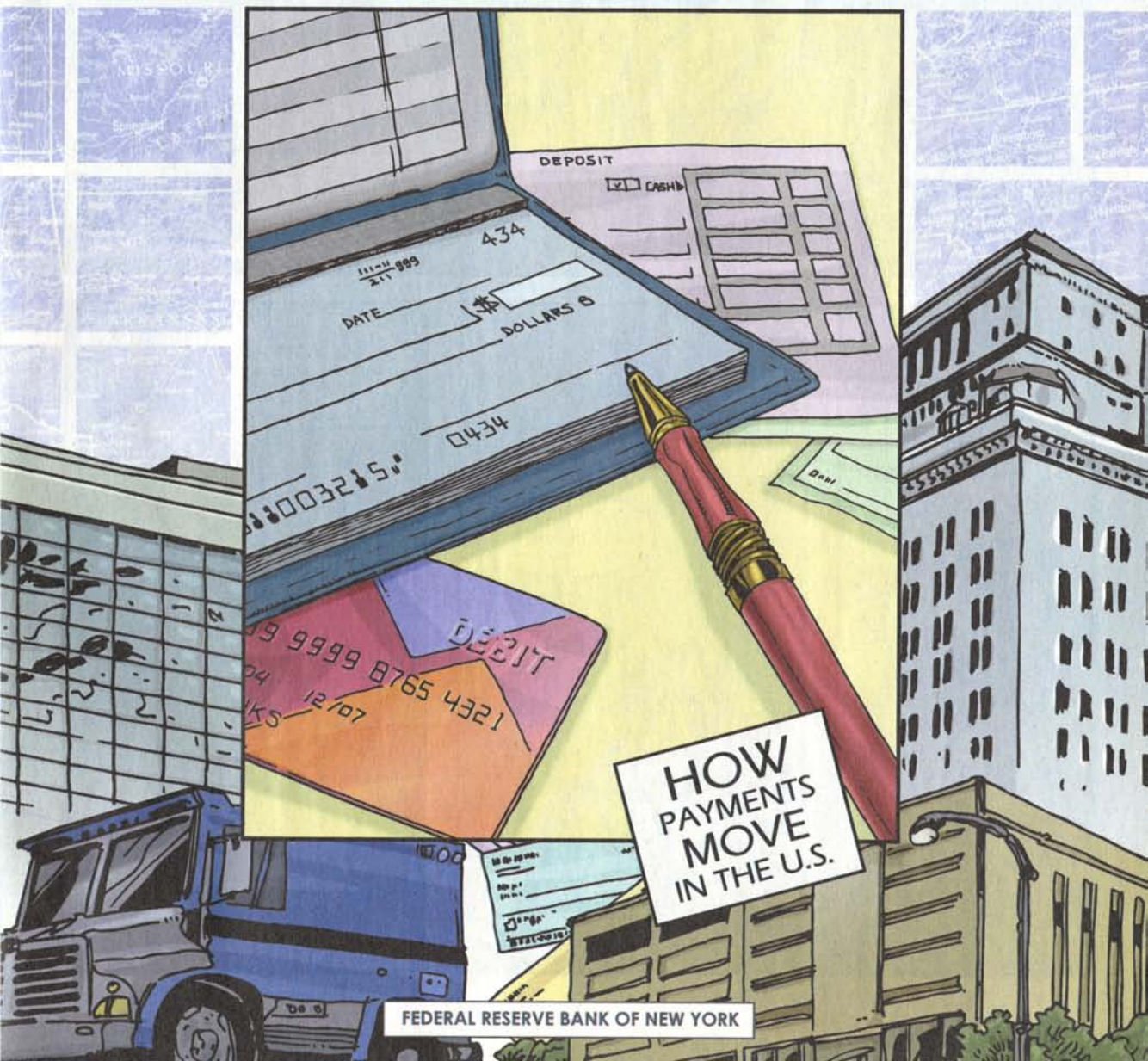
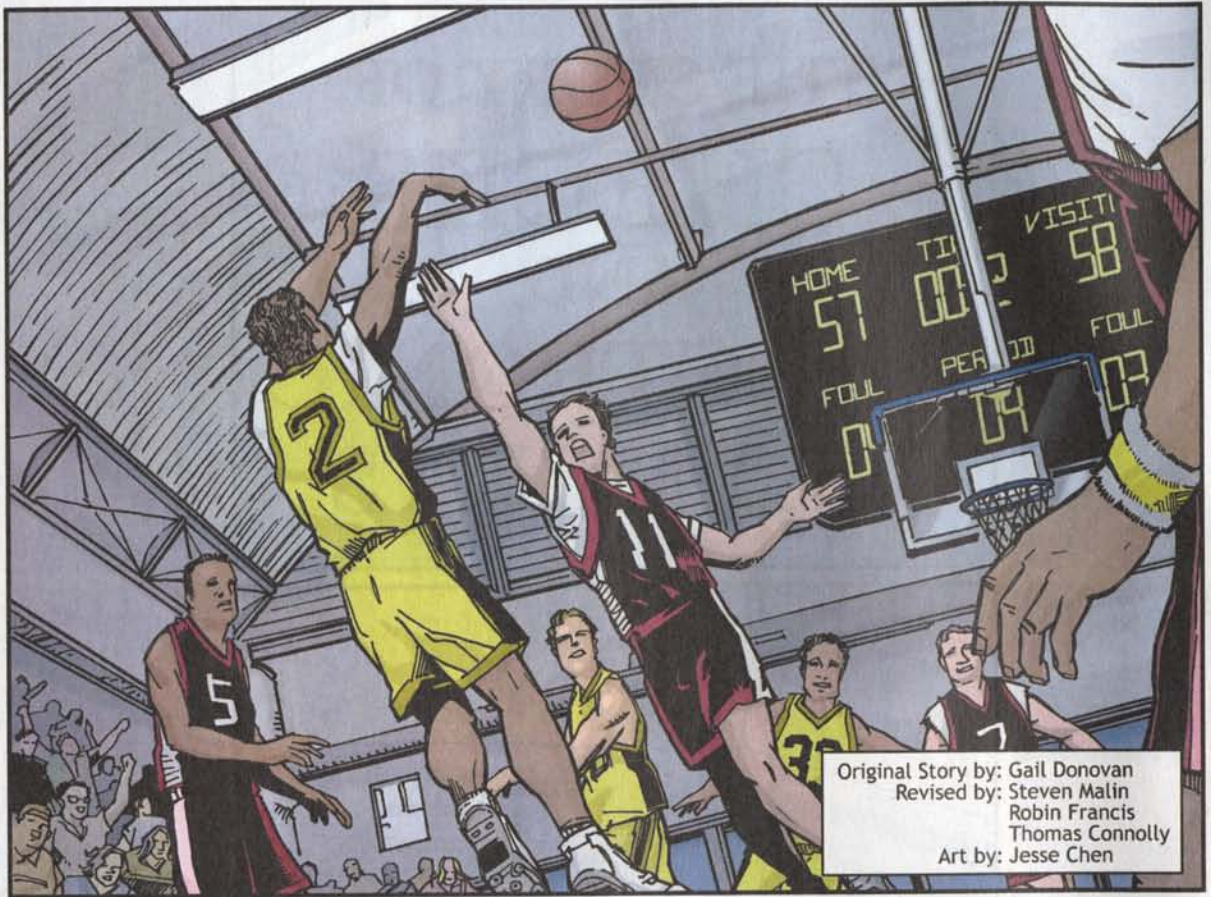


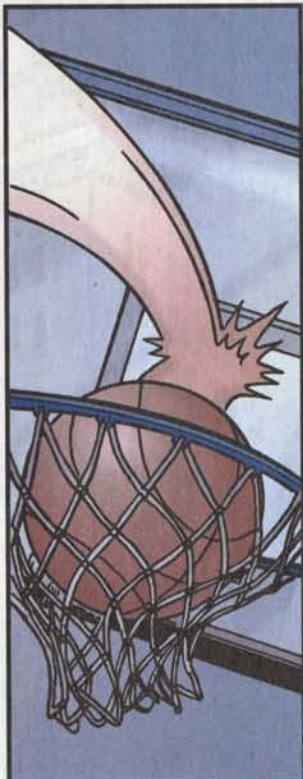
# THE STORY OF CHECKS AND ELECTRONIC PAYMENTS



HOW  
PAYMENTS  
MOVE  
IN THE U.S.



Original Story by: Gail Donovan  
Revised by: Steven Malin  
Robin Francis  
Thomas Connolly  
Art by: Jesse Chen





What's the problem? Aren't you fired up that we won the game? I'm so pumped up I can't sit still.

Of course I'm excited, but I need to take care of something important. I was supposed to do it yesterday, but I didn't.



What's so important that it can't wait a few hours?

I promised my grandmother I'd get her some money orders before the post office closes so she can pay her bills on time. She hasn't been able to leave our apartment since she broke her hip. Why don't you come with me?



Okay, but first you've got to tell me what a money order is.

Money orders are forms that my grandmother buys to pay her bills. I give money to the postal clerk, who types the amount of each of my grandmother's bills on separate forms.

Then, Grandma mails the forms, or money orders, to whoever she has to pay.

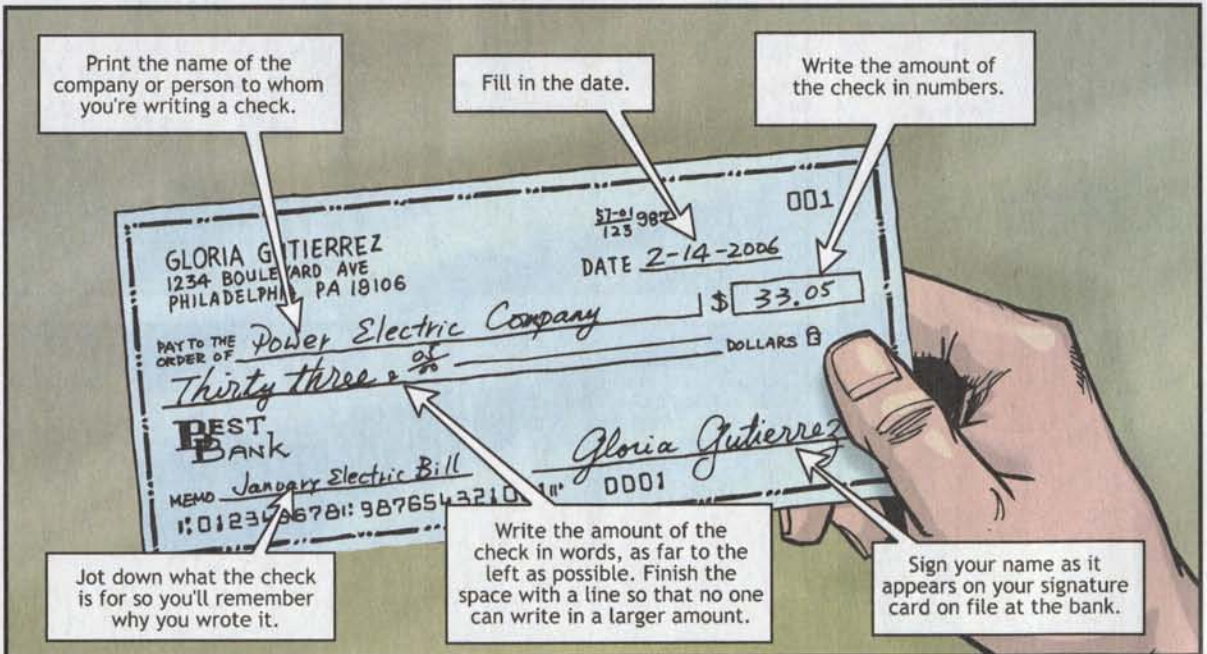


Aren't money orders expensive?

They come to quite a few dollars each month.







Basically, a check is a written order that tells your financial institution to transfer funds from your account to the account of an individual or business that receives your check.



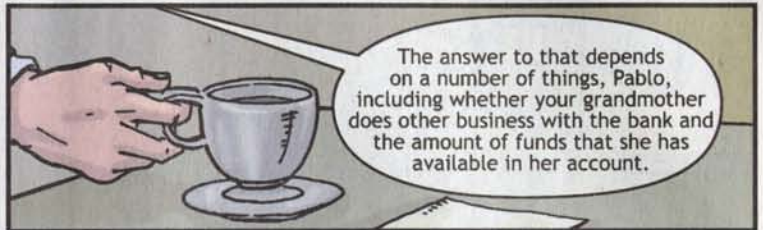
On the deposit slip, list each check you are depositing and write the total amount of the deposit (cash plus checks) on the bottom.



When Grandma's feeling better, can she go to the bank, deposit a check and get part of, or the entire amount, back in cash?



The answer to that depends on a number of things, Pablo, including whether your grandmother does other business with the bank and the amount of funds that she has available in her account.



When you deposit a check, the teller can tell you when the funds will become available or when you can write checks against the amount you deposited. Banks are required by law to publish funds availability information.

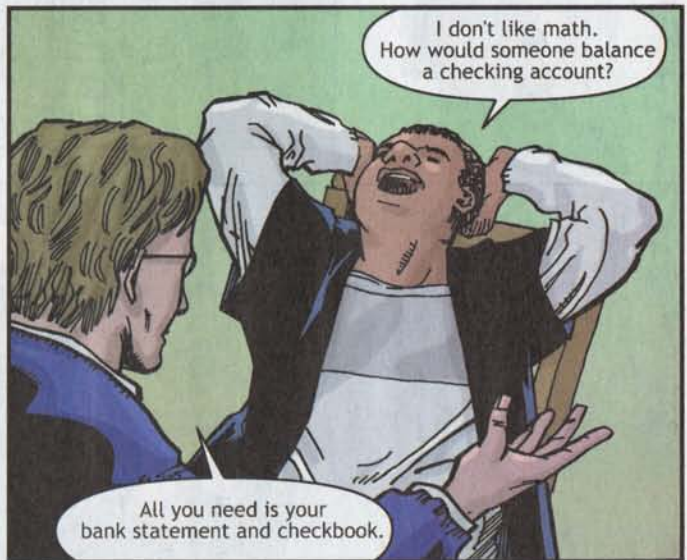
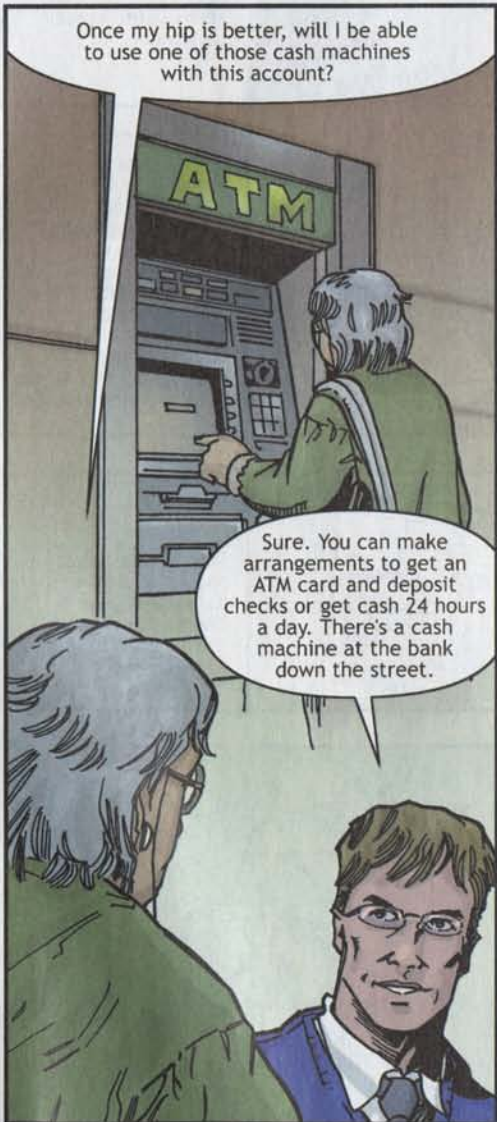
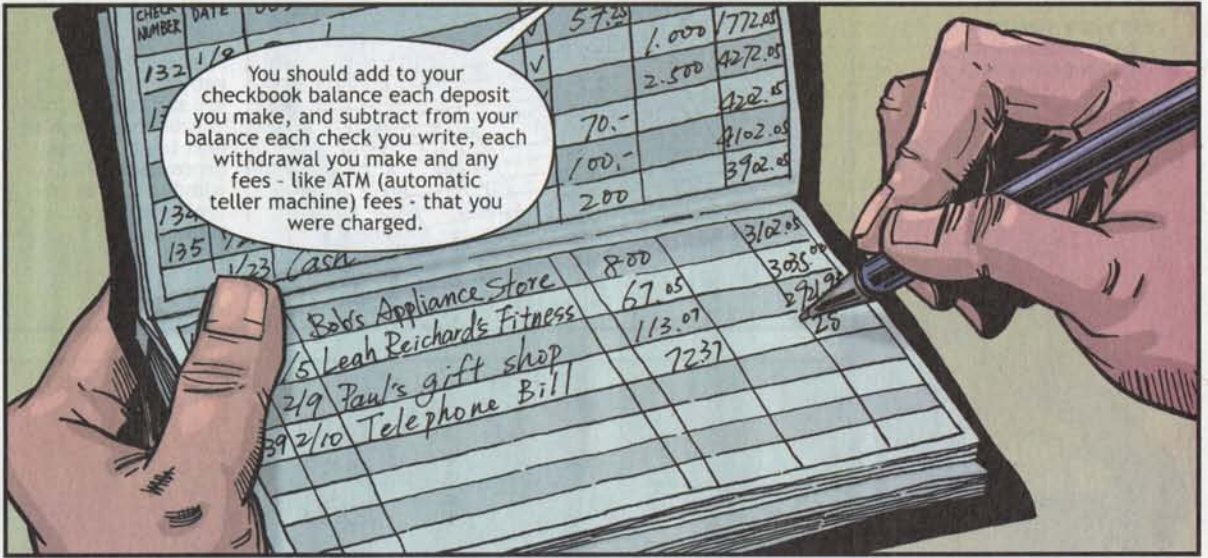


Now, how am I going to keep track of all my checks and deposits?

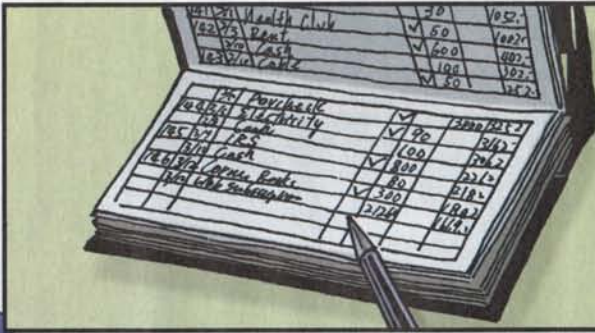
The best way is to write them down in your check register so that you'll always know how much money you have in your account.







Here's how you use your bank statement to balance your checkbook



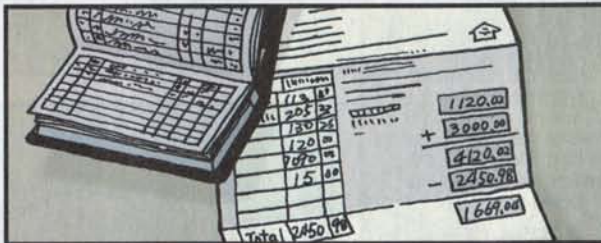
Step 1: When you get your statement, you should put a mark in your check register next to each check, deposit and ATM withdrawal that you see listed in your statement.



Step 2: On the blank form on the back of your statement, add to the account balance in your statement all the deposits in your check register that aren't listed in your statement.



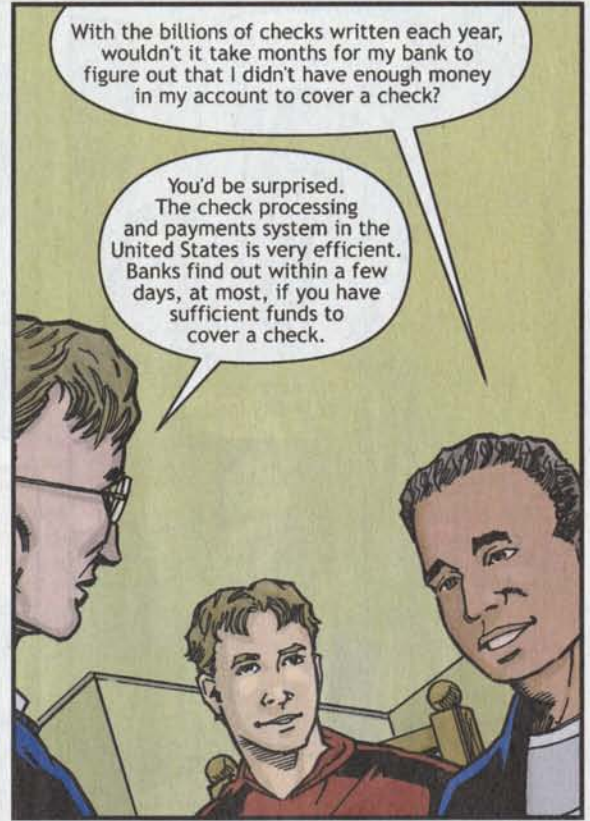
Step 3: Add the amounts of the checks, ATM withdrawals and charges that aren't recorded in your statement, and subtract that number from the balance in step 2. Don't forget to record your ATM fees. They will affect your account balance.

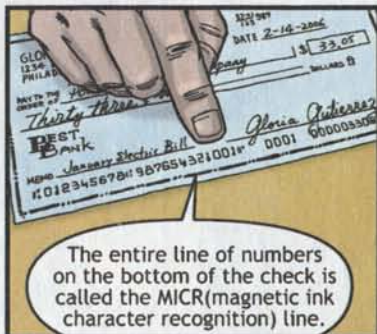
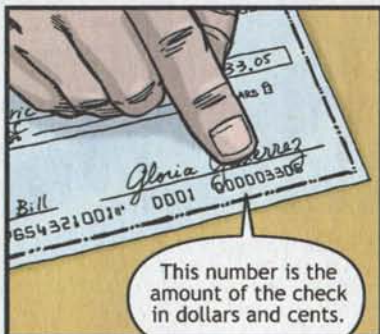
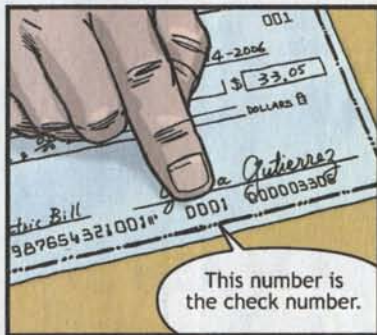
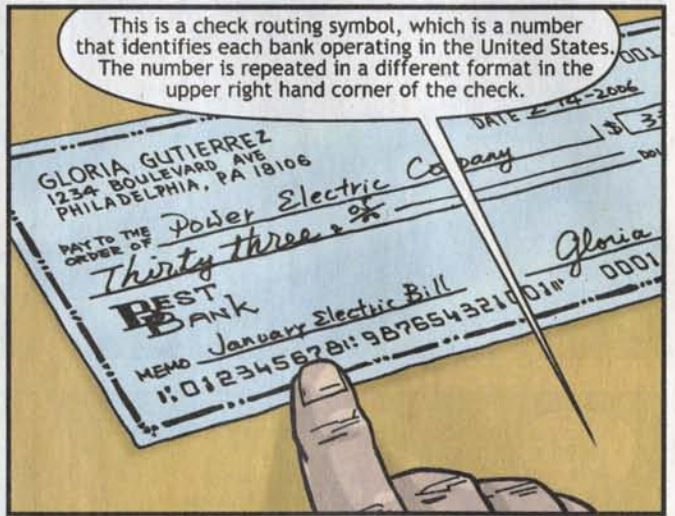


Step 4: The result should equal the balance in your checkbook register.

That sounds like a lot of trouble to me.

Believe me. It's worth it. Balancing a checkbook is very important because it will prevent overdrafts.







The Federal Reserve, or the Fed, the country's central bank, has check processing facilities throughout the U.S.



Once checks arrive at a Fed check processing facility, they go through a reader-sorter machine that can shoot 1,500 checks a minute into as many as 36 different pockets representing banks or groups of banks.



In addition to reading the magnetic ink characters, the processing sorter bundles together all checks drawn on banks in the facility's Federal Reserve District and those drawn on banks located elsewhere. Simultaneously, a computer prints a listing of the checks that were sorted into each pocket and their total dollar value.

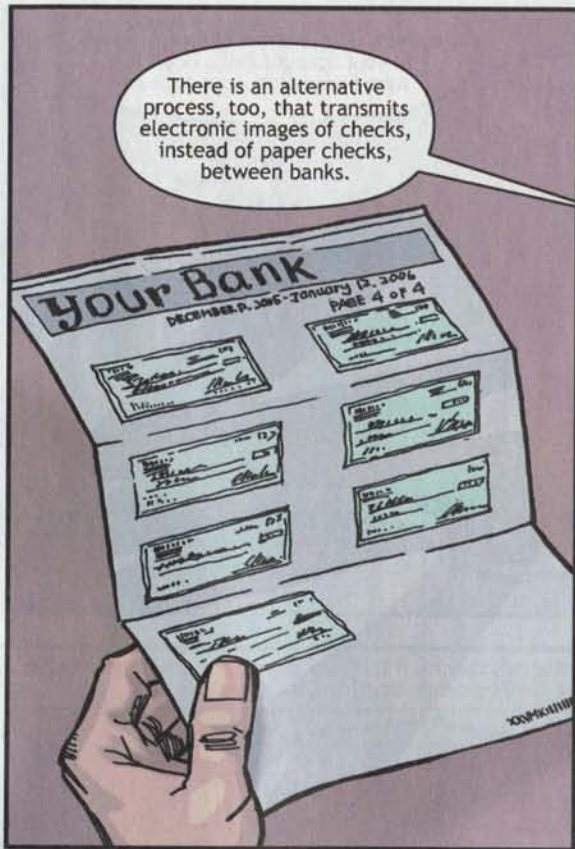


After the checks are processed, they are packaged with a matching computer list and sent by truck or plane to a local Federal Reserve facility serving the bank on which the check was drawn. That Fed facility, in turn, sends the checks to the banks of the customers who wrote them.



If you had found a cheaper MP3 player during your recent trip to Ohio and bought it there, your check would have gone to the Federal Reserve Bank of Cleveland, then to the Philadelphia Fed, which would send it to your bank.





There is an alternative process, too, that transmits electronic images of checks, instead of paper checks, between banks.



A check-writer who needs to have a paper check can request a copy of the check. Otherwise, customers receive images of checks along with a monthly account statement.

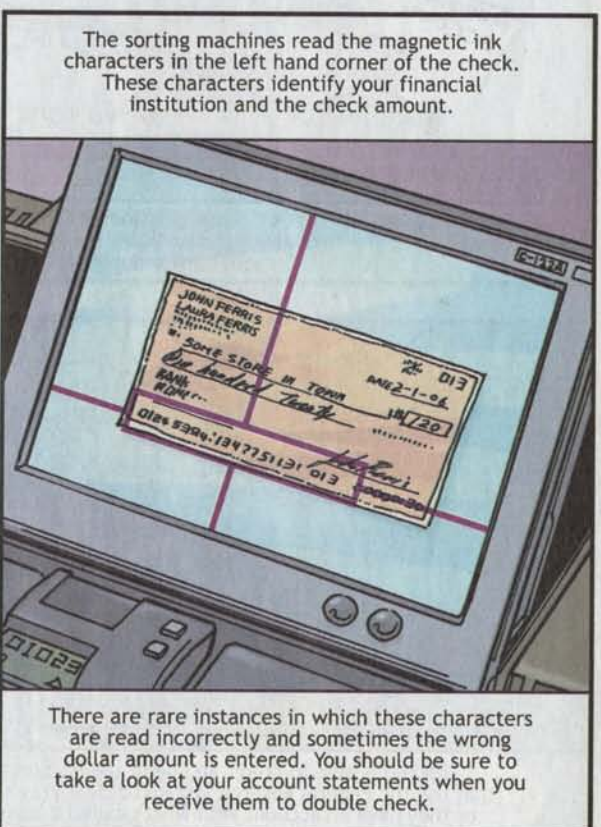
Where would my original check go if this electronic process was used?

Since the bank scanned your check and has the electronic copy, your check will be destroyed.



Is it possible that the amount of my check could be recorded incorrectly.

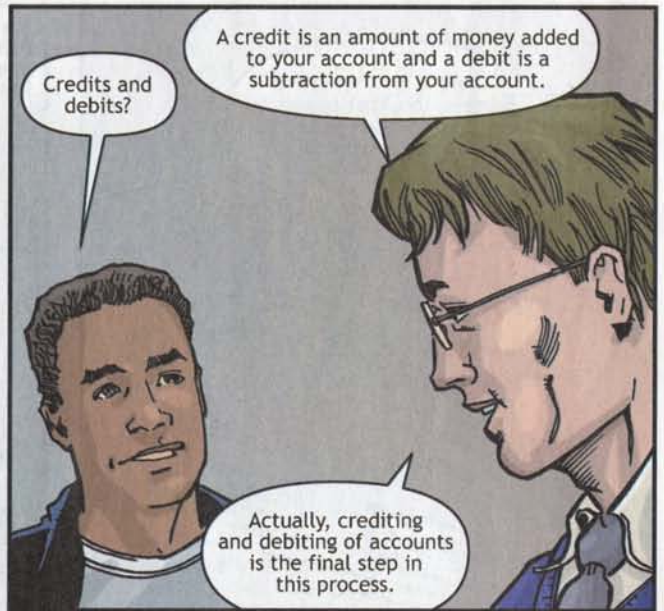
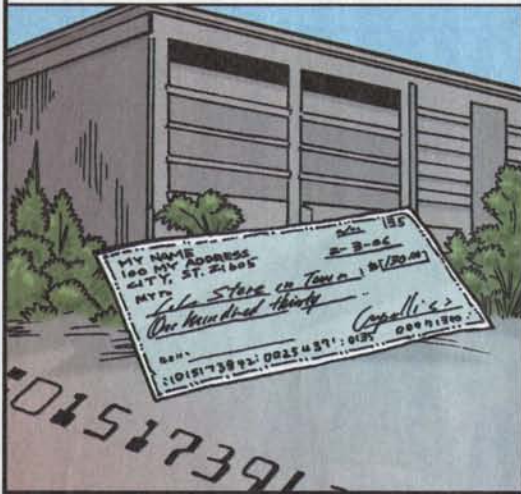
That is not very likely.



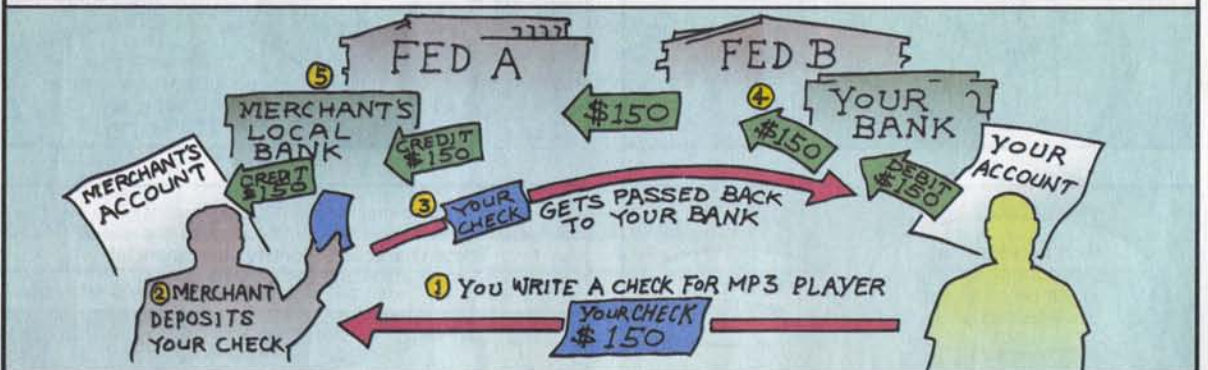
The sorting machines read the magnetic ink characters in the left hand corner of the check. These characters identify your financial institution and the check amount.

There are rare instances in which these characters are read incorrectly and sometimes the wrong dollar amount is entered. You should be sure to take a look at your account statements when you receive them to double check.

A Federal Reserve Bank that is receiving either an electronic, or a paper, copy with the magnetic ink characters has all of the information it needs to credit and debit the accounts of banks.



The Federal Reserve Banks credit the banks depositing their customer's checks. If the bank paying the check received by the Fed is located in the same Fed District, then the Fed debits that bank the same day.



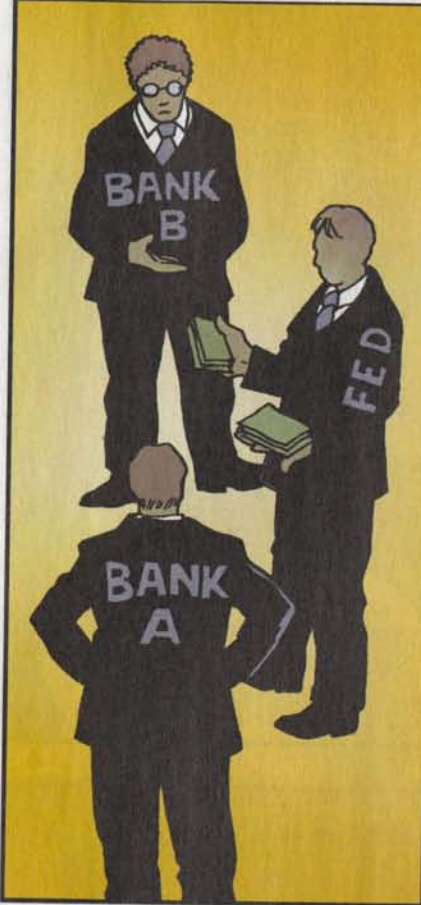
If the bank paying the check is located in another Fed District, the check is sent to that Federal Reserve District for payment. That can take an extra day. When the Federal Reserve Bank presents a check to your bank - say it's for \$150 - your bank reduces your account by \$150 to pay \$150 to the Fed.



The Fed is able to credit and debit the accounts of other banks because all financial institutions that use the Federal Reserve System to clear checks have a direct account with a Federal Reserve Bank or they have an account with what's called a correspondent bank that has an account with the Fed.



In fact, even if the Fed does not process checks for certain banks, it plays a part in the transfer of money that banks owe each other for checks written by their customers. This task is called settlement of accounts.

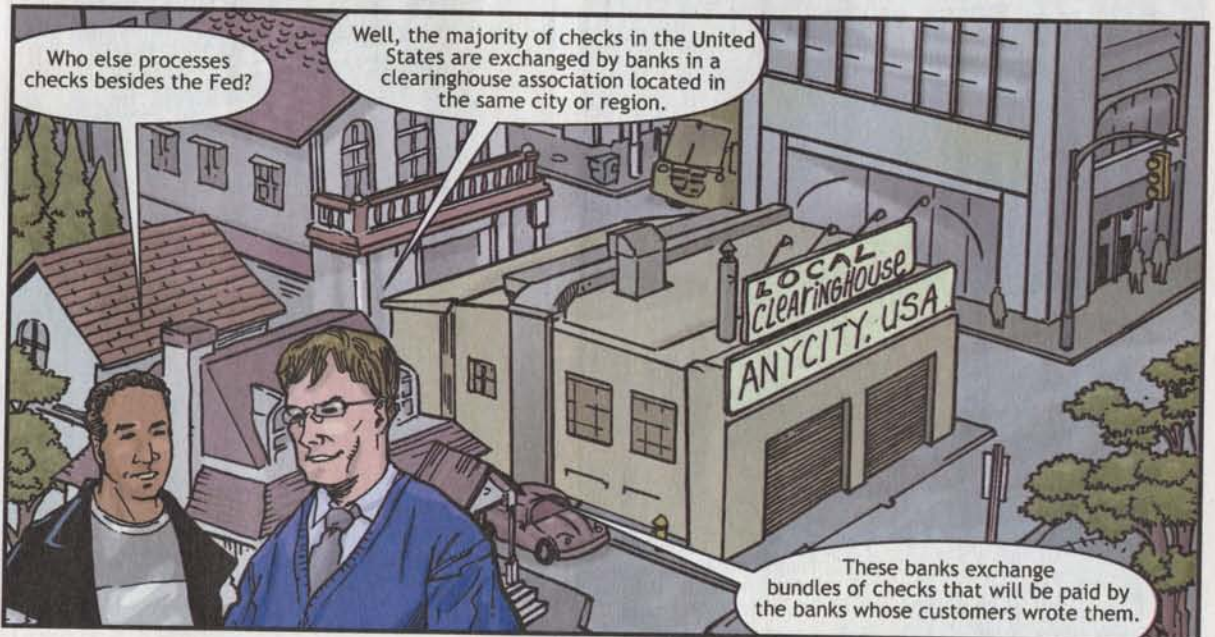


By payments system, I mean the ways consumers, businesses and governments pay bills, accept payments and settle their accounts with one another.

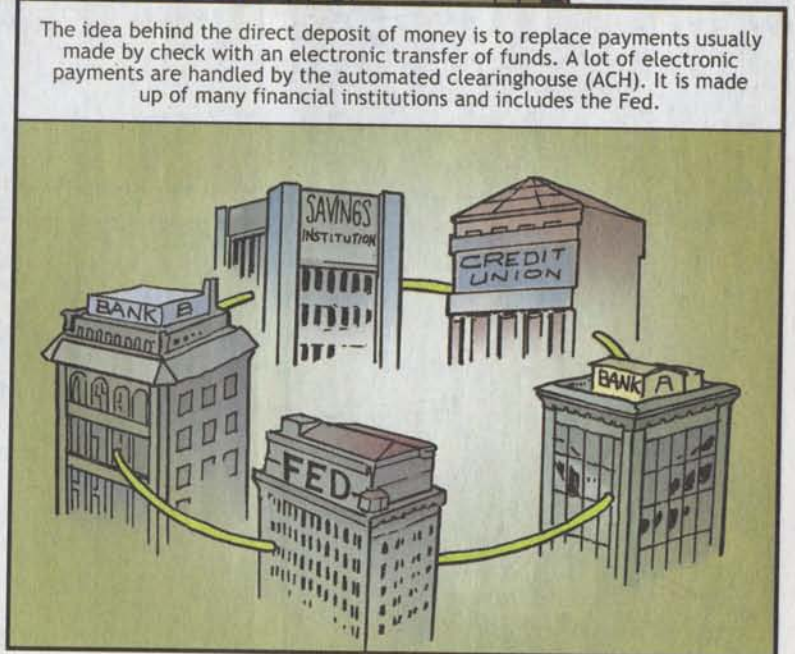
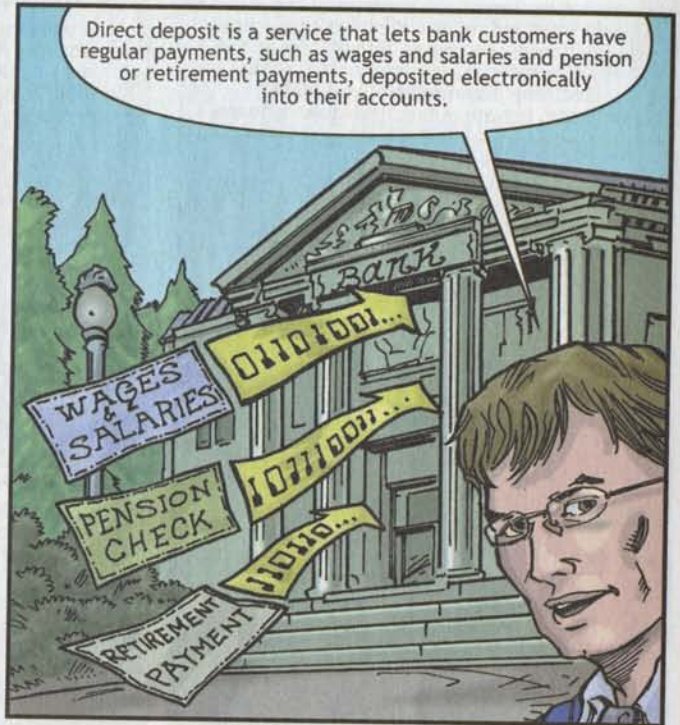


Who else processes checks besides the Fed?

Well, the majority of checks in the United States are exchanged by banks in a clearinghouse association located in the same city or region.







Banks send and receive electronic payment instructions by computer, either through the FedACH network, run by the Fed, or the Electronic Payments Network (EPN), a separate, private automated clearinghouse.



If bank customers want to have money deposited into their accounts electronically, they simply have to give the sender, such as their employer, their account information, such as their bank's routing number and their own account number.



Bank customers who want to have money taken directly out of their account to pay their bills can fill out a card authorizing their bank to make payments to specific companies.



The ACH system sorts these payment messages and delivers them to each bank in the network, telling them which bank has accounts to be debited or credited.



Then, the banks pass the credits and debits on to their customers by adjusting their account balances upward or downward.





Six months later, at Gotham College in upstate New York.



I can't believe we're here, playing on the same college basketball team. I guess nothing is too good for the two guys who helped win the state championship.

Hey, what's wrong?



I just got back from the athletic office and found out my scholarship won't pay for books. Classes start tomorrow and I need \$500 now. I don't know what I'm going to do.

You need to call your dad! He'll know what to do.



No problem, Jeff. I will get you a pre-paid university campus card.



How does that work? How long will it take?



It's simple. I just activate an account on the web and add money to the card. I just need your student ID number and I will go online.

I would normally mail a check to add money, but since you need money quickly, I will pay by credit card.



What did he say?

He's going to open a pre-paid card for me and put enough money on it for me to buy books.



What do you mean?

I guess it's a card that I can use like a debit card, but it has a specific limit or amount of money on it.



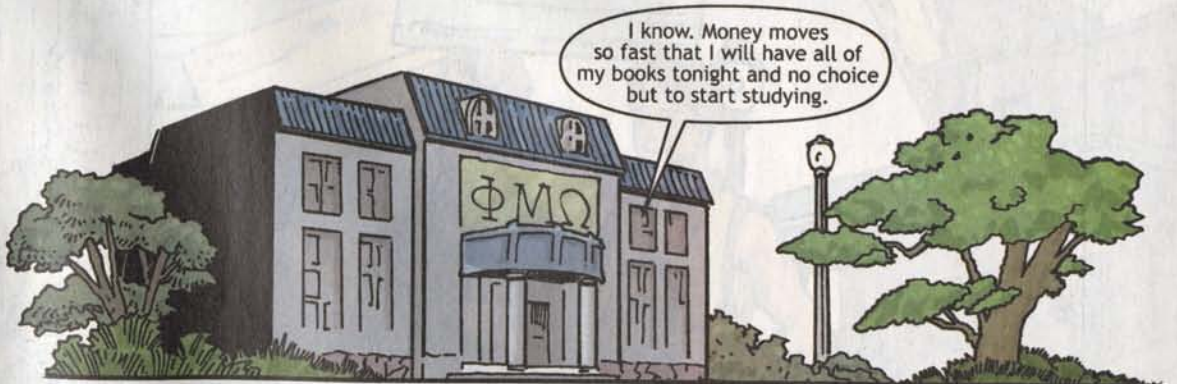
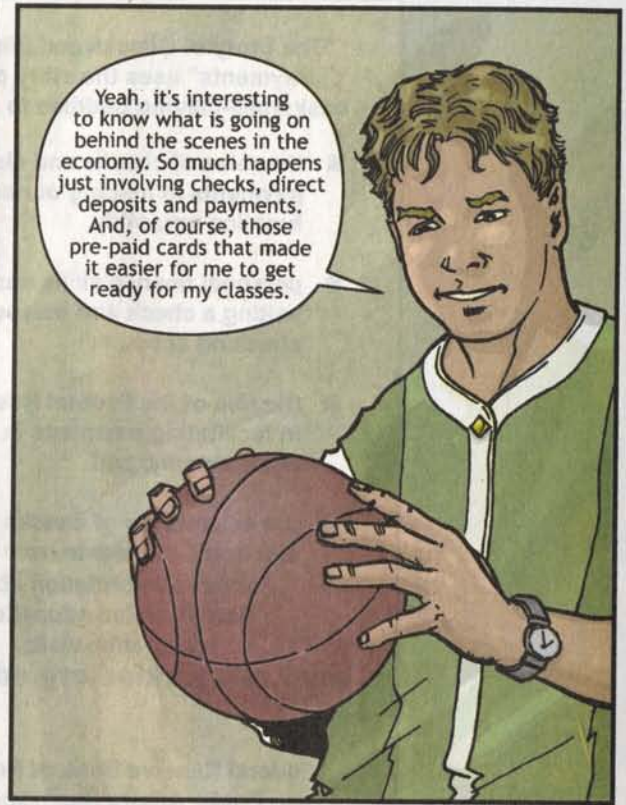
How does it work?

They will scan it at the bookstore when I buy my books and deduct the amount that I pay for textbooks from the card total.



What else can you buy?

My dad said that the money should go only toward my books. If I hit my card limit there will be no more money left on the card. Plus, I can only use the card on campus.



**"The Story of Checks and Electronic Payments" uses the story of two basketball-playing buddies to discuss:**

- the roles of checks and electronic payments in helping our economy function smoothly,
- personal finance skills such as writing a check and balancing a checking account,
- the role of the Federal Reserve in facilitating payments in our economy, and
- the advantages of checks and electronic payments over cash.

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