FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **9490**
May 6, 1983]

CHECK COLLECTION ACCELERATION PROGRAM

Proposed Criteria for Including Non-City Institutions in the Program

To All Depository Institutions in the Second Federal Reserve District, and Others Concerned:

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has proposed for public comment certain criteria for including additional depository institutions in the Federal Reserve's program for accelerating the collection of checks.

The proposals would implement the final phase of a program for speeding up check collection, approved by the Board in December. The first phase of the program, implemented in February, extended deposit deadlines for checks drawn on institutions in cities with Federal Reserve offices and on institutions located in Federal Reserve regional check processing zones. Additionally, the time for presentment or dispatch of checks was moved to 11 a.m. for such city institutions, effective February 24 [*and to 12 noon, effective May 2.*]

Under this first phase of the program, the efficiency of the nation's payments mechanism has been improved by accelerating the collection of checks with a value of some $2 billion by one day.

The proposed expansion of more rapid check collection would permit the collection of a further $1 billion of checks a day earlier.

At the time the program was adopted, the Board indicated that it would be expanded during 1983 to include certain depository institutions located outside the areas originally affected. The Board's proposals made public today [*May 3*] lay the groundwork for that expansion.

The Board said it had two principal reasons for including ''non-city'' institutions in the accelerated check collection program, in addition to increasing earlier collection of checks valued at some $1 billion.

1) There has been a substantial increase in the dollar value of checks presented for collection to depositories located outside the cities and areas originally affected (''non-city'' institutions).

2) Without the expansion of the program, ''city'' institutions may be disadvantaged vis-a-vis ''non-city'' institutions.

Consequently, the Board proposed the following criteria for inclusion of non-city institutions in the program:

1. Initially, include all non-city institutions from which checks are collected by the Federal Reserve with a daily average value of $20 million or more.
2. Include, on one or more of the following bases, non-city institutions from which checks are collected with a daily average value of less than $20 million by the Federal Reserve.
   — Using standards based on average check size, or on the number of large-dollar checks presented for collection by the Federal Reserve to an institution;

   or

   — Based upon an analysis of requests received from depository institutions.

(OVER)

The last alternative approach, the Board said, would involve careful evaluation of such suggestions, weighing benefits expected to be realized through improved availability of funds arising from faster check collection, versus the costs of including the non-city institutions in the program.

In addition to providing comments on the selection criteria, the Board has asked that the following questions be addressed:

1. Should a minimum ratio of costs to value of improved funds availability be set for inclusion in the program? If so, what ratio is appropriate?
2. Should the $20 million cutoff be set at a higher or lower level? If so, what should the appropriate level be?
3. Should institutions with average presentments of less than $20 million be added to the program based on criteria using average check size or the number of large-dollar checks presented, or both?
   (a) If so, how should the appropriate average check size be determined?
   (b) How should the number and size of the large-dollar check criterion be determined?
   (c) Which would be a better criterion — the average check size or the number of large-dollar checks presented for collection? Should both factors be used?
   (d) What time frame should be used to analyze average check size and the number of large-dollar checks?
4. If a criterion based on requests received from depositories were used:
   (a) How would this best be administered?
   (b) When an institution requests that a payor institution be added, how long should the requesting institution be obligated to utilize the service?
5. Would a geographic approach be preferable in determining which additional institutions should be included?
   (a) If so, how should the geographic area be selected?
   (b) Should all institutions within the geographic area be included in the program? If not, on what basis should institutions be included? Average dollar presentments? Average check size? Number of large-dollar checks? Any other criteria?
   (c) What criteria should be used for including institutions outside the specific geographic area?
6. How often should the institutions in the program be reviewed by the Federal Reserve System for continued cost efficiency?
7. Are there any other objective criteria that should be considered as a basis for selecting institutions for inclusion in the program?

Enclosed, for depository institutions and certain others in this District, is a copy of the Board's proposals. Comments thereon should be submitted by June 17, 1983 and may be sent to James O. Aston, Vice President in our Check Processing Function.

The proposed criteria will be published in the *Federal Register*. In addition, copies will be furnished upon request directed to our Circulars Division.

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

[Docket No. R-0464]

Federal Reserve Bank Check Collection Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comments.

SUMMARY: The Board of Governors is requesting public comment on proposed criteria for selecting depository institutions located outside Federal Reserve office cities for inclusion in a program to accelerate the collection of checks that was approved in December 1982.

DATE: Comments must be received by June 17, 1983.

ADDRESS: Comments, which should refer to Docket No. R-0464, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rules Regarding the Availability of Information, 12 CFR § 261.6(a).

FOR FURTHER INFORMATION CONTACT: Elliott C. McEntee, Assistant Director (202/452-2231) or Florence M. Young, Program Manager (202/452-3955), Division of Federal Reserve Bank Operations; Daniel L. Rhoads, Attorney (202/452-3711), Robert G. Ballen, Attorney (202/452-3265), or Elaine M. Boutilier, Attorney (202/452-2418), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On December 17, 1982, the Board approved a program to accelerate the collection of checks by Reserve Banks and thereby improve the efficiency of the nation's payments mechanism. 48 F.R. 79 (January 3, 1983). The major elements of the program included extending deadlines for depositing checks at Federal Reserve offices and moving to a later, uniform time for the presentment1/ or dispatch of checks to paying institutions.

1/Presentment indicates the time that Reserve offices will present checks at clearinghouses or make them available for pickup at the Reserve offices.

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The first phase of this program was implemented on February 24. New later deposit deadlines were implemented for checks drawn on city and RCPC institutions along with a uniform presentment or dispatch time of 11:00 a.m. for checks drawn on city institutions. Under this first phase of the program, checks with a value of approximately $2 billion are now being collected one day earlier than they were being collected previously. The second phase of the program calls for the presentment or dispatch of checks drawn on city institutions to be moved to 12:00 noon on May 2.

In addition, the program provides that new later deposit deadlines for checks drawn on certain non-city institutions,[2] as well as later presentment or dispatch times for the selected institutions, would be implemented on July 1. Criteria for selecting non-city institutions to be included in this aspect of the program, called the high-dollar group sort (HDGS),[3] were to be developed. There are two primary reasons for including non-city institutions in the accelerated check collection program. First, an analysis of check clearing patterns indicated that there was a substantial increase in the dollar value of checks presented by the Federal Reserve to non-city institutions over the period May 1981 through November 1982. By expanding the program to include certain non-city institutions, it is anticipated that checks with a value of $1 billion could be collected one day earlier than at present. Second, in commenting on the proposal to accelerate the collection of checks, commenters indicated that moving presentment or dispatch times to 12:00 noon for city institutions only would put such institutions at a disadvantage vis-a-vis non-city institutions in competing for corporate cash management business.

Several factors are to be considered in developing criteria for the selection of non-city institutions to be included in the HDGS. The selection criteria should consider the value of improved funds availability in relation to the costs incurred in collecting the funds faster, that is, the value of funds cleared one day earlier versus the additional processing and transportation costs that would be required to achieve this improvement. Finally, the selection criteria should be sufficiently flexible to address changing economic trends and disbursement patterns.

Three principal approaches have been considered for selecting non-city institutions for the HDGS: (1) the value of check presentments by the Reserve Banks; (2) the location of non-city institutions; and (3) market demand. Each of these approaches offers varying degrees of improved

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[2] Non-city institutions are depository institutions that are located outside cities where there are Federal Reserve check processing offices.

[3] A group sort is a service that Reserve Banks provide to collecting institutions. Under this service, institutions that sort checks drawn on a defined group of institutions may deposit those checks at later deadlines than unsorted deposits.

availability and responsiveness to changing disbursement patterns. Additionally, the costs associated with servicing and administering each approach would differ.

Value of Check Presentments - Under this approach, the selection process could be developed in two ways. First, non-city institutions could be included in the program on the basis of the daily average dollar value of checks presented to them by the Federal Reserve. All non-city institutions at or above some specific dollar level would be included in the program. Second, non-city institutions could be included on the basis of some measure of average check size and/or the number of large dollar items presented to them by the Federal Reserve. A determination of the appropriate average check size or number of high-dollar checks would be developed through an analysis of Reserve Bank check clearings over a specified time period.

An analysis of daily average presentments to non-city institutions indicated that nearly 30 percent of the total $22 billion daily average presentments by the Federal Reserve to non-city institutions were made to institutions whose daily presentments averaged $20 million or more. The proportion rises to only 37 percent when institutions with daily presentments averaging $10 million or more are included and to 44 percent when institutions with daily presentments averaging $5 million or more are included. However, the number of institutions that would be included in the HDGS would increase 150 percent, from 97 to 249 institutions, between the $20 million and $10 million cutoff points and increase 350 percent, from 97 to 463 institutions, between the $20 million and $5 million cutoff points. These data suggest that, at least initially, a $20 million cutoff point may be preferable in light of the relationship between potential dollars collected and the cost of providing the service.

A selection criterion based on total dollars presented would be uniform and objective as well as simple to implement and administer. This criterion would not, however, allow for accelerating the collection of checks on smaller institutions where it may be cost-effective to do so. There may be opportunities to improve funds availability at a small marginal cost by including institutions whose dollar value of presentments is below the established cutoff. Conversely, this criterion would call for including certain institutions where it may not be cost-effective to do so because transportation costs may be prohibitive.

Using selection criteria based on average check size and/or the number of large dollar checks presented by the Federal Reserve could include institutions on which large dollar checks are frequently drawn but that might not be included in the HDGS under a total dollar value presentment approach. Additionally, this approach would ensure that the checks presented to selected institutions would have a sufficiently high dollar value to make their inclusion in the HDGS cost-effective for collecting institutions. Finally, this approach may offer greater adaptability to changes in market conditions than the pure dollar-based approach. On the other hand, determining the optimal average check size or appropriate number of large dollar checks would require complex analysis.

Geographic Location - A geographic approach has been recommended by some members of the banking community. It has been suggested that all institutions located in specific geographic areas, such as, Ranally Metropolitan Areas, would be included in the HDGS without regard to the value of checks presented to them.

Such an approach would be predictable and objective, since it clearly specifies the groups of depository institutions that would be included in the HDGS. Also, it would treat depository institutions located in Federal Reserve cities and those located in large non-Federal Reserve cities comparably. Nonetheless, this approach appears to have some disadvantages. There may be little benefit from including very small institutions in the HDGS, since the costs of doing so would likely be higher than the potential marginal benefits that may be realized. The inclusion of many small institutions could add significantly to transportation and processing costs while contributing very little to incremental dollars collected. Further, it might be cost effective to serve many institutions that receive large dollar presentments that may not be in the geographic areas specified. Therefore, a pure geographic approach might not maximize improvements in funds availability.

Market Demand - Under this approach, depository institutions could request that certain non-city institutions be included in the HDGS in order to obtain improved funds availability. In administering the market demand approach, the benefits to be obtained through improved funds availability versus the cost of including such non-city institutions in the HDGS would be evaluated. Only when clear net benefits could be achieved would a particular institution be included.

This approach has the advantage of ensuring that the HDGS is responsive to the changing needs of depository institutions. It also provides that institutions would be included in the HDGS only if depository institutions were willing to pay a price that would cover the Federal Reserve's costs of collecting checks on the selected non-city institutions. However, several potential drawbacks are associated with this approach. Improvements in funds availability and in the payments mechanism generally may not be fully realized since the success of the program would be wholly dependent upon the requests of depository institutions. Additionally, this approach may not result in the most efficient allocation of resources since greater or comparable improvements in funds availability may be achieved at costs lower than those associated with limiting selection to depository institutions' requests. Finally, it could be more costly to administer this approach than either the pure total dollar value or geographic approaches because of the continuing necessity to evaluate depository institutions' requests.

Price Determination and Deposit Deadlines - It is proposed that a two-part fee structure be used for the HDGS: a cash letter fee and a per item fee. The cash letter fee would consist of each office's existing intra- or interterritory cash letter fees plus a charge to recover the fixed costs of outgoing transportation. The per item fee will be set to recover processing costs plus the expected value of any holdover or intraterritory transportation float.

Proposed fees for the HDGS have been developed by each Federal Reserve office based upon the costs associated with a high-dollar group sort consisting of non-city institutions with daily average presentments of $20 million or more. A schedule of these proposed fees is attached to this notice. The deposit deadlines for the HDGS would be comparable to the current deadlines for checks drawn on city institutions. It is proposed that the HDGS deposit deadlines would range from 8:00 a.m. to 9:30 a.m. The proposed deposit deadlines also appear in the attachment. Some Federal Reserve offices are considering an optional service that permits institutions to deposit one cash letter for checks drawn on institutions included in the HDGS. Deposit deadlines would be earlier and fees may be slightly higher for this local option.

Presentment - Institutions included in the HDGS will continue to receive a large proportion of the checks presented or dispatched to them in the same manner as at present. It is anticipated that only a small proportion of the checks drawn on these institutions will be presented or dispatched to the banks by 12:00 noon.

Payor Bank Service - The accelerated check collection program, approved by the Board in December, specifically addressed the impact of later presentment on depository institutions' ability to offer cash management services to their customers. As announced by the Board in December, each Reserve Bank will be required to offer a minimum level of service that provides presentment totals by selected account or facilitates the paying institutions' ability to extract such totals. Information concerning the details of each Reserve Bank's service is available from the Reserve Bank.

Implementation - The Board will establish an implementation date when final action on this matter is taken after comments are analyzed.

Combining Selection Criteria - It appears that no one criterion will be fully satisfactory. However, the Board believes that the daily average presentment value approach provides an objective basis for initiating the HDGS. By initially including all institutions with average daily presentments amounting to $20 million or more, the number of selected institutions would be manageable. Meaningful improvements in funds availability could be realized while information is gained regarding depository institutions' use of the HDGS and the cost-effectiveness of including all institutions defined by this criterion.

Further improvements in funds availability could be achieved at a reasonable cost by including additional non-city institutions in the HDGS. Lowering the dollar cutoff, however, may not be the most cost effective approach because improvements in funds availability may not exceed the increased costs that would be incurred to include additional institutions in the HDGS. Therefore, other criteria may be needed for selecting institutions whose average daily presentments are below the $20 million cutoff. All depository institutions that fall within the selection criteria chosen will be included within the HDGS.

Accordingly, the Board requests public comment on the following selection criteria:

1. Initially include all non-city institutions in the HDGS whose daily average presentments by the Federal Reserve amount to $20 million or more.

2. Select additional non-city institutions with total daily average presentments by the Federal Reserve under $20 million for inclusion in the HDGS:

   a. Using standards based on the average check size and/or the number of large-dollar checks presented to an institution; or

   b. Based on an analysis of requests received from depository institutions.

In addition to providing comments on the selection criteria proposed above, the Board asks that commenters also address the following questions:

1. Should a minimum ratio of costs to value of improved funds availability be set for inclusion in the program? If so, what ratio is appropriate?

2. Should the $20 million cutoff be set at a higher or lower level? If so, what should the appropriate level be?

3. Should institutions with average presentments of less than $20 million be added to the program based on criteria using average check size and/or the number of large dollar checks presented?

   (a) If so, how should the appropriate average check size be determined?

   (b) How should the number and size of the large dollar check criterion be determined?

   (c) Which would be a better criterion--the average check size or the number of large dollar checks presented? Should both factors be used?

   (d) What timeframe should be used to analyze average check size and/or the number of large dollar checks?

4. If a market demand criterion were used:

   (a) How would this best be administered?

(b) When an institution requests that a payor institution be added, how long should the requesting institution be obligated to utilize the service?

5. Would a geographic approach be preferable in determining which additional institutions should be included?

(a) If so, how should the geographic area be selected?

(b) Should all institutions within the geographic area be included in the program? If not, on what basis should institutions be included? Average dollar presentments? Average check size? Number of large dollar checks? Any other criteria?

(c) What criteria should be used for including institutions outside the specified geographic area?

6. How often should the institutions in the HDGS be reviewed by the Federal Reserve System for continued cost efficiency?

7. Are there any other objective criteria that should be considered as a basis for selecting institutions for inclusion in the HDGS program?

By order of the Board of Governors of the Federal Reserve System, May 2, 1983.

(signed) James McAfee

James McAfee
Associate Secretary of the Board

[SEAL]

ATTACHMENT

Proposed HDGS Prices and Deposit Deadlines[1/]

Office and Group Number	Per Item (cents) Group	Fine	Intraterritory C/L Fee (dollars)	Interterritory C/L Fee (dollars)	Proposed Deadline
BOSTON	5.0¢		$9.00	$10.00	0830
Lewiston2/	N/A		N/A	N/A	N/A
Windsor Locks	5.0		9.00	10.00	0800
NEW YORK2/	N/A		N/A	N/A	N/A
Buffalo	8.0		3.25	5.25	0830
Jericho	8.0		8.00	10.00	0830
Cranford	8.0		9.00	11.00	0830
Utica	8.0		16.00	18.00	0830
PHILADELPHIA	9.0		8.00	9.00	0800
CLEVELAND	10.0		5.00	7.00	0930
Cincinnati	10.0		9.50	11.50	0930
Pittsburgh		5.0¢	7.00	7.00	0930
Columbus		5.0	7.00	7.00	0800
RICHMOND	11.0		21.50	22.50	0900
Baltimore	8.0		15.50	16.50	0830
Charlotte	12.0		20.00	21.00	0800
Columbia	14.0		13.50	14.50	0900
Charleston2/	N/A		N/A	N/A	N/A
ATLANTA	8.0		3.00	4.50	0800
Birmingham2/	N/A		N/A	N/A	N/A
Jacksonville	15.0		50.00	51.50	0800
Nashville2/	N/A		N/A	N/A	N/A
New Orleans		15.0	29.00	29.00	0800
Miami		5.0	14.50	14.50	0830
CHICAGO		15.0	13.75	13.75	0830
Detroit 1	10.0		10.00	10.00	0900
Detroit 2	10.0		17.00	17.00	0900
Des Moines2/	N/A		N/A	N/A	N/A
Indianapolis2/	N/A		N/A	N/A	N/A
Milwaukee		15.0	12.50	12.50	0830

Office and Group Number	Per Item (cents) Group	Fine	Intraterritory C/L Fee (dollars)	Interterritory C/L Fee (dollars)	Proposed Deadline
ST LOUIS		12.0	9.00	9.00	0900
Little Rock2/	N/A		N/A	N/A	N/A
Louisville		7.0	14.00	14.00	0930
Memphis		9.0	51.50	51.50	0930
MINNEAPOLIS	6.0		7.00	8.00	0800
Helena		9.8	19.50	19.50	0900
KANSAS CITY2/	N/A		N/A	N/A	N/A
Denver2/	N/A	15.0	51.75	51.75	0900
Oklahoma City	10.0		30.00	31.00	0900
Omaha2/	N/A		N/A	N/A	N/A
DALLAS	7.0		6.00	8.00	0900
Houston2/	N/A		N/A	N/A	N/A
San Antonio		3.0	30.50	30.50	0930
El Paso		3.0	14.50	14.50	0915
SAN FRANCISCO		5.0	29.00	29.00	0800
Los Angeles 1	7.8		10.00	12.00	0800
Los Angeles 2		5.0	38.00	38.00	0800
Los Angeles 3	11.0		29.00	31.00	0800
Portland2/	N/A		N/A	N/A	N/A
Salt Lake City2/	N/A		N/A	N/A	N/A
Seattle2/	N/A		N/A	N/A	N/A

1/ Fees are based on (1) including only institutions with daily average presentments of $20 million and above, and (2) Reserve Bank estimates of the number of checks and the number of deposits that will be received for this HDGS.

2/ There are no institutions with daily average presentments of $20 million and above in the territory served by this office.

N/A -- Not applicable.