

FEDERAL RESERVE BANK  
OF NEW YORK

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Guidelines for Federal Reserve Regional  
Check Processing Centers

*To All Banks, and Others Concerned,  
in the Second Federal Reserve District:*

The following statement was issued today by the Board of Governors of the Federal Reserve System, for release February 3:

The Board of Governors of the Federal Reserve System today announced approval of guidelines to be used by the System throughout the nation in establishing Regional Centers for overnight processing and settlement of checks.

It is expected that the new check clearing system will result in the majority of the 62 million checks written daily by Americans being cleared and paid by the opening of business the day following deposit of a check.

The guidelines were issued in furtherance of a policy statement by the Board announced last June 17, calling—as a matter of urgency—for modernization of the nation's check payments system.

The guidelines give basic directions to the Reserve Banks for the establishment, and operation, of Regional Check Processing Centers (RCPCs) in "communities whose trade, business and financial activities are substantially related" and where check volume warrants upgrading check handling facilities.

Most of the new Clearing Centers will be located at existing Federal Reserve offices: the 12 Federal Reserve Banks, their 24 Branches and one facility.

In operating as Regional Check Clearing facilities, in addition to their other functions, these Federal Reserve offices in 37 of the nation's financial centers will expand the overnight check settlement arrangements they have had for some years with banks in the reserve cities.

New Federal Reserve Regional Clearing Centers will only be opened in areas not reached by the Centers in existing Federal Reserve offices, where check volume and the absence of alternative facilities make additional Federal Reserve service essential.

The new system will make maximum use, consistent with improved service to the public, of check processing centers operated by commercial banks. In such commercial bank processing centers, checks from a number of correspondent banks are sorted and otherwise made ready for clearance.

The new system is to become operative, region by region, as soon as practicable. Clearing regions may cross State and Federal Reserve District boundaries.

For individuals and businesses making and receiving payments by check, the new system will mean earlier receipt of funds due to them, and earlier payment of funds they are transferring to others. For example, most payroll checks — typically due to be paid by a local bank to a depositor in another nearby bank — will be cleared, and employees will have use of their pay, within a day after they deposit their paychecks. Similarly, a check written to pay off a bill, or make a purchase, will be debited within a day after the

check is deposited in a participating area bank. In all cases, the total time between the writing and collection of a check circulating within a clearing area will vary according to how long the check is held by the recipient before being deposited.

In its June 1971 policy statement dealing generally with modernization of the nation's system for making financial payments, the Board said that a speedier, more efficient check handling and clearance system is urgent because the huge number of checks being put in use — some 23 billion checks, transferring about \$13 trillion dollars yearly — is expected to double by the end of this decade. For the same reasons, the Board said the improvised check payments system it called for should be regarded as a transitional step toward replacing the use of checks with electronic transfer of funds.

Consequently, the guidelines released today specified that, generally, Regional Clearing Centers should be provided with automated clearing and telecommunications capabilities to serve as the basis for transition to widespread checkless — electronic — fund transfers.

The guidelines approved by the Board were prepared by the Federal Reserve System Steering Committee on the Payments Mechanism, headed by Reserve Board Governor George W. Mitchell, in collaboration with the Conference of First Vice Presidents of the Reserve Banks. The Steering Committee issued a statement accompanying the guidelines giving the background to its decisions. This emphasized integration into the system of services available from commercial banks. The Steering Committee likewise emphasized that operating arrangements at different clearing centers may vary sufficiently to accommodate — within the basic guidelines — the substantial differences that exist across the nation in banking structure, population density, volume of check traffic, and differences in geography and topography which affect highway and other transportation facilities for the movement of checks.

Other members of the Steering Committee are Reserve Board Governors Sherman J. Maisel and John E. Sheehan (succeeding former Governor William W. Sherrill), Reserve Bank Presidents George H. Clay of Kansas City, Aubrey N. Heflin of Richmond, and Eliot J. Swan of San Francisco, and the First Vice Presidents of the Chicago and the New York Reserve Banks, Ernest T. Baughman and William F. Treiber.

The size of an area served by a Clearing Center will be determined chiefly by the distance that surface or air transport (where that is the more practical and economical means of check gathering and delivery) can travel to pick up, during the afternoon, the day's crop of checks deposited in participating banks, bring these to the Clearing Center for processing and settlement during the night, and deliver them early the next morning to banks against which checks deposited the day before were drawn.

Participation by banks in the new system will be on an entirely voluntary basis, but every effort will be made to secure the cooperation of all banks, whether or not they are members of the Federal Reserve System.

A Clearing Center will accept from participating banks in its clearing region all checks written on other participating banks in the region. It will also accept, from Federal Reserve member banks, checks drawn upon banks outside the region. U.S. Government checks, postal money orders, and other items payable at a Federal Reserve office will be accepted from participating banks, wherever they originate.

Copies of the System's Steering Committee statement and the guidelines are printed on the following pages.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
President.

STATEMENT BY THE SYSTEM STEERING COMMITTEE  
ON IMPROVING THE PAYMENTS MECHANISM

On June 17, 1971, the Board of Governors of the Federal Reserve System issued a Statement of Policy calling, as a matter of urgency, for changes in the present check clearing system in order to bring about significant savings in manpower, eliminate unnecessary handling of checks, and achieve faster, more convenient and more economical banking services for the public.

Among actions to which it gave high priority, the Board asked for the following improvements in the nation's means of making payments:

1. In cities where Federal Reserve offices are located, the expansion of present areas for overnight clearing into larger zones of immediate payment.
2. Establishment--where warranted by the need for more expeditious and economical check handling, or other circumstances--of other regional facilities for overnight check clearance and settlement in immediately available funds.

Under authority from the Board of Governors, the System Steering Committee on Improving the Payments Mechanism has approved guidelines to implement the Board's policy with respect to Regional Check Processing Centers that were developed by the Committee on Collections of the Conference of First Vice Presidents of the Federal Reserve Banks.

As background to these guidelines, the Steering Committee has the following observations.

The nation's check payments system should evolve in a manner that will achieve overall efficiency, taking into account both public and private costs. To this end, and because neither the Federal Reserve nor the commercial banks can separately provide as efficient a system as they can jointly, the Steering Committee seeks methods of complementing essential check handling activities of the commercial banks in the most effective manner.

In general, the guidelines adopted by the Steering Committee would limit the Federal Reserve's check collection role to (1) facilitating the local exchange of checks when the checks are drawn on and paid to banks located in the same community, metropolitan area, or region, and (2) assuming greater responsibility for providing a more efficient system for handling inter-regional checks and doing so on as uniform a basis as feasible. The guidelines are not regarded as imposing constraints upon the continued use and development of check handling facilities of the commercial banking system.

Electronic data processing is used for most checks today, but not all banks choose to operate check processing equipment. Many banks find it more convenient and economical to send their checks to correspondent banks or service bureaus for sorting and accounting. The Steering Committee believes that because of the scale economies achieved in

electronic processing operations, it is likely that in the near future, subject to the economics of check transportation, all checks, upon receipt at the bank of first deposit, will be routed into such centers. Thus, checks will, at the earliest possible point in their movement, be converted to a machine-readable form so that thereafter they can be handled primarily by high speed electronic and mechanical equipment.

Up to the present time, Federal Reserve offices have accepted in limited numbers checks that are not amount encoded, just as, for several years, they accepted checks that did not have MICR identification. However, considering the facilities now available, the time is near at hand for establishing a standard of machinability for all items coming into a Federal Reserve clearing center that would include the amount being encoded in magnetic ink and otherwise fully qualified according to the MICR program standards established by The American Bankers Association. As a further aid to the efficiency of the System's check processing operations, it would be desirable, in the near future, to require limited basic sorts of items coming into the center in order to speed up subsequent handling.

Across the nation, there are substantial differences in banking structure as well as in population density and, therefore, the volume of check activity. There are also differences in geography and topography which affect highway and other transportation facilities available for the movement of checks. These environmental variations mean that complete uniformity in the organization and operation of check clearing facilities is impractical.

For example, the size and character of facilities needed to expedite the exchange of local checks may differ significantly from one part of the country to another. In state-wide branching states, most of the large branching systems have consolidated their check processing in one or two offices, and they usually exchange checks directly with other large systems, using their Federal Reserve accounts for a net settlement. Moreover, checks coming into a Federal Reserve facility serving such banks need only be sorted to the parent unit, thus, significantly reducing clearing center sorting.

In the past clearing facilities serving unit banking states must have been prepared to make sorts to every banking office. Even in those states, however, the tendency is toward the clustering of demand deposit accounting and transit operations in correspondent, service bureau, and holding company processing centers. This development opens the way for intercepting the items coming from a given bank and drawn on other banks served in the same processing center. Thus, operation in these processing centers can reduce the volume of work at the clearing center by reducing the number of end points for sorted checks through the consolidation of items destined to the same processing center. Arrangements of this type which can be devised for each clearing center are indicative of the way in which closer integration of Federal Reserve and commercial bank activities can significantly reduce overall check handling and transportation costs.

The following guidelines are applicable to all Federal Reserve Regional Clearing operations in present locations or in newly created

special facilities. They are intended to achieve as much uniformity in clearing operations as is feasible under varying present-day conditions.

January 31, 1972

GUIDELINES FOR FEDERAL RESERVE REGIONAL CHECK PROCESSING CENTERS

1. Definitions

- a. A "Federal Reserve Regional Check Processing Center ("RCPC") is a facility in which check collection operations are performed by or on behalf of a Federal Reserve Bank for (1) the deposit, by the participating banks, with the RCPC of checks and other cash items on, or payable at, other banks in the RCPC area and, in certain cases, banks outside the RCPC area; (2) the collection of items drawn on participating banks, deposited outside the area and routed through certain channels; (3) the processing, exchange, clearing, and presentment of such items by the RCPC; and (4) the payment on the day of presentment in immediately available funds (Federal Reserve balances) by each participating bank for such items. In accordance with such definition, it should be noted that an RCPC might be at a Federal Reserve Bank or Branch, a Federal Reserve special facility, or a bureau or other clearing center or arrangement sponsored by a Federal Reserve Bank.
- b. A "Participating Bank" is a bank which pays in immediately available funds for items presented to it through the RCPC.
- c. A "Member Bank" is a bank that is a member of the Federal Reserve System.

- d. An "RCPC area" is a defined geographical area which includes within its boundaries an RCPC and all its participating banks.
- e. A "District" is a Federal Reserve District.
- f. A "Territory" is the area assigned to a particular Federal Reserve office within a Federal Reserve District.

## 2. Geographic location

- a. The RCPC area should encompass communities whose trade, business, and financial activities are substantially related and generate a sufficient volume of check payment transactions to justify an efficient processing operation. Crossing State, District or Territory lines should not be a deterrent in defining the area. Where the possibility of an inter-District or inter-Territory RCPC exists, studies and plans will be coordinated between the Federal Reserve offices involved.
- b. Since the RCPC operations must be conducted largely between the close of banking business one day and the early business hours on the next day, transportation time between the participating banks and the RCPC, as well as the center's processing capabilities, should determine the geographical size of an RCPC area.
- c. In general, an RCPC should have automated clearing and telecommunication capabilities to serve as the basis for a transition to the widespread use of paperless entries and to service the developing needs of the banks as the region's payments transactions require it.

## 3. Eligible sender and payor banks

- a. An RCPC will accept for processing and collection from all its participating banks cash items drawn on other banks in the same RCPC area.

b. An RCPC will accept from its participating banks which are members of the Federal Reserve System cash items drawn on banks outside the RCPC area.

c. A fully operational RCPC will accept cash items from all Federal Reserve offices, other RCPCs, and Federal Reserve member banks located outside the RCPC area on terms and conditions comparable to those applicable to RCPC participating member banks.

d. Where volumes and efficiencies warrant, local clearing arrangements in the RCPC area should continue in operation and the banks involved should continue to package-sort separately items drawn on other banks in such clearing arrangements and should exchange items directly.

4. Payment for cash letters

Each participating bank shall make provisional payment in immediately available funds on the banking day of presentment for the items presented to it.

5. Expenditures for RCPCs

a. All costs of the RCPCs other than for incoming transportation of checks, except as provided in b, shall be borne by the Federal Reserve Banks.

b. Certain incoming transportation charges, for example, those related to pick-up points for the consolidation of shipments to the RCPCs may be assumed in whole or in part by the Federal Reserve Bank if by doing so a more nearly optimal, overall use of equipment, personnel and transportation facilities will be achieved.

6. Federal Reserve routing symbol

The Federal Reserve will assign an immediate credit routing symbol

to all participating banks in an RCPC area.

7. Eligible cash items, deposit deadlines, and sorting requirements

- a. An RCPC will accept from its participating banks all cash items drawn on offices of other banks participating in the same RCPC. However, "on us" items will not be accepted from any participating bank, and, subject to negotiation, banks and nonbank agents performing check processing for others should exclude from their deposits in the RCPC items drawn on banks which they are servicing.
- b. U. S. Government checks, postal money orders, and other items payable at a Federal Reserve office will be accepted from participating banks at all RCPCs.
- c. Sorting requirements and deposit deadlines should be set to promote efficient handling and timely presentation of items. Participating member banks may deposit up to 2,000 items per day with the RCPC unsorted.

8. MICR encoding requirements

In general, items from depositing banks should be amount-encoded in magnetic ink and fully qualified according to the American Bankers Association MICR program standards.

January 31, 1972