

Check Truncation

BACKGROUND

After the September 11th terrorist attacks, domestic flights were suspended, preventing millions of checks from physically moving through the payments system. While the system was stalled, float built up in the payments system and the Federal Reserve was forced to take emergency action to continue the movement of checks around the country. To make sure that checks will continue to be processed through the payments system with limited interruption during national emergencies and to modernize the payment system, legislation was introduced to improve the payments system. The legislation facilitates check truncation through the authorization of substitute checks and fosters innovation in the check collection system without mandating receipt of checks in electronic form.

LEGISLATIVE STATUS

U.S. House of Representatives

On March 27, 2003, House Financial Services Committee member Melissa Hart (R-PA) introduced legislation ([H.R. 1474](#)), the Check Clearing for the 21st Century Act of 2003. This legislation would:

- Maintain that a substitute check is the legal equivalent of an original check.
- Define “substitute check.”
- Define “check truncation.”
- Stipulate implementation guidelines, including expediting recredit procedures with transactions involving a substitute check.
- Set forth: procedures for claimant banks against an indemnifying bank for expedited recredit; damages for failing to comply with requirements; a one-year statute of limitations that begins as of the date the injured party first learns of the circumstances resulting in the cause of action; consumer education regarding substitute checks.
- Confer responsibility upon the Board of Governors of the Federal Reserve System to monitor the check collection and electronic return process and reduce the time periods for making funds available for withdrawal.

On April 8, the Financial Services Subcommittee on Financial Institutions and Consumer Credit held [hearings](#) at which representatives from a number of financial associations including Community Bankers, American Bankers Association, ETRADE Bank, Consumers Union, NCR Corporation, and the Credit Union National Association, testified.

On May 21, the full Financial Services Committee approved the legislation. On June 5, the House of Representatives approved (405-0) the legislation.

U.S. Senate

On June 25, Senate Banking Committee member Richard Shelby (R-AL) introduced legislation (S.1334), the Check Trunification Act of 2003, which is similar to the legislation approved by the House. On June 27, the Senate approved H.R. 1474 as amended by unanimous consent.

Conference

The House and Senate have named a conference committee to work out the differences between the two bills. House conferees are: Representatives Oxley, Bachus, LaTourette, Hart, Tiberi, Frank, Sanders, and Ford. Senate conferees are: Senators Shelby, Bennett, Allard, Sarbanes, and Johnson.

Congress agreed to the [conference report](#) in October. President Bush signed the legislation (Public Law No. 108-100) on October 28, 2003.

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