

**Congressman Harold Ford, Jr.**

**Financial Institutions Subcommittee**

**Hearing on HR 1474, the Check Clearing for the 21<sup>st</sup> Century Act**

**April 8, 2002**

I want to thank Chairman Bachus and Ranking Member Sanders for holding today's hearing.

Last month, I joined my colleagues Ms. Hart and Mr. Ferguson in introducing legislation intended to modernize the nation's check payment system.

Check 21 builds upon the goals set forward by the Federal Reserve in its draft Check Truncation Act. Those goals were

facilitating check truncation;

fostering innovation in the check collection system *without mandating the receipt of checks in electronic form*;

and improving the overall efficiency of the nation's payments system.

Check 21 seeks to modernize our payments system and bring the benefits of technology to more consumers. Under the system that exists today, millions of paper checks are physically transported every night, by ground and by air. Checks move from the bank to which they are deposited, to any number of intermediary banks, check processors, and/or the Federal Reserve, then are sent to the paying bank, and finally, in some cases, back to the person who wrote the check.

One of the vulnerabilities in the current system was exposed last September 11<sup>th</sup>. When the nation's aviation system was grounded in the hours and days after the terrorist attacks, millions of checks could not reach their destination. The nation's payment system ground to a temporary halt.

The subsequent anthrax mailings, which shut down mail delivery in several areas of the nation, highlighted another potential weak link in a system that relies on the physical delivery of paper checks. Other obstacles or potential obstacles include inclement weather, natural disasters, or plane crashes.

Check 21 seeks to strengthen our check payment system by facilitating check truncation. Through check truncation, paper checks are rendered into digital messages which can move through the payments system at digital speeds.

Check 21 facilitates check truncation without mandating the receipt of checks in electronic form. It does this by establishing a negotiable instrument, a "substitute check," with the same legal status as original checks. These substitute checks would contain an image of the

original check, include the magnetic code at the bottom for electronic processing, and conform to standards for size, paper stock, and the like. These substitute checks can be used by banks and consumers in the same way as original checks.

The substitute check is a solution to the challenge of facilitating check truncation without requiring that banks accept checks in electronic form. Nor does our bill require banks to create substitute checks. Each bank can decide whether to truncate checks or produce substitute checks.

We believe that Check 21 is a strong pro-consumer bill. Consumers benefit in multiple ways.

First, Check 21 will promote efficiency in the banking system by lessening reliance on the physical transportation and presentation of checks. Consumers will benefit through lower costs and expedited services. The Fed has found that check truncation is "generally more efficient, more cost effective, and less prone to processing errors."

Second, this streamlined system will reduce the disruptions caused by bad checks. By speeding up the check clearing system, individuals will be notified faster if their check -- or checks written to them -- have not cleared. This will reduce the likelihood that a single bounced check will result in a "chain reaction" of bounced checks.

Third, more customers will be able to benefit from new products and services, such as online access and review of check images. Millions of consumers already enjoy these services, which give consumers instant access to information about their checks, day or night. Also, if a consumer makes an inquiry about a check, his or her bank's customer services representatives will be able to access and review the check instantly. This can sharply reduce the time for customer inquiries. Consumers may also benefit from more deposit options. Because electronic processing could eliminate the need for daily physical pick-up of checks, consumers could enjoy extended deposit cutoff hours or deposit services at more ATMs in remote locations.

Finally, Check 21 establishes a new consumer right, an expedited recredit for contested substitute checks. If a substitute check is not properly charged to a consumer's account, banks must recredit the consumer for the amount of the check, up to \$2,500, within 10 business days. This is a new and important consumer protection established by this bill.

In conclusion, I am proud to have joined Ms. Hart and Mr. Ferguson in introducing Check 21. I look forward to each of our witnesses' testimony. I am committed to working with each of you on a bill that benefits consumers, improves efficiency, and strengthens our nation's financial system.