CHECK 21

The Check Clearing for the 21st Century Act was a direct result of the September 11, 2001 terrorist attacks. In the days following the attacks, airline traffic across the country, including Federal Reserve aircraft, was grounded. This brought the delivery of paper checks for processing between financial institutions to a stand still. As a result, in October of 2003, the House and Senate passed similar versions of Check 21 legislation and forwarded them to the President. That legislation, the Check Clearing for the 21st Century Act, went into effect on October 28, 2004.

Check 21 encourages the replacement of a paper check with a digital image earlier in the processing cycle by removing the need to transport the original check from the bank of the first deposit to the check processor, and from the check processor to the paying institution. To accomplish this, the law provides for a new negotiable document, a substitute check or Image Replacement Document (IRD), and gives the IRD the same legal status as the original paper check. This gives the financial institution the option to either store or destroy the original document after it has been captured electronically.

A new standard - X9.90 - was created to outline specifications for Image Replacement Documents (IRD). These specifications include:

• Size requirements – the IRD will not be the same size as the original document, but must meet definite standards for the reduced copy.

• Endorsement information will be provided on the IRD.

• The MICR line will reflect all the information encoded on the original check as well as the amount.

• A special code (number) will be added to the MICR line. This number identifies the check as a substitute check and is the number "4" in position 44 (left of the routing and transit number) on the check for forward collection and a "5" in the same position for a returned item. This code will ensure the document will not be reduced again.

According to Check 21 guidelines, the substitute check will contain all the information on both the front and back of the check, including the MICR line and all endorsements. It will also state that it is a legal copy of the original check.

Check 21 requires the paying bank (your bank) to accept substitute checks (IRD) presented for payment. However, it does not require financial institutions to accept checks in an electronic format or to create substitute checks.

In order for a check to be captured electronically, the document must be image ready. Requirements for image ready documents are outlined in the ANSI x9.7 section on the other side of this sheet.

ANSI x9.7

Image Ready means that documents can be scanned and the images stored electronically. The electronic image must be as small as possible in order to save storage space, while ensuring that the areas of interest are completely legible. In order to accomplish this, the background clutter must drop out and the reflectance must be high enough to leave only the important information in the image.

What is background clutter?
Background clutter is anything that interferes with the capture of the vital information, such as:
• Pantographs
• Overt Security Features

What is the vital information?
Areas of Interest –
1. Date
2. Payee
3. Numeric Amount (CAR – Convenience Amount Recognition)
4. Legal Amount (amount spelled out in words)
5. Signature

Why does the background need to drop out?
• For better legibility of handwritten and printed information
• Makes keying more productive
• Reduces image file size
• Decreases image transfer time

What does "Reflectance" mean?
Measurement of the amount of light reflected from the illuminated surface of the document.

Why is Reflectance important?
• Increases the contrast of pen or print against the background
• Necessary to ensure image will meet ANSI specs and legibility requirements for archival

What are the expected results of ANSI X9.7 and Check 21?
• Faster clearance of checks
• Decreased check fraud
• Increased security
• Decreased cost of check processing
• More efficient storage of necessary document information