



# Financial Services Policy Committee

## Federal Reserve System

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**Release Date: June 26, 2007 (noon ET)**

### Federal Reserve Banks Announce Changes To Increase Check Service Efficiency

Minneapolis, Minn., June 26, 2007 — The Federal Reserve Banks today announced changes to their check operations as consumers and businesses continue the shift from using paper checks toward electronic payments. As part of a longer-range strategy, the Federal Reserve Banks have selected Philadelphia, Cleveland, Atlanta and Dallas as regional check processing sites that are expected to provide the full range of check processing services through at least mid-2011. Other remaining sites will have their operations scaled back. These scaled-back sites will all print substitute checks, but some will also capture paper checks. The regional sites will provide a full range of check processing services and receive processing volumes from the other sites in a phased transition.

These changes are expected to begin in 2008, and the Reserve Banks will continue to review this check infrastructure annually to respond to further change within the nation's payments system and to meet statutory requirements for long-term cost recovery.

"These changes will enable the Reserve Banks to continue to provide high-quality check processing services to depository institutions throughout the country well into the future while further encouraging the use of electronics within the nation's check collection system," said Gary Stern, chairman of the Reserve Banks' Financial Services Policy Committee and president of the Federal Reserve Bank of Minneapolis. "At the same time, these changes will facilitate ongoing efficiency improvements for the Reserve Banks' check processing operations in line with the continuing shift in consumer and business preferences for electronic payments. In addition, these changes support our long-term business strategy to use the authority provided by Check 21 to collect more checks electronically, reducing the reliance on the physical transportation of checks."

Today's announcement marks the Reserve Banks' fifth annual review of their check infrastructure. Since 2003, the Reserve Banks have reduced the locations where they process checks from 45 to 22, with one other site (Nashville) scheduled to discontinue operations this summer. Three other sites previously scheduled to discontinue check operations (Helena, San Francisco and Kansas City) will remain as print-only sites.

The table below describes how check operations will be affected at each Reserve Bank location.

#### Check Processing Infrastructure Changes

Office	Service level/where processing volume will move	Tentative transition timing
Atlanta, Ga.	Regional processing site	-----
Cleveland, Ohio	Regional processing site	-----
Philadelphia, Pa.	Regional processing site	-----
Dallas, Texas	Regional processing site	-----
Utica, N.Y.	Print only/Philadelphia	First quarter 2008
Memphis, Tenn.	Print only/Atlanta	Third quarter 2008
Cincinnati, Ohio	Print only/Cleveland	Fourth quarter 2008
Seattle, Wash.	Capture and print /Dallas	Fourth quarter 2008
Windsor Locks, Conn.	Print only/Philadelphia	First quarter 2009
Charlotte, N.C.	Print only/Atlanta	Second quarter 2009
Minneapolis, Minn.	Capture and print/Cleveland	Third quarter 2009

<b>Office</b>	<b>Service level/where processing volume will move</b>	<b>Tentative transition timing</b>
Baltimore, Md.	Print only/Philadelphia	Fourth quarter 2009
Chicago, Ill.	Capture and print/Cleveland	First quarter 2010
Denver, Colo.	Capture and print/Dallas	Second quarter 2010
Jacksonville, Fla.	Print only/Atlanta	Third quarter 2010
Des Moines, Iowa	Print only/Cleveland	Fourth quarter 2010
Los Angeles, Calif.	Capture and print/Dallas	Fourth quarter 2010
St. Louis, Mo.	Print only/Atlanta	First quarter 2011

As a result of the actions announced today, the Reserve Banks expect to reduce their overall check staff by approximately 1,740 positions. Some staff reductions may occur through attrition and there may be some opportunities for reassignment. To assist affected staff, the Reserve Banks will offer a variety of programs, including separation packages, extended medical coverage, and career transition assistance.

The Reserve Banks earned revenues in 2005 and 2006 that exceeded the actual and imputed costs of providing check services to depository institutions as well as their targeted level of profitability for the first time in several years. But check volumes have continued to decline, and further decline is anticipated in the coming years. The most recent Federal Reserve study of the nation's payment system revealed that about 37 billion checks were paid in the United States in 2003—down from 42 billion in 2001 and 50 billion in 1995—as electronic payments, including those made by credit cards, debit cards, and automated clearinghouse transactions, increased considerably. Further Reserve Bank restructuring efforts will be necessary as check volumes continue to decline and as more depository institutions begin to collect checks electronically using the authority provided by Check 21.

The Federal Reserve Banks' long-term check processing strategy is to reduce costs and restructure their check processing operations in line with declining check volumes while encouraging the greater use of electronics in the collection of checks. This strategy will allow the Reserve Banks to meet the expectations of the 1980 Monetary Control Act. That act requires the Federal Reserve to set prices to recover, over the long run, its total operating costs of providing payment services to financial institutions, as well as the imputed costs it would have incurred and the profits it would have expected to earn had the services been provided by a private business firm.

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#### Federal Reserve System 2007 Check Restructuring

##### Fact Sheet

**Federal Reserve check processing locations:** The Reserve Banks today process checks at 22 sites nationwide with one other site (Nashville) scheduled to discontinue operations this summer. Three other sites previously scheduled to discontinue check operations (Helena, San Francisco and Kansas City) will remain as print-only sites. An additional 14 sites announced today are scheduled for reduced operations between 2008 and early-2011.

**Staff levels:** The Federal Reserve System, including the Board of Governors, employs over 21,000 staff nationwide; approximately 3,300 of these employees work in the check function.

**National check volumes:** By Federal Reserve estimates, roughly 37 billion checks were paid in the United States in 2003, down from about 42 billion in 2001 and 50 billion in 1995 (based on data from the Reserve Bank's latest available payments study). The Reserve Banks handled over 10 billion checks and electronic images in 2006.

**Regional processing site, capture and print site, and print-only site definitions:** A regional check processing site will retain all of the functionality that exists in current processing locations. For instance, these sites will process paper checks and electronic images as well as print substitute checks, and provide reconciliation and settlement services. A capture and print site will convert paper checks to Check 21 items and print and dispatch substitute checks. A print-only site will print and dispatch substitute checks.

##### **Listing of specific Federal Reserve locations and check functions (as of end of first quarter 2011)**

**District 1:** Boston, Mass. (head office, no check processing); Windsor Locks, Conn. (print substitute checks)\*\*

**District 2:** New York City, N.Y. (head office; a payments operations center is located in East Rutherford, N.J., no check processing); Buffalo, N.Y. (branch, no check processing); Utica, N.Y. (print substitute checks)\*\*

**District 3:** Philadelphia, Pa. (head office, regional check processing site)

**District 4:** Cleveland, Ohio (head office, regional check processing site); Cincinnati, Ohio (branch, print substitute checks)\*\*; Pittsburgh, Pa. (branch, no check processing)

**District 5:** Richmond, Va. (head office, no check processing); Baltimore, Md. (branch, print substitute checks)\*\*; Charlotte, N.C. (branch, print substitute checks)\*\*

**District 6:** Atlanta, Ga. (head office, regional check processing site); Birmingham, Ala. (branch, no check processing); Jacksonville, Fla. (branch, print substitute checks)\*\*; Miami, Fla. (branch, no check processing); Nashville, Tenn. (branch, no check processing)\*; New Orleans, La. (branch, no check processing)

**District 7:** Chicago, Ill. (head office, the payments center is located at Midway Airport, capture and print substitute checks)\*\*; Detroit, Mich. (branch, no check processing); Des Moines, Iowa (print substitute checks)\*\*

**District 8:** St. Louis, Mo. (head office, print substitute checks)\*\*; Little Rock, Ark. (branch, no check processing); Louisville, Ky. (branch, no check processing); Memphis, Tenn. (branch, print substitute checks)\*\*

**District 9:** Minneapolis, Minn. (head office, capture and print substitute checks)\*\*; Helena, Mont. (branch, print substitute checks)\*

**District 10:** Kansas City, Mo. (head office, print substitute checks)\*; Denver, Colo. (branch, capture and print substitute checks)\*\*; Oklahoma City, Okla. (branch, no check processing); Omaha, Neb. (branch, no check processing)

**District 11:** Dallas, Texas (head office, regional check processing site); El Paso, Texas (branch, no check processing); Houston, Texas (branch, no check processing); San Antonio, Texas (branch, no check processing)

**District 12:** San Francisco, Calif. (head office, no check processing)\*; Los Angeles, Calif. (branch, capture and print substitute checks)\*\*; Phoenix, Ariz. (cash processing facility); Portland, Ore. (branch, no check processing); Salt Lake City, Utah (branch, no check processing); Seattle, Wash. (branch, capture and print substitute checks)\*\*

\* Previously announced sites that will be discontinuing check processing operations.

\*\* Site from today's announcement that will be discontinuing full-service check processing operations.