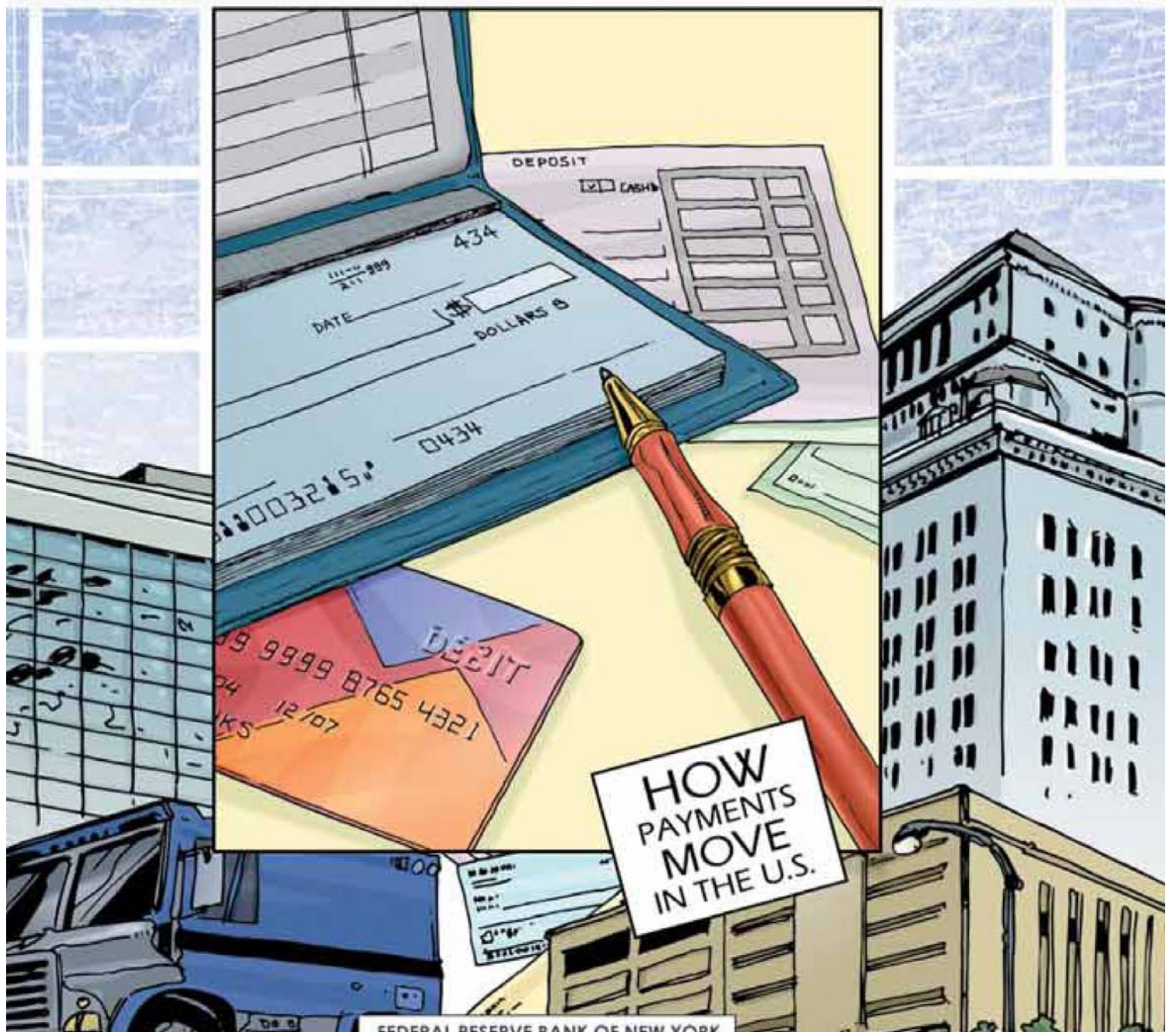


THE STORY OF CHECKS AND ELECTRONIC PAYMENTS



HOW
PAYMENTS
MOVE
IN THE U.S.



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Art by: Jesse Chen



We won it!
By one point!

I can't believe it!



Hey, Pablo,
let's go out and
celebrate. Do you want
to get a pizza?

Sure, Jeff, but
I can't stay long.





Wouldn't a bank be able to help your grandmother pay her bills?

She has gotten into the habit of cashing her pension checks at a check cashing store and keeping the money in her apartment. Then she pays her bills with money orders.



There has to be an easier way to pay bills. I'll ask my dad about it tonight. He works in a bank.



That night —

Mrs. Gutierrez shouldn't be keeping all her cash in her apartment. What if someone breaks in and steals her money? She should get a checking account at a bank.

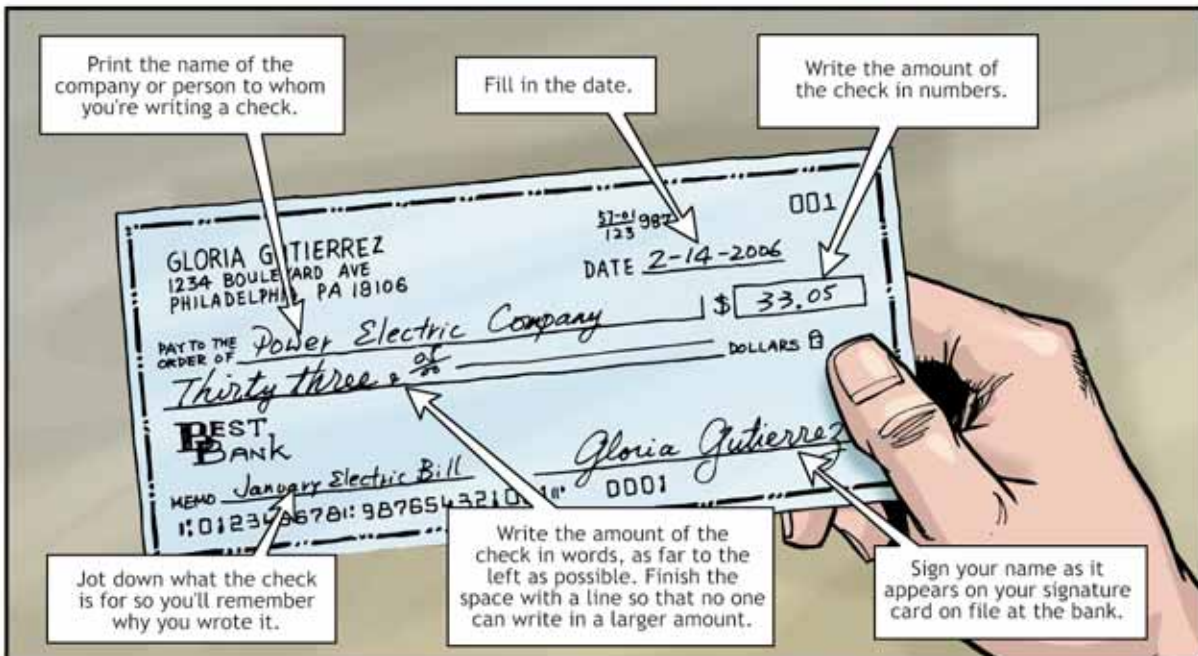
I don't know, Dad. She doesn't have very much money. Don't banks charge a monthly fee for checking accounts?



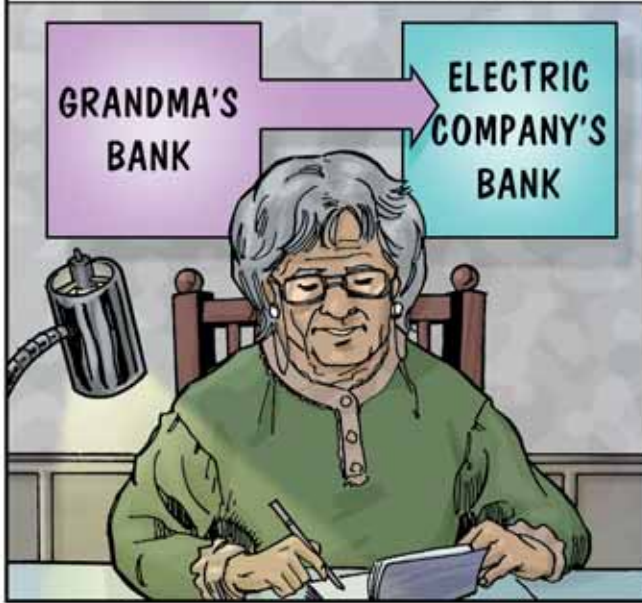
Many banks, including ours, offer completely free checking accounts. Other banks have free accounts as long as you keep a certain amount of money in the account.

You should come with Pablo and me to see his grandmother next Saturday and tell her that.





Basically, a check is a written order that tells your financial institution to transfer funds from your account to the account of an individual or business that receives your check.



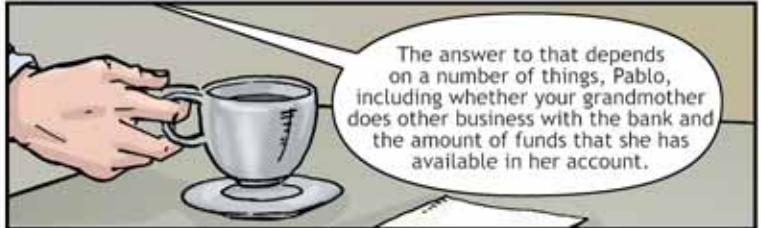
On the deposit slip, list each check you are depositing and write the total amount of the deposit (cash plus checks) on the bottom.



When Grandma's feeling better, can she go to the bank, deposit a check and get part of, or the entire amount, back in cash?



The answer to that depends on a number of things, Pablo, including whether your grandmother does other business with the bank and the amount of funds that she has available in her account.



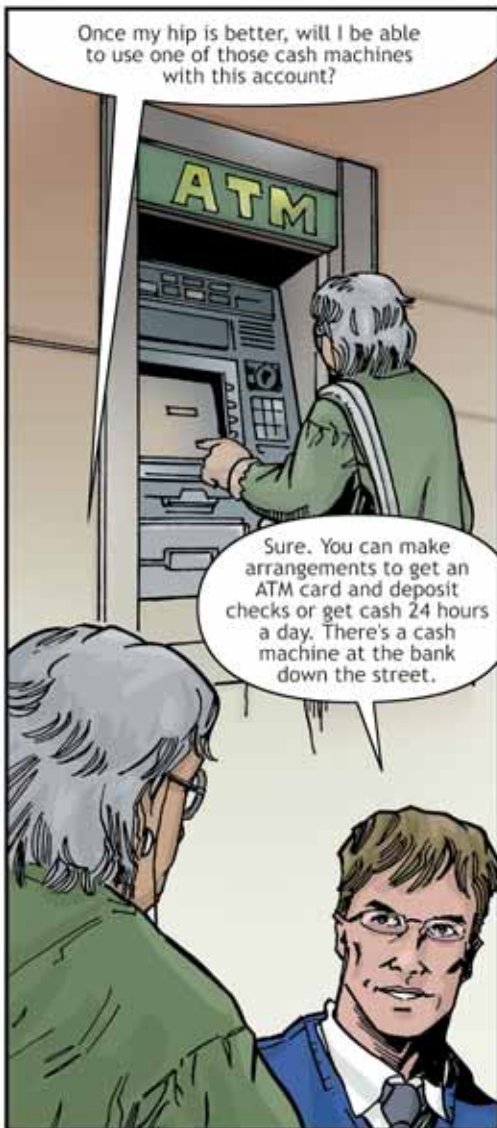
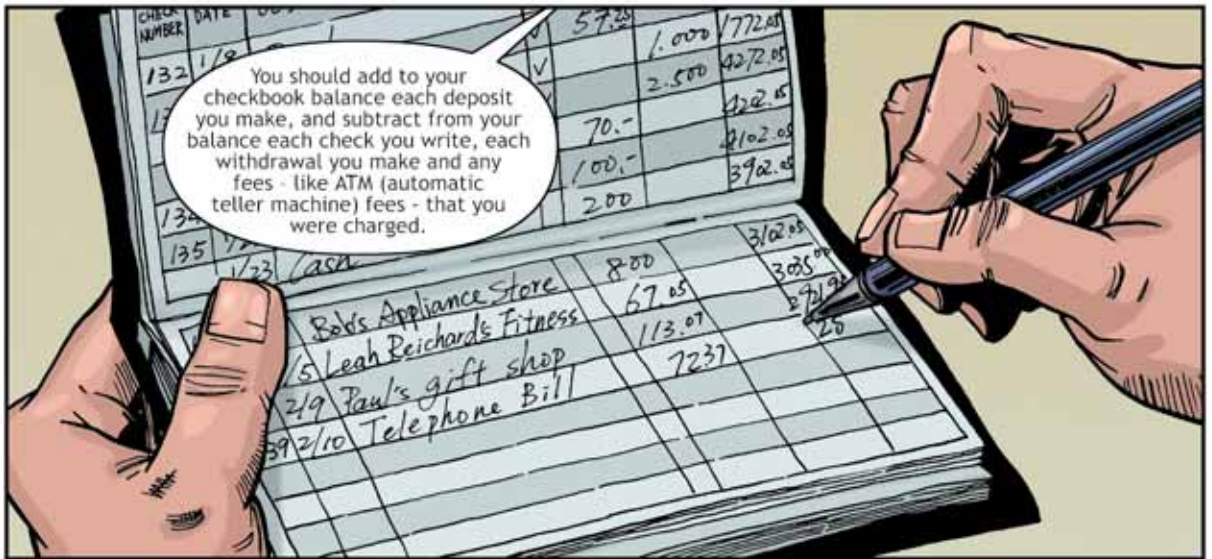
When you deposit a check, the teller can tell you when the funds will become available or when you can write checks against the amount you deposited. Banks are required by law to publish funds availability information.



Now, how am I going to keep track of all my checks and deposits?

The best way is to write them down in your check register so that you'll always know how much money you have in your account.





Here's how you use your bank statement to balance your checkbook



Step 1: When you get your statement, you should put a mark in your check register next to each check, deposit and ATM withdrawal that you see listed in your statement.



Step 2: On the blank form on the back of your statement, add to the account balance in your statement all the deposits in your check register that aren't listed in your statement.



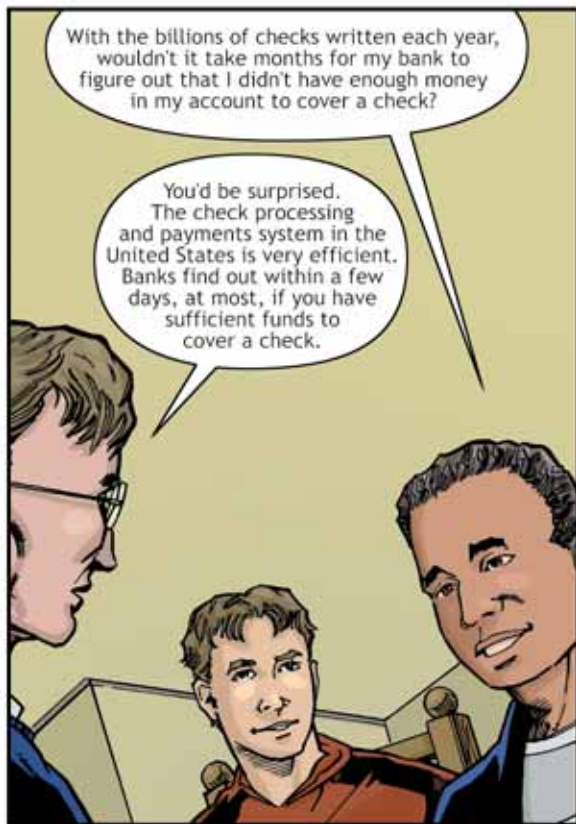
Step 3: Add the amounts of the checks, ATM withdrawals and charges that aren't recorded in your statement, and subtract that number from the balance in step 2. Don't forget to record your ATM fees. They will affect your account balance.

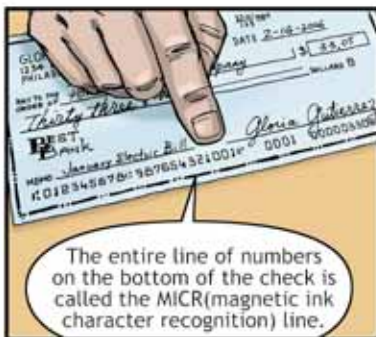
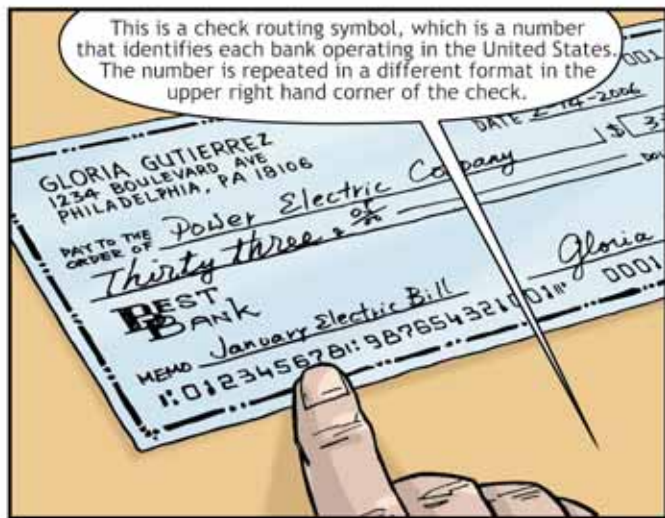


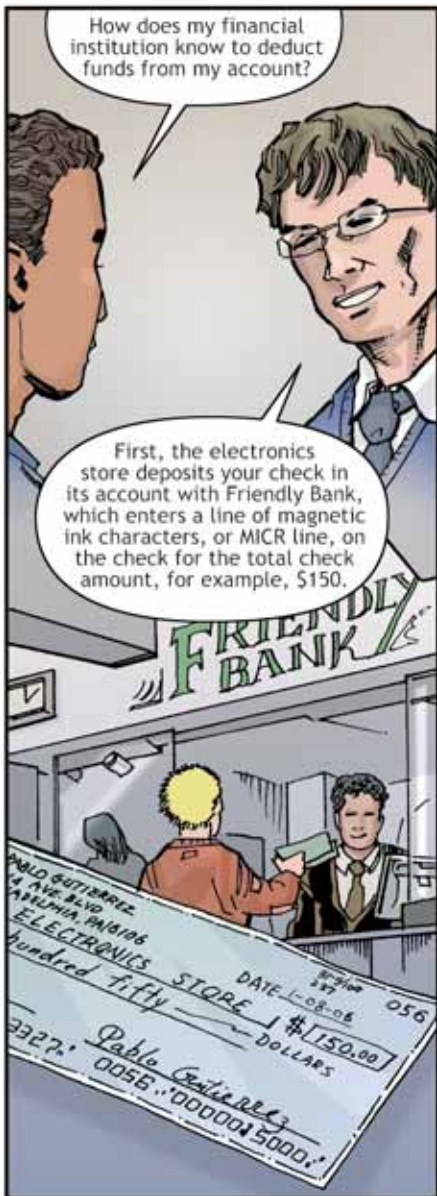
Step 4: The result should equal the balance in your checkbook register.

That sounds like a lot of trouble to me.

Believe me. It's worth it. Balancing a checkbook is very important because it will prevent overdrafts.







The Federal Reserve, or the Fed, the country's central bank, has check processing facilities throughout the U.S.

Once checks arrive at a Fed check processing facility, they go through a reader-sorter machine that can shoot 1,500 checks a minute into as many as 36 different pockets representing banks or groups of banks.



In addition to reading the magnetic ink characters, the processing sorter bundles together all checks drawn on banks in the facility's Federal Reserve District and those drawn on banks located elsewhere. Simultaneously, a computer prints a listing of the checks that were sorted into each pocket and their total dollar value.

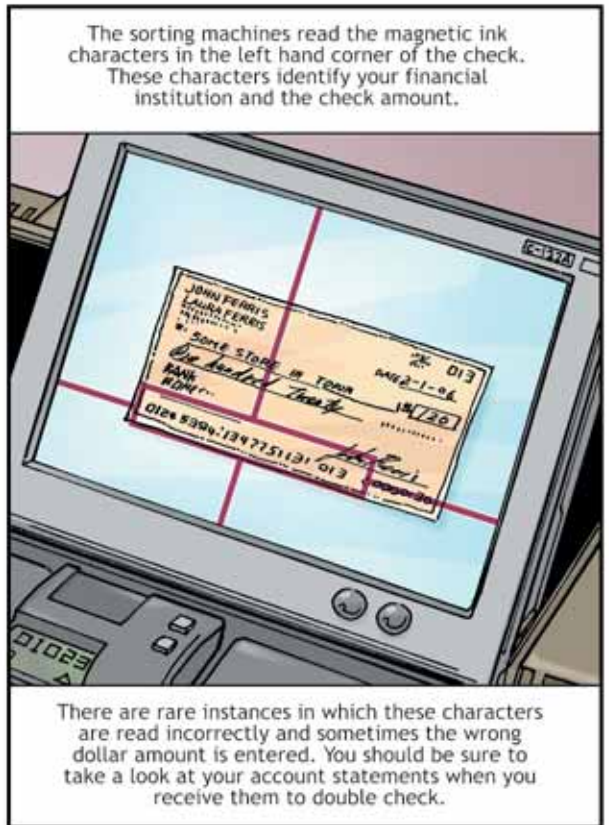
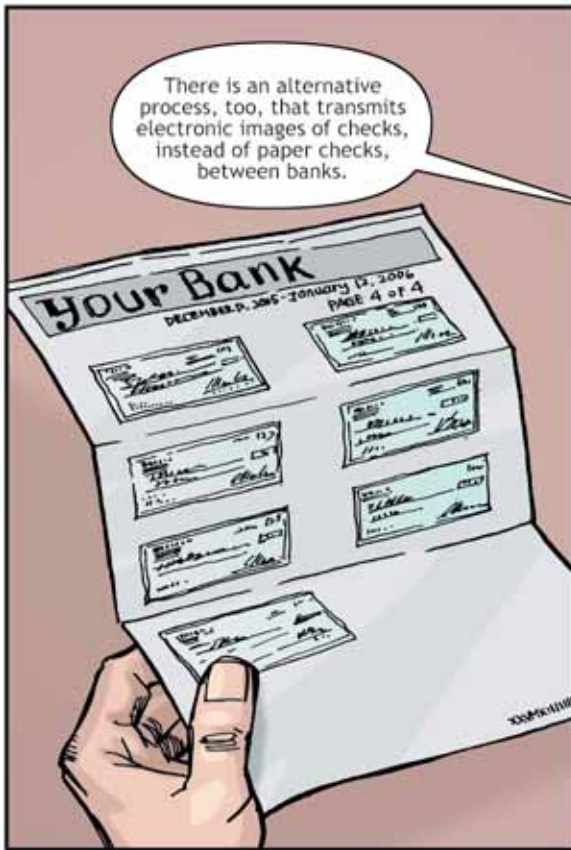


After the checks are processed, they are packaged with a matching computer list and sent by truck or plane to a local Federal Reserve facility serving the bank on which the check was drawn. That Fed facility, in turn, sends the checks to the banks of the customers who wrote them.

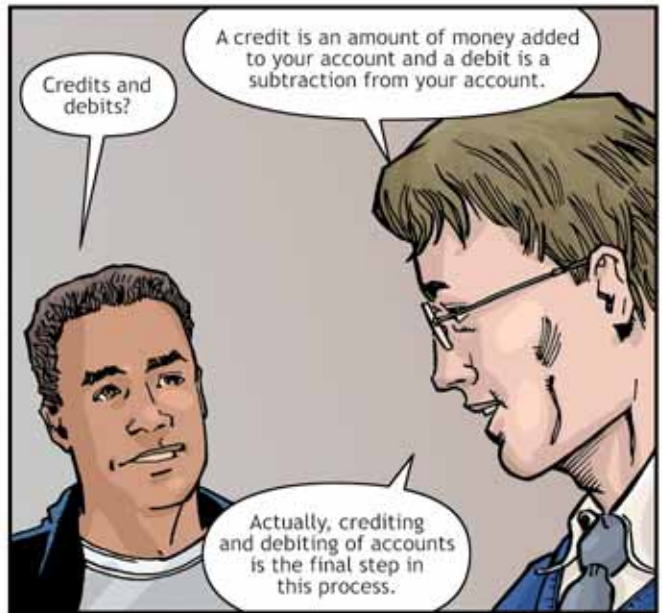


If you had found a cheaper MP3 player during your recent trip to Ohio and bought it there, your check would have gone to the Federal Reserve Bank of Cleveland, then to the Philadelphia Fed, which would send it to your bank.

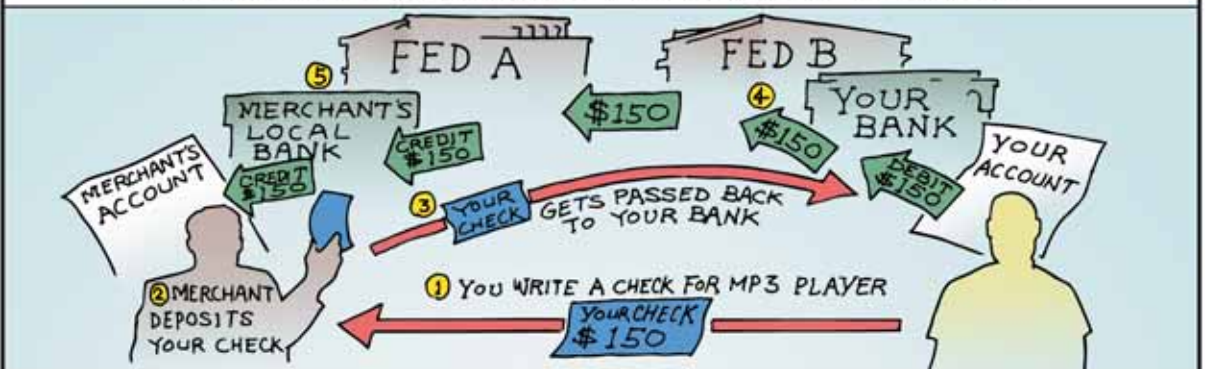




A Federal Reserve Bank that is receiving either an electronic, or a paper, copy with the magnetic ink characters has all of the information it needs to credit and debit the accounts of banks.



The Federal Reserve Banks credit the banks depositing their customer's checks. If the bank paying the check received by the Fed is located in the same Fed District, then the Fed debits that bank the same day.

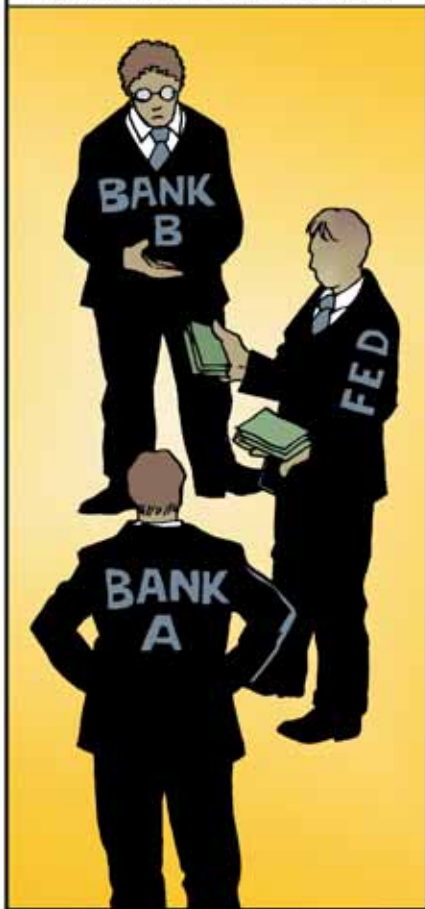


If the bank paying the check is located in another Fed District, the check is sent to that Federal Reserve District for payment. That can take an extra day. When the Federal Reserve Bank presents a check to your bank - say it's for \$150 - your bank reduces your account by \$150 to pay \$150 to the Fed.

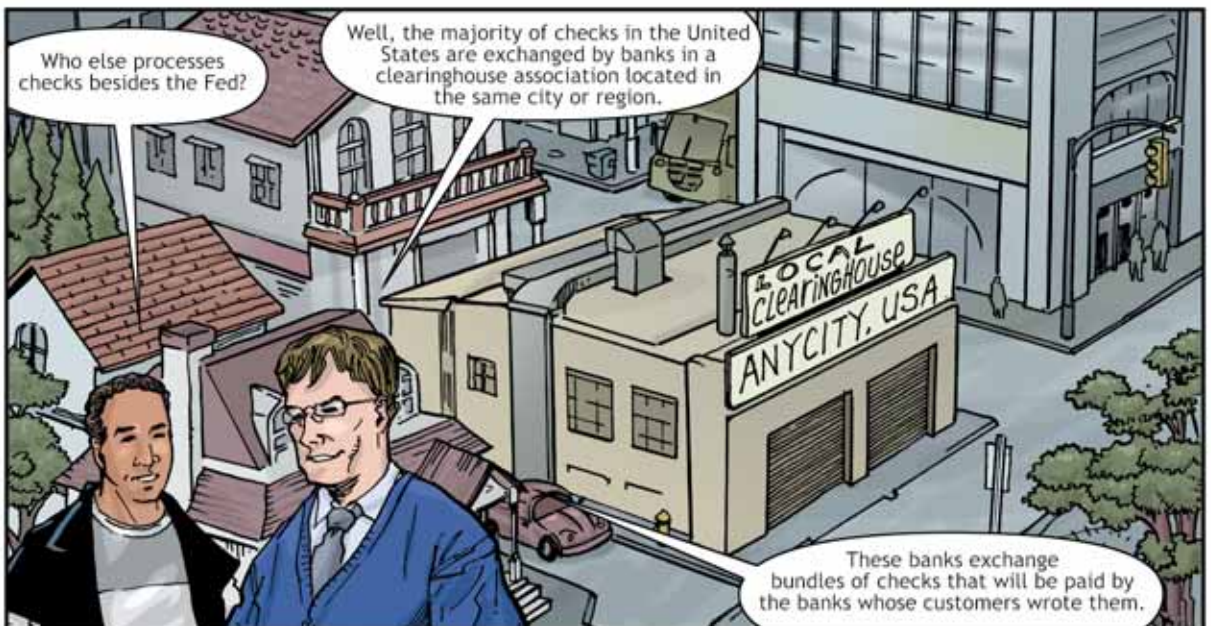


The Fed is able to credit and debit the accounts of other banks because all financial institutions that use the Federal Reserve System to clear checks have a direct account with a Federal Reserve Bank or they have an account with what's called a correspondent bank that has an account with the Fed.

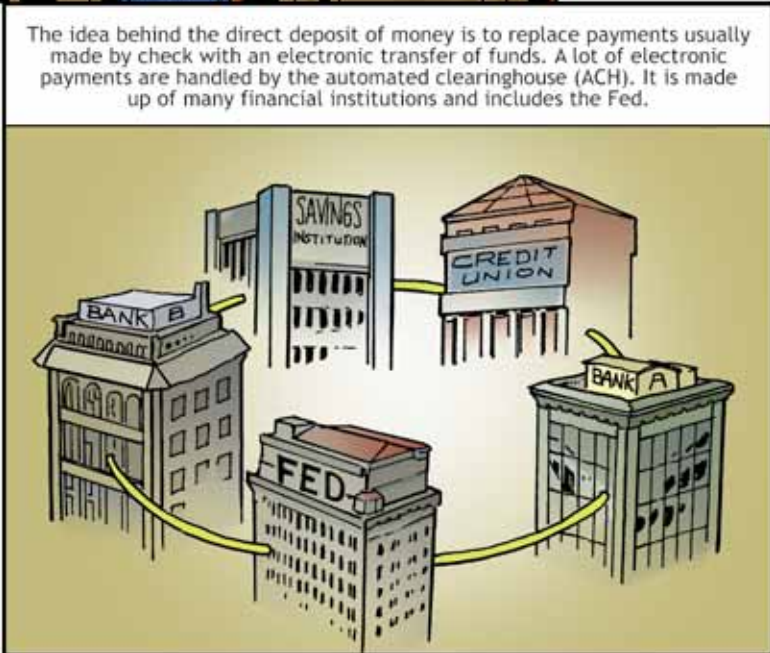
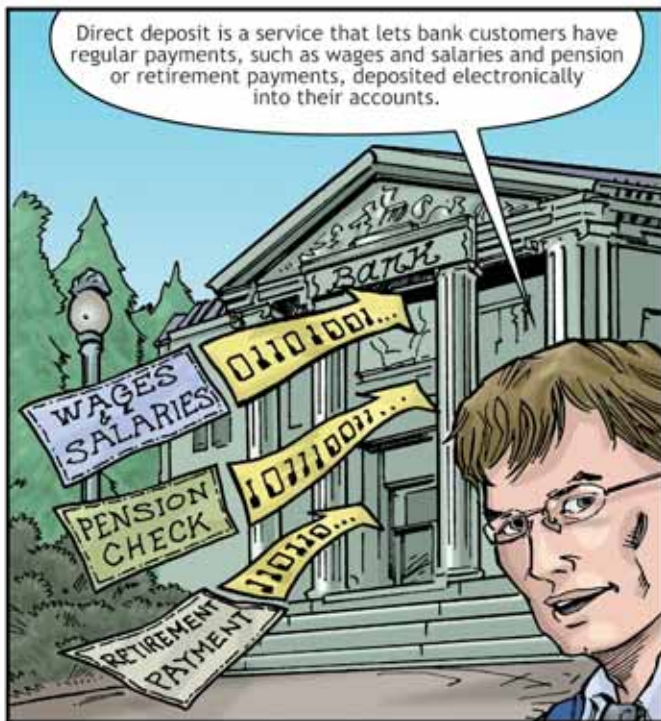
In fact, even if the Fed does not process checks for certain banks, it plays a part in the transfer of money that banks owe each other for checks written by their customers. This task is called settlement of accounts.



By payments system, I mean the ways consumers, businesses and governments pay bills, accept payments and settle their accounts with one another.







Banks send and receive electronic payment instructions by computer, either through the FedACH network, run by the Fed, or the Electronic Payments Network (EPN), a separate, private automated clearinghouse.



If bank customers want to have money deposited into their accounts electronically, they simply have to give the sender, such as their employer, their account information, such as their bank's routing number and their own account number.



Bank customers who want to have money taken directly out of their account to pay their bills can fill out a card authorizing their bank to make payments to specific companies.



The ACH system sorts these payment messages and delivers them to each bank in the network, telling them which bank has accounts to be debited or credited.



Then, the banks pass the credits and debits on to their customers by adjusting their account balances upward or downward.





Six months later, at Gotham College in upstate New York.



I can't believe we're here, playing on the same college basketball team. I guess nothing is too good for the two guys who helped win the state championship.

Hey, what's wrong?



I just got back from the athletic office and found out my scholarship won't pay for books. Classes start tomorrow and I need \$500 now. I don't know what I'm going to do.

You need to call your dad! He'll know what to do.



No problem, Jeff. I will get you a pre-paid university campus card.



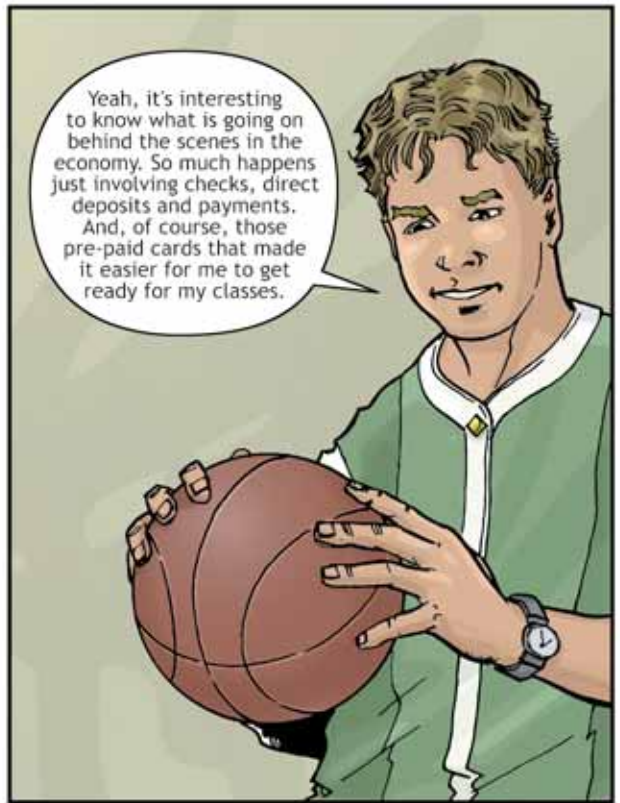
How does that work? How long will it take?



It's simple. I just activate an account on the web and add money to the card. I just need your student ID number and I will go online.

I would normally mail a check to add money, but since you need money quickly, I will pay by credit card.





"The Story of Checks and Electronic Payments" uses the story of two basketball-playing buddies to discuss:

- the roles of checks and electronic payments in helping our economy function smoothly,
- personal finance skills such as writing a check and balancing a checking account,
- the role of the Federal Reserve in facilitating payments in our economy, and
- the advantages of checks and electronic payments over cash.

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