



# Check 21

## What is Check 21, and how might it affect me and my business?

Check 21 is the “Check Clearing for the 21<sup>st</sup> Century Act”, which was enacted by the U.S. Congress in 2003 and went into effect October 28, 2004. Officially, the stated purpose of the act is: “To facilitate check truncation (conversion of paper to electronic image) by authorizing substitute checks, to foster innovation in the check collection system without mandating receipt of checks in electronic form, and to improve the overall efficiency of the Nation’s payments system, and for other purposes.”

Even though Check 21 has been enacted, most consumers and businesses will not notice any immediate changes. Most of the changes will be “behind the scenes” at your financial institution. Some of these financial institutions can take advantage of the new check imaging technologies very quickly; others will implement changes more gradually.

Consumers and businesses will not immediately see any differences when they write checks, but they must be aware that checks will clear faster. Where it once took days for checks to clear, it can now take only hours.

Essentially, Check 21 allows banks to send electronic images of your checks instead of the actual paper check. Your checks will be converted to an electronic image which will then go through the check clearing system electronically. If a bank still requires a paper version, it will be provided an IRD (Image Replacement Document). As a bank customer you are likely to see these substitute checks in your periodic statement, while viewing your checks online, whenever you request a copy of a paid check from the bank, or when a deposited check is returned unpaid.

### *Front view of a substitute check*



## Back view of a substitute check



(Images are courtesy of the Federal Reserve Board.)

As a customer, you must realize that a check written today could actually clear your bank today. You must ensure that funds are available at the time the check is written. To expedite the process of imaging checks, banks will likely impose stringent guidelines requiring checks to be ANSI (American National Standards Institute) compliant. ANSI is a set of standards imposed by the financial institutions in the United States, which had not been mandated. Check 21 will allow banks to insist upon compliance with ANSI standards, and banks may elect to penalize customers with additional charges for checks that are not ANSI compliant.

Check 21 does not alter bank requirements to use magnetic ink. Banks use automated check sorting equipment that relies on the numeric information at the bottom of checks, which is printed in magnetic ink. This information is known as the check's magnetic ink character recognition line (MICR line), and contains the bank routing number, the account number on which the check is drawn, and the check serial number. Generally applicable industry standards (ANSI) for original checks require the MICR line to be printed in magnetic ink; the need for magnetic ink on original checks is not the result of the Check 21 Act. It should be noted that only the MICR line of a check must be printed in magnetic ink. The rest of the information on the check, such as the date, the payee name, and the amount, can be printed in regular, non-magnetic ink. If you make payments by printing checks at home or from your business on blank check stock, you should print the MICR line in magnetic ink.

Sage Software Checks & Forms is your resource for the materials you need to help run your business. We guarantee that our forms will remain 100% compatible with all Sage Software products.

For additional information you can also go directly to:

[http://www.federalreserve.gov/pubs/check21/consumer\\_guide.htm](http://www.federalreserve.gov/pubs/check21/consumer_guide.htm)