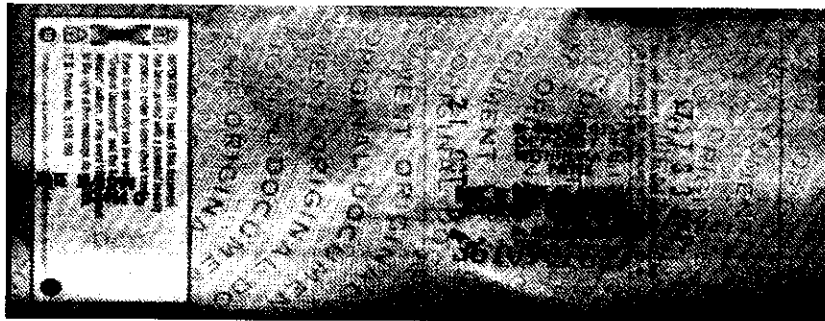
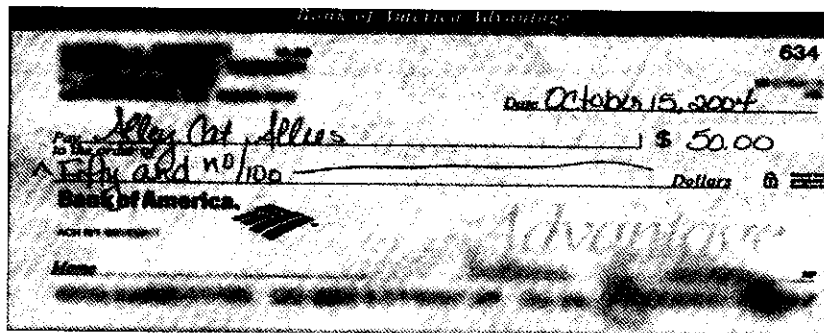


Check 21 Act - A "Check less" System

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Consumers, businesses, and the law enforcement community should be aware of a new federal law, known as "Check 21," that took effect on October 28, 2004. Under the new law, banks will no longer have to provide the original check to consumers or even other banks, saving the banks billions of dollars in transportation costs each year. Instead, banks will only be obligated to provide the legal and practical equivalent of the original check, known as a "substitute check." All checks, except foreign checks, may become substitute checks including consumer checks, business checks, corporate checks, government warrants, U.S. Treasury checks, money orders, and travelers checks. There will be no special exceptions for Treasury checks, as initially requested.



What about consumers? Under Check 21, check processing will be reduced from days to minutes, so it may be wise to arrange for overdraft protection. Consumers should also request that their bank statements contain original cancelled checks, which will eventually be replaced by the new substitute checks (marked "Legal Copy"). Banks are required to recredit any mistakes to an account 10 days after receipt of the substitute check, but the same protection does not necessarily apply to the unofficial copies that now come with most statements. Be aware that some banks may also charge an extra fee for providing substitute checks. Consumers might want to consider writing fewer checks and using charge and debit cards instead. They offer stronger consumer protection than paper checks and disputed charges and mistakes may be easier to correct.

What about fraud? Under the new law, there are no requirements for how long banks must keep the original checks that have been processed and copied as long as the bank can provide a legible copy for seven years (Uniform Commercial Code Article 4, Section 4-406b). Following right behind the

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banks, major retailers and merchants will process their own checks, allowing forged, fraudulent, and insufficient funding checks to forego banks altogether.

What about law enforcement? Original checks, once scanned and converted to a substitute check or image replacement document (IRD), will be destroyed, eliminating fingerprint and latent print evidence. The minimum imaging standard is 200 dpi (black and white only), severely limiting examinations for handwriting. Paper check security features including watermarks, infrared ink, and paper color, will become obsolete. Law enforcement may want to boost education campaigns for those who first receive the original checks. Security features, and the importance in recognizing them, will be even more critical, as well as establishing proof of identification.

As advantageous as Check 21 will be to the banking industry, the disadvantages to law enforcement investigations and prosecutions of individuals capitalizing on a "check-less" system will be devastating. Fraudulent and forged checks, as a crime, are often rewarded with little or no penalty, and with no physical evidence to support an investigation, "substitute checks" will become free passes.

Sources:

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- "Business Banking: Check 21," Sovereign Bank