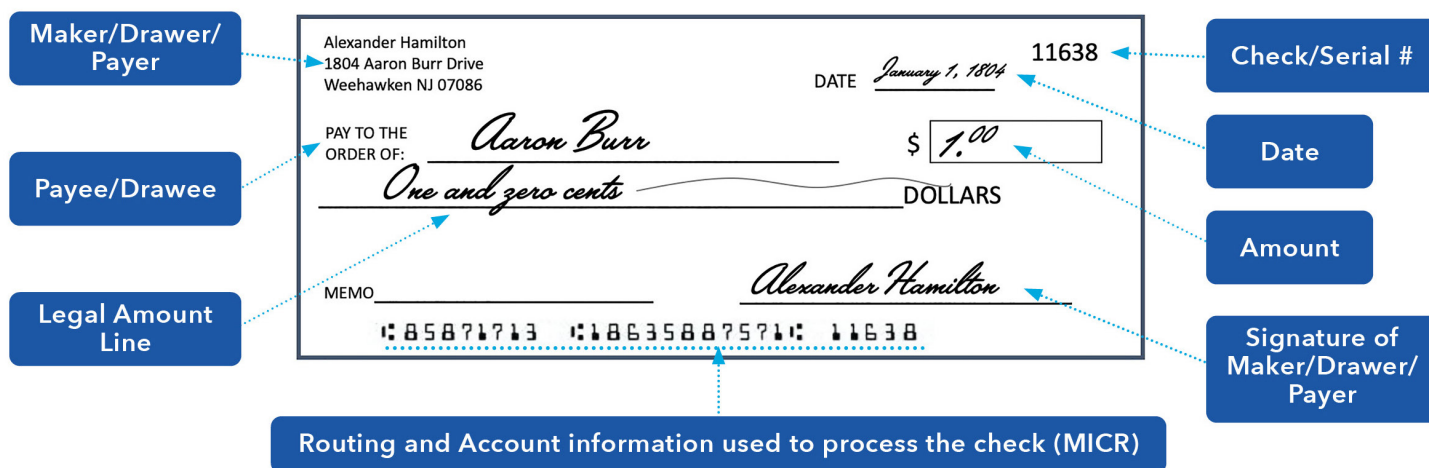


# UNDERSTANDING CHECK PROCESSING

Consumers and businesses that issue paper checks may do so either in person, digitally or through the postal service. These checks then are processed and cleared between banks using exchange services or clearing houses. It is important to understand how checks are exchanged, processed and cleared to appreciate how criminals might take advantage of the check clearing process.

## WHAT IS A CHECK?

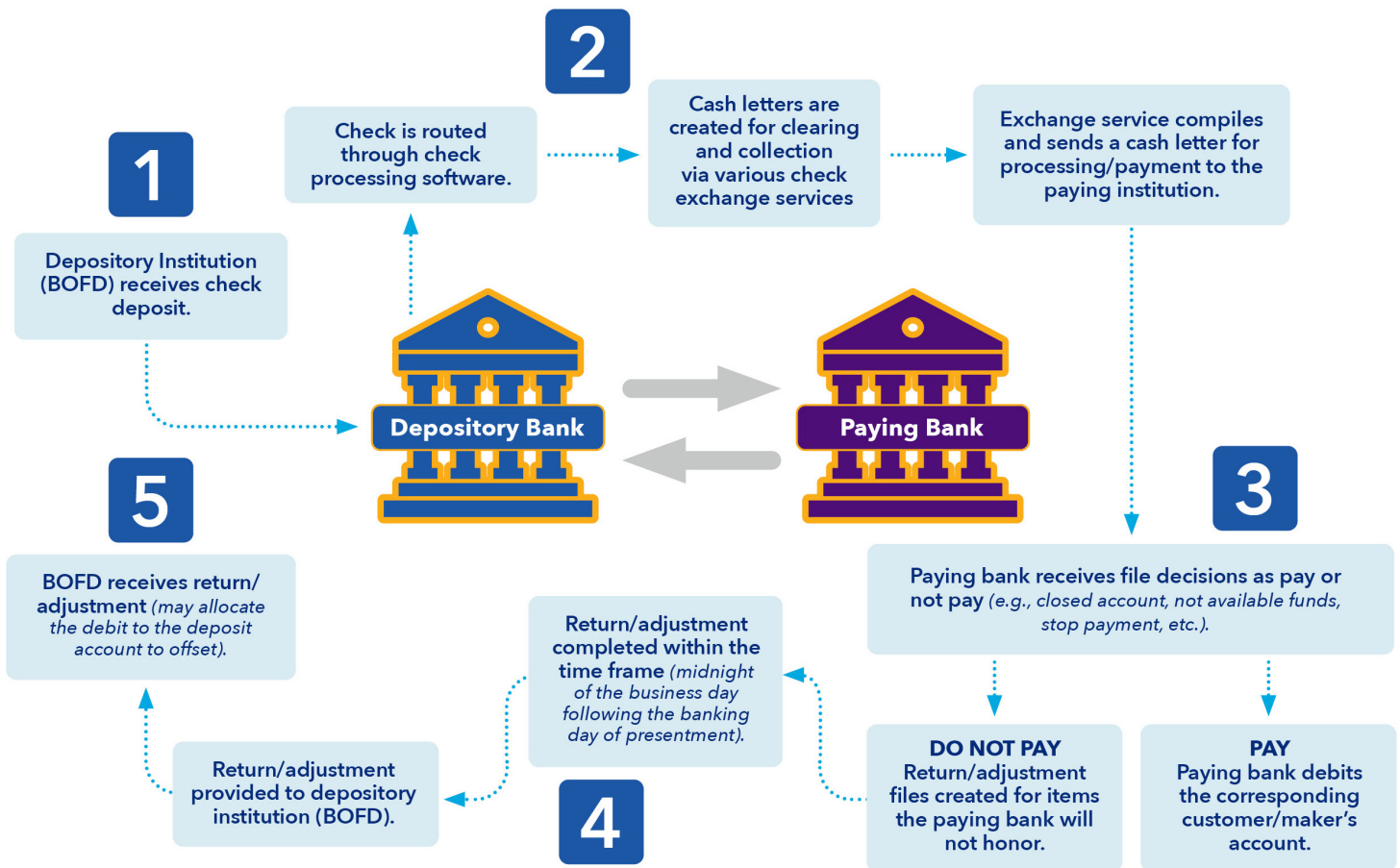
A check is a negotiable instrument that is payable on demand for a fixed amount of money and drawn on a bank. Checks contain fields that direct a financial institution to pay a specific sum of money to a specific entity.



## HIGH-LEVEL REVIEW OF CHECK PROCESSING

1. The check process begins when someone deposits a check they've received.
2. The depository institution routes the check through its check processing software.
3. Files, often referred to as cash letters, are created for the clearing and collection process with paying banks. Once a paying bank receives the file, it will decide whether the check can be paid. If the paying bank determines the item will be paid, it debits the corresponding account written on the check. In some cases, the paying bank determines it will not pay the item. This could be due to insufficient funds in the paying account, a stop payment being filed, a closed account, suspected fraud or several other reasons the item is not considered payable.
4. In these situations, a return or adjustment file is created and provided back to the bank of first deposit (BOFD) – the bank that accepted the item for deposit.
5. The bank of first deposit then will debit the depository account for the amount of the deposit due to the item's return.

# UNDERSTANDING CHECK PROCESSING



The check fraud mitigation toolkit was developed by the Federal Reserve to help educate the industry about check fraud and outline potential ways to help detect and mitigate this fraud type. Insights for this toolkit were provided through interviews with industry experts, publicly available research, and team member expertise. This toolkit is not intended to result in any regulatory or reporting requirements, imply any liabilities for fraud loss, or confer any legal status, legal definitions, or legal rights or responsibilities. While use of this toolkit throughout the industry is encouraged, utilization of the toolkit is voluntary at the discretion of each individual entity. Absent written consent, this toolkit may not be used in a manner that suggests the Federal Reserve endorses a third-party product or service.