

## Your Floating Check Just Sprung a Leak

Beginning in October, new legislation becomes effective which eventually may put an end to “floating” checks. At one time or another, almost all of us have probably “floated” a check. Perhaps it was close to the end of the month and you bought groceries on Friday, knowing that the check you wrote couldn’t get back to your bank before payday on Monday.

While more of us are using debit cards to pay for purchases, many consumers still rely on paper checks taking 2-3 days to clear their banks.

After October 28, you may find this more difficult. That is when Check 21 becomes effective. The primary purpose of Check 21 is to provide an alternative to our nation’s reliance on processing paper checks. You will still be able to write a check, but once it leaves your checkbook, the banking system will handle it differently. Should our nation experience another tragedy like 9/11, our dependence on moving paper checks could result in serious consequences for our national financial system. This situation was the impetus for the adoption of Check 21.

Another reason for Check 21 is to stifle white-collar criminals who write checks on a regular basis knowing that they have insufficient funds to cover the transaction.

Currently, it takes 1-5 days from the time you write a check to a retailer to the time the check reaches your bank account for payment. With Check 21, you will write a check to the retailer and the check’s image is then transmitted electronically through the system. If your bank is set up to receive electronic images, the transaction reaches your bank account for payment on the same day. If your bank is not set up with electronic imaging, it



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could take a day for the money to be deducted from your account.

Rather than using paper checks, the new law would permit financial institutions to use “substitute checks”—a digital image of the original paper checks with all of the information contained on the original check. The “substitute check” would be required to contain the words,

“This is a legal copy of your check. You can use it the same way you would use an original check.”

Although it will take several years for most banks to move to paperless transactions, you can eventually expect to see the end of “float” periods as well as the end of returned paper checks in your bank statement. Rather, you’ll receive replicas or images of the original checks, or those payments may appear as electronic withdrawals on your bank statement.

While electronic presentment is not mandated for banks and other financial institutions, it may prove beneficial not only to the bank, but to its customers. Currently, it can take up to five days to access funds on an out-of-state check. Under Check 21, bank customers will be able to access these funds more quickly.

If you have any questions or concerns about Check 21, don’t hesitate to contact your local community banker.

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