

Proposal: 1409 (RIN 7100-AD68) - Reg CC - Availability of Funds and Collection of Checks
Description: The Board request comments on proposed amendments to Regulation CC (Availability of Funds and Collection of Checks) to encourage banks to clear and return checks electronically, add provisions that govern electronic items cleared through the check-collection system, and shorten the "exception" hold periods on deposited funds.

Comment ID: 80971
From: First National Bank of Santa Fe, Sandra Snow
Subject: Regulation CC

Comments:

Date: Jun 01, 2011

Proposal: Regulation CC - Availability of Funds and Collection of Checks
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Comments:

Docket No. R-1409 and RIN No. 7100-AD68 Thank you for the opportunity to comment on the proposed changes to Regulation CC. I am responding on behalf of a \$700 million-asset community bank. Our comments are as follows: Section 229.10 General availability and case-by-case / exception holds Our bank is currently receiving return items in electronic PDF format, a recommended practice for a bank our size. Each day (except May 23-Fed system problems) we have received our incoming file by 8 am. We commend the Board for this solution; it is working well and has reduced the elapsed time to receive returns by about 30 hours on average. That said, of the items returned to us as the depository bank, 67% appeared on the third business day after the day of deposit. Our policy is to provide next-day availability unless there is reason to place a case-by-case or exception hold. Obviously, a two-day case-by-case hold provides no protection against loss for those items. The best change the Board could make to improve the check collection system is to recognize the reality of today's return environment by changing the general availability requirement to make funds deposited in an account by a check available for withdrawal not later than the third business day following the banking day on which funds are deposited. The unintended effect of the regulation as is currently proposed is that banks will be much more likely to invoke an exception hold (4 days) when a case-by case hold of 3 days would be sufficient. We do agree that for

exception holds, 4 days is sufficient in almost all cases. Section 229.33 Notice of nonpayment (Large item notification) The requirement to provide large item notification is often practiced in community banks with a Golden Rule ethic (notification is provided as soon as the decision is made). During the month of May, of the 14 large items returned to us, we received eight notifications; each time the notification arrived a day ahead of the item. So even though the returning bank would have met the requirement by providing the returned item to us by 4 pm on the second business day after presentment (generally our third business day), their notification served very well to reduce risk. The notification requirement as written does not significantly reduce risk. If the requirement could be tightened to require large-item notification to be made by 5 pm on the first business day after presentment the rule would be very effective. You specifically requested comment on whether future regulation should decrease the time afforded to a paying bank to decide whether to pay a check in order to reduce risks: if the notification requirement was amended as just suggested above, the efficiency of batch processing could be retained, but the notification would substitute for decreasing the time frame for making a decision. Regarding the Board's request for comment on "whether the notice-of-nonpayment requirement should be retained for banks that do not agree to accept electronic returns", it might be difficult to recognize when we are returning to a non-electronic acceptance bank. The requirement should be consistent for all banks. Section 229.10 Next-Day items We agree with a previous comment regarding next-day items such as Cashier's checks. Last year there were 149 special alerts of counterfeit Cashier's Checks or other official checks. We should not be required to provide next-day availability on the riskiest items. Deadlines for effective date of changes We agree with a previous comment regarding the effective date of the changes to the regulation. Sufficient time must be allowed to incorporate changes. Even small changes require hours of programming and testing. Sandra Snow Sr. Vice President, Senior Operations Manager First National Bank of Santa Fe