



June 1, 2011

Jennifer Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

Dear Secretary Johnson,

On behalf of the Credit Union Association of New York, I would like to take this opportunity to comment on the Federal Reserve's proposed amendments to Regulation CC. Among the most important changes being proposed by the Federal Reserve is one in that would give financial institutions, including credit unions, the benefit of the expeditious return rule only if they agree to accept returned checks and drafts electronically. While the Association is sympathetic to the Federal Reserve's desire to update the check collection process, we are concerned that the penalties imposed on institutions for failing to electronically receive checks are too severe, particularly at a time where small institutions are already overburdened by increased regulatory requirements.

According to the Federal Reserve's own statistics, over 24% of financial institutions do not accept electronic return of checks. This result is consistent with results of a survey conducted by the Association to help gather information for responding to this proposal. The survey found that a small, but not insubstantial, number of credit unions currently do not accept returned checks electronically. In addition, it appears that many of these institutions that do not accept electronic returns are smaller credit unions.

Elimination of the expeditious return rule for credit unions that do not accept electronic returns represents a severe penalty which will have a substantial operational impact on the affected credit unions. This is simply not the time to impose such a mandate. Credit unions and banks are currently trying to comply with a flood of new regulations mandated by the Dodd-Frank Act in areas as diverse as mortgage underwriting standards to debit card interchange fees. This proposal may seem reasonable in isolation, but any proposal to impose additional requirements on institutions not mandated by statute is unwarranted at this time.

If the Federal Reserve feels the need to go forward with this proposal, there are at least two amendments that could better balance the difficulties faced by small credit unions

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and other affected institutions with the desire to modernize the check collection process. One alternative approach would be to mandate acceptance of electronic returns no sooner than 18 months after this regulation becomes effective. An 18th month transition would give impacted credit unions breathing space to modernize their equipment as well as develop the operational expertise necessary to accept electronic returns. The proposed 6 month implementation period for electronic returns is too short.

In addition, rather than eliminating the expeditious return rule the Federal Reserve should instead give those institutions which must physically return checks four days as opposed to two to comply with expeditious return requirements. This approach accomplishes three objectives: first, it recognizes that having to physically transfer checks requires additional time for which the returning institution should not be held responsible; it prevents institutions returning checks from getting a windfall simply because they were unwilling as opposed to unable to do so in a timely manner; and it penalizes institutions which continue to require the physical transfer of returned checks.

The Association applauds the Federal Reserve's recognition of the need to expedite the check collection process. However, as these changes are made the Board must continue to balance the needs of the system as a whole against the importance of drafting regulations which make the continued existence of smaller financial institutions viable.

Sincerely

A handwritten signature in black ink, appearing to read "W. J. Mellin". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

William Mellin  
President/CEO  
Credit Union Association of New York

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