

MAINSTREET BANK, LISA KILGOUR

Proposal and Comment Information

Title: Check Services - Request for Information and Comment on the Future of the Federal Reserve Banks' Check Services, OP-1874

Comment ID: FR-2025-0077-01-C233

Submitter Information

Organization Name: MainStreet Bank

Organization Type: Company

Name: Lisa Kilgour

Submitted Date: 02/03/2026

Comments related to Docket No. OP-[1874]

1. Importance and Evolution of Services

Q1: What is your view of the importance of the Reserve Banks' check services in the United States today? How should the Federal Reserve's role evolve over the next 3 and 10 years?

Today, the Federal Reserve's check services act as the critical "universal rail," ensuring that despite the migration to digital payments, we can offer ubiquitous reach to our customers. For a community bank, the Fed provides a neutral, reliable clearing mechanism that prevents us from being beholden to larger competitor banks for clearing.

- **Next 3 Years (Optimization):** The Fed must pivot entirely to **digital-first operational excellence**. As we invest in Remote Deposit Capture (RDC) and mobile technologies, the Fed should focus on accelerating image exchange speeds and enhancing duplicate detection APIs. The focus should be on removing friction from image clearing.
- **Next 10 Years (Managed Transition):** The Fed should serve as a bridge to real-time payments (FedNow). The role should evolve from "processor of mass volume" to "provider of resilient legacy infrastructure," ensuring that while check volumes decline, the cost per item remains manageable through automation, eventually guiding the industry toward sun-setting paper in favor of instant payments.

2. Critical Service Aspects

Q2: What aspects of the Reserve Banks' current check services are the most critical, and why?

From an efficiency standpoint, two aspects are paramount:

1. **Deposit Deadline Options:** As a tech-forward bank, we offer our customers extended deposit times via mobile apps. We rely on the Fed's late deposit deadlines to maximize the funds availability we can pass on to our clients without incurring float costs.
2. **Discrepancy Resolution & Exception Handling:** This is currently a major operational drag. Manual adjustments for encoding errors or duplicates destroy our efficiency ratios. We need the Fed to automate discrepancy resolution (e.g., automated adjustments via image analysis) to reduce back-office labor.

3. Impact of Potential Strategies

Q3: What would be the impact of different potential strategies (1-4)? Are there other strategies?

- **(1) Degrading Reliability: Unacceptable.** Operational unreliability erodes trust. If checks fail to clear predictably, our customers will blame us, not the Fed.

- **(2) Significantly Simplifying: Favorable.** We support standardizing product offerings. A simplified menu reduces our administrative burden and likely lowers system maintenance costs.
- **(3) Winding Down: Premature.** Our small business and legacy customers are not ready. Winding down now would force us to distinct private aggregators, likely raising costs and reducing competition.
- **(4) Upgrading Infrastructure: Preferred.** We support upgrading infrastructure *if* it supports image-based workflows and fraud prevention.
- **Preferred Strategy: "Simplify and Digitize."** Combine strategies (2) and (4). Simplify the service catalog to remove niche paper-handling options, but upgrade the core image-processing infrastructure to be faster and more resilient.

4. Costs and Investments

Q4: Willingness to incur additional costs or make investments?

- **Operational Fees:** We are generally **unwilling** to pay higher fees simply to maintain the status quo of a dying rail.
- **Security Investments:** We are **willing** to invest in security features. If the Fed introduced enhanced centralized fraud detection (e.g., image analysis for counterfeit checks or cross-bank duplicate detection), we would pay for this service. It directly protects our bottom line and reduces operational losses.

5. Alternative Providers

Q5: To what extent could alternative providers offer similar services?

While private clearing houses (ECCHO, etc.) exist, the Federal Reserve offers **universality**. Private providers often prioritize high-volume, profitable routes. As a community bank, we rely on the Fed to ensure a check from a small credit union in a different district clears as fast as one from a money-center bank. Losing the Fed as a provider would likely force us into tiered correspondent banking relationships, increasing our counterparty risk and fees.

6. Importance and Challenges of Migration

Q6: How important are checks today, and how challenging is the move to alternatives?

- **Current State:** Checks remain vital for our **B2B clients** (audit trails, remittance data) and **municipal/government clients**. They are less important for consumer P2P.
- **Next 3 Years:** Challenges will persist in the B2B space because accounting software integration for electronic payments is often too expensive for small businesses.
- **Next 10 Years:** We expect a massive drop-off as "Request for Pay" (RfP) features in FedNow mature. However, the "long tail" of check usage (elderly populations, non-digital natives) will remain a challenge that requires a dual-track strategy.

7. Unique Aspects of Checks

Q7: What unique aspects lead users to continue to use checks?

1. **Universality:** You do not need to know the recipient's bank or have them set up an app. You only need a name.
2. **Remittance Data:** A physical check often comes with a "remittance advice" or stub (a paper list) detailing exactly what is being paid—invoice numbers, account codes, dates, and adjustments for partial payments.
3. **Float Management:** While less relevant due to faster clearing, many commercial clients still utilize the cash-flow buffer checks provide.
4. **High-Value Transaction Economics:** For high-dollar, low-volume payments, checks remain mathematically superior to cards and wires.

8. Barriers to Alternative Payment Methods

Q8: How could other payment methods offer the same benefits?

The biggest barrier is **interoperability of data**. For digital tools to offer the same benefits as acceptance of checks, the industry must move beyond today's fragmented infrastructure and achieve genuine interoperability. Unlike a check—which can be written from any bank and deposited at any other bank without prior setup—modern networks often require both parties to join the same specific platform (e.g., both must use Bill.com or both must enroll in Zelle) to unlock the full benefits of rich data and directory lookups. To match the check's "go-anywhere" utility, these isolated digital islands must be bridged by universal standards (such as the Business Payments Coalition's B2B Directory initiative or widespread ISO 20022 adoption), creating a seamless ecosystem where a payment initiated in one ERP system can automatically route rich data and funds to a completely different receiving system using nothing more than a standard public identifier.

9. Transition Efforts and Vulnerable Populations

Q9: Planned efforts to transition? How to serve vulnerable communities?

- **Our Efforts:** We are aggressively migrating clients to online bill-pay and implementing FedNow. We view technology not as a replacement for service, but as an enabler.
- **Vulnerable Populations:** For the elderly and moderate-income households, we use **Mobile Capture** to bridge the gap. We allow them to use paper checks, but we digitize them immediately at the point of entry. The Fed can support this by ensuring their backend accepts these images seamlessly, allowing us to shield the customer from the complexity of the transition.

10. Benefits and Risks to Consider

Q10: What benefits and risks should the Board consider?

- **Risk: Cybersecurity and Fraud.** As check volumes drop, the remaining checks are higher-value targets for fraud (washing, forgery). The Fed must prioritize centralized fraud intelligence.
- **Benefit: Operational Resilience.** Maintaining a robust check rail serves as a redundant backup in case of cyber-attacks on digital real-time payment rails.
- **Public Interest:** The Board must ensure that rising per-item costs (due to volume drops) are not passed on disproportionately to community banks, which would harm financial inclusion for smaller institutions and their diverse client bases.