

DAVID WALKER

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-C257

Submitter Information

Name: David Walker

Submitted Date: 02/26/2026

This comment addresses how to achieve the Fed's objectives of reducing or eliminating its involvement with check payments and reducing or eliminating check-related mail fraud. This comment also addresses how to simultaneously create billions of dollars savings for businesses annually.

February 26, 2026

Benjamin W. McDonough
Deputy Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Via Electronic Submission to www.federalreserve.gov/apps/proposals

Re: Docket No. OP-[1874]

Dear Mr. McDonough:

I am pleased to submit this comment letter to the Federal Reserve Board (the “Board”) regarding its Request for Information (RFI) about its potential discontinuation of check services.

If the Federal Reserve determines to discontinue check services, this could be accomplished quickly with minimal disruption to the payment system and the U.S. economy. The use of Electronic Collection Items (ECIs) offers a transition vehicle to replace all existing paper check payments with electronic payments. Additionally, ECIs would also eliminate the fraud associated with mailed checks. ECIs would be transmitted directly from the payor to the payee thus avoiding the use of the postal system.

Electronic Collection Items (ECIs):

- 1) Use the existing check payment systems, and
- 2) Are already in use by some banks, and
- 3) Are already recognized in Regulation CC, and
- 4) Would eliminate check related mail fraud, and
- 5) Would avoid the need to sign up banks to use a new service, and
- 6) Would avoid the need to sell businesses a new payment service, and
- 7) Would avoid additional investments by financial institutions for other replacement payment types, and
- 8) Would use a payment system already broadly accepted and implemented by businesses, and
- 9) Would provide billions of dollars of annual savings to businesses with minimal new investment or disruption to existing processes, reconciliations and controls.

I worked in banking and payments for more than 40 years, and until 2017 served as the President and CEO for the Electronic Check Clearing House Organization (ECCHO). ECCHO led the industry’s successful passage and adoption of Check Clearing for the Twenty-First Century Act (Check 21) and the creation, adoption, and implementation of private sector interbank check image exchange rules. Check 21 and check image exchange supported the fastest transition in payments history, in part, by providing a unique transition vehicle, the substitute check. Without such a transition vehicle, the historic elimination of

paper check interbank clearing would not have happened. Check 21 was initiated by the Federal Reserve and was the first and only time in its history it had proposed legislation to the U. S. Congress.

In 2004, there were no interbank check images exchanged. By mid-2011, only about 6 ½ years later, more than 99% of all interbank checks were cleared electronically using Check 21 and image exchange. Based on Check 21 and image exchange, banks developed and implemented highly popular electronic depositing options. Today, once a check is received by the payee, the subsequent processes to deposit, clear, pay and return, if necessary, are all electronic. Twenty-two years after the passage of Check 21, the only processes that continue to be paper based are printing the check and delivering it to the payee. Otherwise, the check payment system is an electronic system, and it already exists and it is fast; even faster than most ACH payments, with most interbank checks clearing the same day as deposited.

Key considerations in the decision of whether to use ECIs to complete the electronification of the check are:

- 1) Does the existing check system work, i.e. is it broken? and
- 2) Is the clearing of checks through the existing system fast? and
- 3) Does the existing system provide useful service to businesses and the U.S. economy? and
- 4) Do businesses have an alternative that is widely acceptable to them?

Is the existing check system broken? Given that most businesses continue to use checks in the face of multiple alternatives, the answer is that it is not. In fact, it is functioning at its highest level of efficiency ever.

Is the check system fast? Most checks clear the same day as deposited. This is faster than most of ACH payments, some ACH payments are same day but most are at least next day.

Does the existing system provide useful service to businesses and the U.S. economy? It is clear the volume of check payments has declined significantly over the past 20+ years. However, as a payment system, both the volume of payments, which is primarily a consideration of processing cost, and the dollar value of payments processed, should be considered. While the volume of payments has declined, the dollar value of checks continues to be very large as reported in the Federal Reserve's Tri-annual Payment Study (FRPS) through 2022 (2021 data). Unfortunately, in subsequent reporting cycles, the reporting of check payment information was discontinued. Following are data about the continuing value of check payments.

The 2022 FRPS (2021 data) reported the annual value of checks as \$27.23 trillion which was slightly higher than \$26.77 trillion reported for 2020. The U.S. economy, as measured by Gross Domestic

Product (GDP) is the largest economy in the world and totaled \$23.0 trillion in 2021, smaller than the value of checks written in that year. In the years 2015 through 2021, the value of checks remained roughly flat, and the average dollar value of each check grew by 51% from \$1,609 to \$2,430. During the fourth quarter of 2024, the Federal Reserve reported the average dollar amount of commercial checks was \$2,745. Payments of this size are clearly not consumer payments but rather business payments. The Federal Reserve's *Industry Insights Brief, 2024 Business Payments Study* reported that 65% to 83% of large to small businesses, respectively, continue to use checks.

The U.S. GDP in 2024 was \$29.3 trillion only slightly larger than the value of checks written in 2021. Any payment system used by the majority of businesses with a value around the total U.S. GDP continues to be, not only relevant, but essential to the U.S. economy.

Do businesses have an alternative that is broadly acceptable to them? The alternatives to check payments that are offered to businesses are primarily credit push payments. The one exception is ACH debit payments which the Federal Reserve continues to support but which have failed to replace many business checks. Various credit push payment options have been available to businesses for about four decades, but none have been widely adopted. The most recent options are FedNow and Real Time Payments (RTP). The Clearing House's RTP service has been available since 2017, 8 years. These options will satisfy some business payments requirements but not all, and if they were widely adopted and implemented, they would require many more years to replace all checks. Additionally, until an acceptable alternative is implemented by businesses, they will continue to use checks, and the industry will continue to support the check system.

Given the available alternatives, why have businesses continued to rely on check payments? Payments are overhead expenses and businesses prioritize spending on goods and services where they make money rather than on overhead or administrative expenses. The exception to this is whether an overhead or administrative process interferes with the performance of the business' primary function of generating profits. The check payment system works and does not interfere with profit generation. The other exception is when the investment in overhead expenses produces a greater return on investment (ROI) than spending money on profit producing goods and services.

As overhead expenses, payments reduce rather than generate profits. Transitioning to a non-check payment requires new investments by businesses. Businesses make spending decisions based, in part, on forecasting a predictable ROI. A predictable ROI is possible only when a business, its customers, and suppliers

make investments to implement in the same time frame. Because each of these parties has its own differing priorities, it is unlikely that many will invest in the same time frame. One party makes the investment to support credit push payments, but its customers and suppliers do not, negating the possibility of a quick, much less, predictable return. Therefore, businesses can be expected to continue to opt for investments in areas that generate profits and not in overhead expenses like payments.

The historic transition from a paper-based check to an electronic-based payment is mostly but not completely accomplished. While the interbank clearing of checks is now fully electronic, Regulation CC and the Uniform Commercial Code still require a paper check to initiate a check payment between the check writer and the check receiver. This requirement precludes the initiation of a fully electronic payment through the check system, as a payment defined in law as a check.

It is possible, however, with the correct agreements, for payments to be initiated in electronic form and cleared through the check system as if they were checks by incorporating the provisions of the Uniform Commercial Code and Regulation CC. Such agreements would greatly encourage business payments to become electronic. Banks and the Federal Reserve have already made investments to support interbank electronic check payments. Businesses would only need to format existing data on their computers into ECIs and transmit them to payees. The payees would then receive the transmissions and interface the payments with their existing electronic deposit software. Remittance data would accompany the ECI payments directly from the payor to the payee as it does today with paper checks. ECIs allow banks and the U.S. economy to capitalize on the investments already made in Check 21 and image exchange and to eliminate the last physical aspect of a check thus eliminating the need for Federal Reserve paper check services. By eliminating the need to mail a paper payment between the payor and the payee, the losses associated with mail fraud could also be avoided. All remaining types of fraud would be like those associated with other electronic payments. Alternatively, businesses would need to redesign their payment initiation, receipt, reconciliation and control processes as described in the chart below.

The *2016 Federal Reserve Payments Study* estimated the number of B2B payments, alone, at 5.3 billion during 2016. The Association of Financial Professionals' 2016 Electronic Payments reported that the median cost of a business to issue and receive a paper check was \$4.57 and the median cost of initiating and receiving an ACH was \$.11 to \$.25 per payment. Assuming the cost of an ECI would approximate the cost of an ACH, the savings for businesses would be approximately \$4.32 ($\$4.57 - \$.25 = \4.32) per payment. Assuming 5.3 billion B2B payments, the potential business savings with full implementation of ECIs would be

approximately \$23 billion per year. Business payments other than B2B would also generate savings of \$4.32 per payment.

The following chart compares the key requirements to achieve ubiquitous implementation of real-time, credit push payments with key requirements to achieve ubiquitous implementation of ECIs, debit payments.

Real-Time Credit Payments	Real-Time Debit Payments (ECIs)
System Overall Needs To:	System Overall Needs To:
<ul style="list-style-type: none"> Implement alternate routing approaches for payment and remittance data 	<ul style="list-style-type: none"> N/A – Routing for electronic check images already implemented and routing of remittance data unchanged
<ul style="list-style-type: none"> Develop, create, load and implement one or more directories to include the bank account information for every person, business, government and entity in the U.S. 	<ul style="list-style-type: none"> N/A – Directories not needed for electronic debits
<ul style="list-style-type: none"> Implement real-time 24x7x365 DDA posting system at every FI in the US 	<ul style="list-style-type: none"> Not a requirement for ECIs but for real-time ECIs must implement real-time 24x7x365 DDA posting system at every FI in the U.S.
<ul style="list-style-type: none"> Create the legal environment to define each type of real-time payment and allocate the liabilities and amount(s) among the interested parties 	<ul style="list-style-type: none"> Create the legal environment to define each type of real-time payment and allocate the liabilities and amount(s) among the interested parties
<ul style="list-style-type: none"> Create and implement a real-time 24X7X365 settlement system 	<ul style="list-style-type: none"> Create and implement a real-time 24X7X365 settlement system
Every Financial Institution Must:	Every Financial Institution Must:
<ul style="list-style-type: none"> Contract with one or more providers of real-time payment services 	<ul style="list-style-type: none"> N/A – Clearing of electronic checks already implemented
<ul style="list-style-type: none"> Coordinate among various providers to minimize legal liability differences when using more than one provider 	<ul style="list-style-type: none"> N/A – Clearing of electronic checks already implemented
<ul style="list-style-type: none"> Create account(s) with one or more providers of real-time services 	<ul style="list-style-type: none"> N/A – End-users only need their current accounts with their banks
<ul style="list-style-type: none"> Fund and manage the liquidity of every account with every provider 	<ul style="list-style-type: none"> N/A – End-users only need their current accounts with their banks
Every Business User Initiator Must:	Every Business User Initiator Must:
<ul style="list-style-type: none"> Re-engineer its payment process from a debit payment to a credit payment including initiation software, tracking and reconciliation of payment status, format, internal approval process, etc. 	<ul style="list-style-type: none"> N/A - Business end-users only need to format existing digital data and transmit to receiving party
<ul style="list-style-type: none"> Create, maintain and monitor directory profile(s) for every directory 	<ul style="list-style-type: none"> N/A – Directories are not needed for electronic debit payments
<ul style="list-style-type: none"> Implement network connection with its FI for payments and/or remittance data 	<ul style="list-style-type: none"> Not necessary but may be desirable to achieve new, enhanced positive pay services
<ul style="list-style-type: none"> Implement network and software to access directory for beneficiary bank account info 	<ul style="list-style-type: none"> N/A – Directories are not needed for electronic debit payments
<ul style="list-style-type: none"> Implement application software to create payment 	<ul style="list-style-type: none"> Format data in its existing accounts payable system to create electronic debit payment and modify its payment approval process

<ul style="list-style-type: none"> Implement function to separate payment from remittance information 	<ul style="list-style-type: none"> N/A – Payment and remittance information travel together directly from payor to payee
<ul style="list-style-type: none"> Implement network and transmittal for remittance information directly or indirectly to the payment beneficiary 	<ul style="list-style-type: none"> Implement network connection to transmit payment and remittance data directly or indirectly to payee
<ul style="list-style-type: none"> Implement function to track any holdover payments not processed for any reason 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Implement function to verify bank/provider account balances in advance of initiating payment and resulting decisioning 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Requirements may vary when more than one provider is used 	<ul style="list-style-type: none"> Requirements may vary when more than one provider is used
<p>Every Business User Receiver Must:</p>	<p>Every Business User Receiver Must:</p>
<ul style="list-style-type: none"> Implement receipt software to receive payment receipt notification from bank/provider 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Implement receipt software to receive remittance directly or indirectly from payment party 	<ul style="list-style-type: none"> N/A - Not needed as a separate function since payment and remittance move together
<ul style="list-style-type: none"> Implement new functions to reconcile receipt of payment and receipt of remittance information 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Implement function to reject any payments received intended for other parties or payments not matching remittance information 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Implement function to verify bank account balances in advance of initiating a rejected payment to avoid overdrawing beneficiary’s account 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic image processing
<ul style="list-style-type: none"> Requirements may vary when more than one provider is used for receiving payments and for rejecting misdirected payments 	<ul style="list-style-type: none"> N/A – Processes already implemented for electronic images processing

Full implementation of real-time payments or instantaneous payments is dependent on the implementation of real-time DDA posting and real-time 24X7 interbank settlement systems and those are years away. While current “real-time” systems appear to be real-time or instantaneous from the user’s perspective, most DDA posting systems continue to be end-of-day, and interbank settlement through the Federal Reserve is not supported 24X7. Once real-time 24X7 DDA posting and interbank settlement are implemented, they will apply to both credit push and debit pull payments.

Please note, however, that significant savings from ECIs are not dependent on the implementation of real-time or instantaneous DDA and interbank settlement systems.

Given the failure of the industry to offer businesses an acceptable alternative to check payments, ECIs is an option that could be readily available should the Federal Reserve determine to support ECIs. ECIs can

achieve the Federal Reserve's goal of eliminating paper checks and the associated costs with equipment, processes and manpower.

ECIs could also be used as a transitional vehicle to FedNow or Real Time Payments. Once businesses transition to ECIs and away from paper payments, they could use the savings to finance the transition from a debit pull to a credit push electronic payment.

One characteristic of the amazing speed of transition of Check21 and image exchange was the lack of any bank requirement to develop, implement or sell new products or services to bank customers to achieve success. Check 21 was created under the assumption there would be little to no change required by bank customers. Therefore, banks need not promote new services to affect the transition that would otherwise require many, many years to achieve full implementation. Before Check 21, bank customers were already writing checks and receiving checks or digital representations of checks in their statements. Therefore, bank customers did not have to change their normal processes. Likewise, banks did not have to convince other banks to receive new payment types.

The investment for businesses to implement ECIs and the disruption to their business processes are much less than those required to implement any credit push payment option, creating a more attainable ROI which reduces the acceptance barrier. Reducing the acceptance barrier encourages businesses to achieve the savings associated with electronic payments compared with paper payments.

Concluding Comments

Whether it is a good idea to discontinue Federal Reserve check services is not addressed here but should it be determined to discontinue those services, there is a way to do so quickly, with minimal new investment by the Federal Reserve, banks, check service providers or businesses. At the same time, the Federal Reserve could achieve two of its additional goals; eliminating a major source of mail fraud associated with check payments and eliminating check payments altogether by adopting ECIs as a transition vehicle.

Consumers have largely moved away from check payments. However, a super majority of businesses continue to use checks in lieu of other options, and the dollar value of checks continues to approximate GDP for the largest economy in the world. By enhancing the existing electronic check payment system, businesses would have an alternative that better suits their financial objectives and would provide a more efficient and less costly payment process.

Benjamin W. McDonough

February 26, 2026

Page 8

Electronic Collection Items are the best option to achieve the goals of the Federal Reserve and to serve businesses and the U.S. economy.

Thank you for the opportunity to comment. If you would like to discuss any of these responses, please contact either of the individuals below.

David Walker

President

214.642.9268

david.walker@tillerendeavors.com