

1ST NATIONAL BANK OF SCOTIA, KELLY GIBBONS, ET. AL.

Proposal and Comment Information

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

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Submitter Information

Organization Name: 1st National Bank of Scotia

Organization Type: Company

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Please see our attached comment letter regarding the future of the Federal Reserve Banks' check services.



February 19, 2026

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

Re: Comment Letter on the Future of Federal Reserve Bank Check Services
(Docket No. OP-1874)

Board of Governors:

On behalf of the 1st National Bank of Scotia, we appreciate the opportunity to submit comments regarding the Federal Reserve's strategic review of its check services, including the long-term role that paper and image-based check payments play within the U.S. payments system.

As a financial institution that has served the community for over one hundred years, our bank continually works in partnership with our clients that include consumers, small businesses, municipalities, and mid-sized commercial enterprises, the vast majority of whom continue to rely upon checks as an essential payment instrument. While the adoption and use of digital payments have grown significantly, checks remain a critical payment rail that provides accessibility, reliability, and broad usability. As such, we strongly support the Federal Reserve's continued operation and modernization of its check services infrastructure.

1. Checks Remain a Vital Payment Method for Commerce

Despite long-term declines in check usage, current data clearly demonstrates that checks are still deeply embedded within the U.S. economy:

- The Federal Reserve processed **701 million commercial checks in Q3 2025**, averaging **10.9 million checks per day**. (Federal Reserve statistical data of December 12, 2025)
- In **Q2 2025**, check volume totaled **716 million items**, continuing to reflect substantial usage across the financial system. (Federal Reserve statistical data of December 12, 2025)

These volumes reflect the widespread reliance on checks, especially in B2B, treasury, and municipal transactions, where checks remain operationally convenient and universally accepted. Furthermore, a 2024 Federal Reserve Payments Insight Business Study found that paper checks remain a leading payment method for the nation's small businesses. The study found that nearly 80% of "Very Small" firms with revenue under \$1M use checks, while "Small" firms with revenue between \$1M and \$10M lead all segments with 83% using

paper checks for business payments most specifically to pay vendors and for payroll operations. (Tom Ciafone – Atlanta Federal Reserve Payments Forum – January 12, 2026)

Checks also remain especially important for many of our customers in rural areas who lack reliable broadband access or prefer non-digital payment channels, ensuring equitable financial access across all communities. Large private clearinghouses have little incentive to maintain expensive infrastructure for low-volume rural areas. If the Fed withdraws, rural consumers who already face the highest rate of bank branch closures, could see delayed clearing times and increased service fees, further isolating them from the national economy.

2. The Fed's Role Ensures Neutrality, Fairness, and Stability

The Federal Reserve provides a critical public-interest service by operating a nationwide, neutral check-clearing infrastructure. Without the Fed's participation:

- The system could consolidate into a small number of private operators, risking higher costs and reduced access for community banks. Private-sector check clearing is often priced using volume-based discounts that favor the largest retailers. Without the Fed's uniform pricing mandate, small businesses and the community banks that serve them, would face "tiered" fee structures, significantly increasing the cost of doing business for the thirty-three million small enterprises that still rely on checks for B2B transactions.
- Rules and processing standards could increasingly reflect the priorities of large institutions rather than the needs of smaller depositors and local businesses.
- Market stability would be jeopardized by shifting core payment infrastructure away from a public, regulated utility and toward profit-driven entities.
- For the roughly 5.6 million unbanked and nineteen million underbanked households in the U.S., checks are the primary link to the formal economy. Privatization would lead to the "consolidation of convenience," where only those with high-balance accounts at major national banks receive dependable services, pushing lower-income Americans toward a predatory check-cashing services model.

Entrusting check processing entirely to a handful of large private financial institutions or "Big Tech" firms poses significant system risks including:

- The Federal Reserve has a mandate to provide services to all depository institutions, regardless of size and location ensuring equitable access to payment infrastructure, while a private sector monopoly or oligopoly would prioritize high-volume, high-profit urban centers, potentially debanking smaller community banks through prohibitive fees.
- As a neutral public entity, the Fed provides "finality of settlement" in central bank money, maintaining systemwide stability and safety. Tech firms, while innovative, often lack the rigorous regulatory framework and oversight along with the liquidity backstops necessary to manage a system that still carries trillions of dollars in annual value.
- Large financial institutions acting as the sole clearinghouses for smaller competitors create a natural conflict of interest specific to fee structures and data privacy. The Fed acts as a "fair referee" supporting a balanced, resilient, and multi-rail payments ecosystem.

The Fed's continued involvement ensures fair pricing, standardization, accessibility, and systemic resilience across all institutions.

3. Check Fraud Trends Should Encourage Investment—Not Withdrawal

Some have pointed to recent increases in check fraud as a rationale for reducing investment in check services. However, the opposite is true:

- Fraud in digital channels—including cryptocurrency schemes—is expanding rapidly, often outpacing check-related fraud exposure.
- Enhanced Image Verification, machine learning, and improved traceability can significantly reduce check fraud risks when implemented system-wide.
- The Federal Reserve is uniquely positioned to coordinate and implement industry-wide security upgrades, ensuring equal access to modern protective tools.

Maintaining and upgrading the check rail is a more effective strategy than allowing it to deteriorate or consolidating it into private-sector control.

4. Modernization Opportunities

We encourage the Federal Reserve to invest in targeted modernization, including:

- Next-generation Check 21 imaging standards to increase verification accuracy.
- Deployment of AI-driven detection tools such as FedDetect® Duplicate Notification service can identify if a single check has been deposited at multiple financial institutions. With the Fed maintaining this centralized service, it ensures that even the smallest community banks have access to top-tier fraud detection technology that would otherwise be cost-prohibitive to develop or purchase from third-party vendors.
- Expanded interoperability between banks and Fed systems for faster clearing and improved traceability.
- A unified national fraud-prevention framework, leveraging the Fed's visibility across institutions.
- One of the largest hurdles for B2B commerce is that check data does not communicate or incorporate well in most accounting software suites. The Fed is currently leading the transition to ISO 2022, a global standard for electronic data exchange, which can ensure that check payments become as "smart" as digital payments for business bookkeeping.
- The Fed recently developed the FraudClassifierSM Model that provides the financial industry with a common and uniform language to categorize fraud. Instead of financial institutions using different terms, data reporting now will have a standardized "dictionary."
- Enhanced interbank intelligence through the Fed's Scams Mitigation Toolkit, which facilitates the sharing of information between financial institutions to track and thwart mule accounts which are leveraged by criminals to funnel stolen check funds across the entire banking system.

Such improvements will strengthen the entire payments ecosystem, not just the check rail.

5. Checks Facilitate High-Value Transactions and Preserve System Resilience

While check volumes have gradually declined, the average value of checks continues to rise, demonstrating the ongoing importance of checks for large-value commercial payments:

- In **Q3 2025**, the total value of checks processed reached **\$2.028 trillion**, with an **average value per check of \$2,895**. (Federal Reserve statistical data of December 12, 2025)
- In **Q2 2025**, the average value exceeded **\$3,000 per check**, reflecting increasing reliance among businesses and government entities. (Federal Reserve statistical data of December 12, 2025)

Higher average values indicate that checks remain integral to complex, high-trust transactions, which are precisely the types of payments that benefit from the stability and neutrality of a Federal Reserve-operated clearing system.

Preserving the check rail also enhances payment system redundancy. A diverse set of payment channels—including checks, ACH, wires, cards, RTP, and FedNow—provides critical operational resilience. Eliminating or weakening the check rail would increase systemic dependence on a small number of private networks and create vulnerabilities during outages, cyber incidents, or operational disruptions.

Checks remain a durable and essential component of the U.S. payments system, particularly for community banks and the businesses and households we serve. The Federal Reserve’s continued leadership in check processing can be attributed to its unique panoptic view of the financial system. It sees the movement of value across the entire national network which provides for the continued development and enhancement of comprehensive processes and strategies that financial institutions of all sizes can leverage.

As we navigate an era of unprecedented technological disruption, the Federal Reserve’s role is not merely historical, but rather a vital safeguard against the systemic vulnerabilities introduced by high-speed digital commerce and AI-driven financial crime. The Federal Reserve possesses the unique jurisdictional reach and resource scale required to maintain the check as a secure, inclusive, and resilient payment instrument for the modern economy. Therefore, we respectfully urge the Federal Reserve to continue investing in and enhancing its check infrastructure, reinforcing its commitment to serving all U.S. financial institutions and communities.

Thank you for your consideration of these comments. We would welcome further dialogue and are available to provide additional insights, including perspectives from community banks that rely on the Fed’s check services daily.

Respectfully,



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