

FNBO

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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Please see attached response.



Response to:

[Docket No. OP-1874]

**Request for Information and Comment
on the Future of the Federal Reserve
Banks' Check Services**

Prepared by:

FNBO

March 9, 2026

Respondents are encouraged to respond to the following questions:

- **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 in the provision of check services evolve over the next 3 years and over the next 10 years?**

The Federal Reserve Banks' check services remain critically important to the U.S. payments system for several key reasons:

1. **Market Leadership and Scale:** As the single largest check processor, handling approximately 50% of the nation's check volume, the Reserve Banks provide essential infrastructure that ensures the continued functioning of check payments.
2. **Safety Net Function:** The Reserve Banks ensure universal access to check processing services, preventing potential private sector monopolies and ensuring that all financial institutions, regardless of size or location, can efficiently process checks.
3. **Market Discipline:** The Federal Reserve's operational presence creates competitive pressure that keeps private sector pricing reasonable and service quality high.
4. **System Resiliency:** The Reserve Banks provide backup infrastructure that enhances financial system stability and ensures business continuity during disruptions.
5. **Regulatory Credibility:** The Federal Reserve's operational involvement in check processing strengthens its oversight and provides firsthand insight into payment system risks and trends.
6. **Standardization and Interoperability:** The Reserve Banks promote industry-wide standards that facilitate seamless check processing across all providers.

FNBO believes the Federal Reserve should maintain its operational involvement in check services over both the next 3 years and the next 10 years for the reasons outlined above. While check volumes continue to decline, the instrument remains important to specific demographics and use cases. The Federal Reserve's continued presence ensures stability during this transition period and prevents potential market disruptions that could harm consumers and businesses who continue to rely on checks.

- 2. **What aspects of the Reserve Banks' current check services (for example, deposit deadline options, how quickly checks are processed, discrepancy resolution services, options for sending a check back as a return) are the most critical, and why?**

Of the services mentioned above, the two that are most critical to FNBO's operations are:

- **Discrepancy Resolution Services:** The Federal Reserve's discrepancy resolution services are essential to our back-office operations. While not the least expensive option in the market, the Fed's services offer:
 - **Speed and Efficiency:** Quickest resolution timeframes in the industry
 - **Ease of Use:** Streamlined processes for routing cases and processing adjustments
 - **Operational Reliability:** Consistent service quality that our operations depend on daily

These services are vital for maintaining efficient back-office processing and managing the various exceptions that arise in check operations.

- **Return Item Services:** FNBO processes 300-500 return items per day through the Federal Reserve, representing 100% of our check returns. These returns include:
 - Stop payment items
 - Non-sufficient funds (NSF) checks

- Potentially fraudulent or high-risk items

The Federal Reserve's return services are critical because they:

- **Enable Early Positive Pay notification:** Without the Fed's reliable return infrastructure, FNBO would be unable to offer early deposit notifications to our business customers for positive pay solutions
- **Support Cash Positioning:** Early morning check presentment (before 7:00 AM) allows us to inform business customers which checks have been presented against their accounts, enabling better cash management and funding decisions

The combination of robust discrepancy resolution and reliable return services allows FNBO to provide competitive treasury management solutions to our business customers while maintaining operational efficiency and risk management standards.

3. Generally speaking, what would be the impact of different potential strategies for the Reserve Banks' check services, including those discussed above 1) continuing Reserve Banks' check services largely as they exist today with significantly degraded reliability over time, 2) Significantly simplifying Reserve Banks' check services, 3) Substantially winding down Reserve Banks' check services, or 4) Upgrading the Reserve Banks' check-processing infrastructure to support existing services and reliability? Are there other strategies you believe the Reserve Banks should consider?

Some strategies that the Fed could consider:

1. Reduced Deposit Deadlines

Current State:

- Fed currently offers **4 deposit deadlines throughout the day**
- Different service levels associated with each deadline
- Allows banks flexibility when they submit checks for processing

Potential Changes:

- Reduce to 2 or even 1 daily deadline
- Example: Instead of deadlines at 8am, noon, 3pm, and 6pm, only 10am and 3pm

Impact on FNBO:

- Less flexibility for processing customer deposits
- Potential delays in funds availability for customers
- May need to adjust internal deposit processing schedules
- Could affect competitive positioning if private processors offer more deadlines

2. Elimination of Check Adjustment Services

Current State:

- Fed provides discrepancy resolution services for **23 common issues**
- Acts as intermediary to resolve errors between banks

What This Means: Check adjustments handle issues like:

- Settlement discrepancies (wrong amounts debited/credited)
- Missing or duplicate items
- Encoding errors
- Image quality issues
- Return item processing errors
- Technical processing issues

Potential Changes:

- Fed would **only resolve errors they directly caused**
- Banks would need to resolve all other issues **directly with each other**

Impact on FNBO:

- Significant operational burden increase
- Need dedicated staff to contact other banks for discrepancy resolution

- Longer resolution timeframes
- May need to establish bilateral agreements with other banks
- Increased costs for customer service/operations teams

3. Limited Hours of Operation

Current State:

- Processing throughout business day
- Extended hours to accommodate different time zones

Potential Changes:

- Shorter processing windows (e.g., 9am-3pm ET only)
- No evening or weekend processing
- Limited holiday operations

Impact on FNBO:

- Reduced flexibility for same-day processing
- Longer funds availability times for customers
- Potential competitive disadvantage

4. Reduced Resiliency Levels

Current State:

- Built-in redundancy and backup systems
- High reliability standards
- Quick recovery from outages

Potential Changes:

- Fewer backup systems
- Longer acceptable outage times
- Less redundancy in infrastructure
- Slower disaster recovery

Impact on FNBO:

- More frequent service interruptions
- Risk of processing delays
- Need for contingency plans/alternative processors
- Customer service challenges during outages

5. Elimination of Value-Added Services

Current State:

- Early-morning presentment
- Various **data reports** for checks
- Analytics and information services
- Custom reporting options

Examples of What Could Be Cut:

- Detailed check processing reports
- Fraud analytics/reporting
- Historical trend data
- Exception reports
- Custom data extracts

Impact on FNBO:

- Loss of valuable operational data
- Reduced fraud monitoring capabilities
- Need to develop internal reporting tools
- Less visibility into check processing patterns

6. Return Item Service Reductions

Current State:

- Range of options for sending checks back as returns
- Different speed options

- Various notification methods

Potential Changes:

- Single return processing option
- Standard timeline only (no expedited returns)
- Limited notification options

Impact on FNBO:

- Less control over return timeframes
- Potential increase in fraud losses (slower returns)
- Less flexibility in managing NSF situations

7. Physical Paper Processing

Current State:

- Banks can still physically deposit paper checks
- Fed processes both electronic images and physical items

Potential Changes:

- Electronic-only acceptance
- Elimination of physical paper processing
- Banks must image all checks before deposit

Impact on FNBO:

- May create challenges for an expedited return in a paper format

4. Would you, your organization, or your community be willing to incur additional costs and fees to continue to use or process checks as you do today? Why or why not? Would you, your organization, or your community be willing to make additional investments such as enhancements to check security features in support of continued use of checks in the future? Why or why not?

Willingness to Incur Additional Costs and Fees:

FNBO would likely be willing to incur additional costs to continue using Federal Reserve check services at current service levels, but with an important qualification: we would need the ability to pass these additional costs on to our corporate customers.

The Federal Reserve is designed to serve the broader financial services industry, and its check services provide unique value that justifies reasonable cost increases. However, as check volumes decline industry-wide, any significant fee increases would need to be reflected in our customer pricing to maintain sustainable economics.

Our willingness to absorb higher costs would depend on:

- The magnitude of the fee increases
- Our ability to recover costs through customer fees
- Continued availability of the critical services outlined in Question 2 (particularly discrepancy resolution and return services)

Willingness to Make Additional Investments:

Regarding additional investments in check security enhancements, FNBO would need more information to make an informed decision. Specifically, we need to understand:

- **Cost Structure:** What would be the total investment required, both initially and ongoing?
- **Value Proposition:** What specific fraud prevention or risk mitigation benefits would these enhancements provide?
- **Industry Adoption:** Would these be industry-wide standards that all check processors would implement?

- **Customer Impact:** How would these enhancements affect our customers' check processing experience and costs?
- **ROI Timeline:** Given declining check volumes, what is the expected return on investment horizon?

FNBO recognizes that check fraud is a growing concern despite declining check volumes. Any security enhancements should be weighed by ability to consider if they demonstrably reduce fraud risk and can be implemented in a cost-effective manner that aligns with our customers' needs and the projected lifespan of check usage.

5. If your organization relies on the Reserve Banks' check services, directly or indirectly, to what extent could alternative providers offer similar services that meet your needs over the next 3 years and over the next 10 years? For instance, are there unique benefits of the check services provided by the Federal Reserve that are not otherwise available in the industry?

FNBO relies heavily on the Reserve Banks' check services for our daily operations. While alternative private-sector providers exist, and could theoretically process our check volumes, the Federal Reserve offers unique benefits that are not readily available elsewhere in the industry.

The most significant differentiator is the Federal Reserve's automatic cost of funds (COF) adjustments. When the Fed processes checks and makes settlement adjustments in FNBO's favor, they automatically include the cost of funds in the credit back to our account. This seamless integration of interest calculations provides real economic value and administrative efficiency that private processors do not currently offer as a standard service.

Beyond the cost of funds benefit, FNBO values the Federal Reserve's:

- **Neutral Market Position:** As a non-profit central bank entity, the Fed is not driven by shareholder profit maximization, which provides stability in pricing and service commitment
- **Universal Reach:** The Fed's presence ensures connectivity to all financial institutions, regardless of size or location
- **Regulatory Oversight Alignment:** The Fed's dual role as regulator and operator provides consistency between operational practices and regulatory expectations
- **Long-term Commitment:** Private providers may exit or consolidate; the Fed provides continuity assurance

3-Year and 10-Year Outlook:

Over the next 3 years, while private providers could technically handle our volume, the unique benefits provided by the Federal Reserve would be difficult to replicate. The operational and economic disruption of switching providers would need to be justified by clear advantages.

Over the next 10 years, as check volumes continue to decline, we have concerns about whether private providers would maintain the same level of service breadth, pricing discipline, and universal access that the Federal Reserve currently provides. The absence of the Fed's competitive presence could lead to reduced service options and higher costs, particularly for smaller institutions.

6. How important are checks to you, your organization, or your community, and how challenging would it be to use alternative payment methods? How might the importance of checks and the challenges associated with using other payment methods change over the next 3 years and over the next 10 years?

Checks remain important to FNBO for two primary reasons:

- 1. Supporting Customer Demographics and Preferences:** Certain customer segments prefer checks as their payment method of choice. These include:
 - Elderly customers who are familiar and comfortable with checks
 - Rural populations with limited access to digital payment infrastructure
 - Businesses with established check-based payment processes
 - Customers who value the payment control and documentation that checks provide

FNBO is committed to serving customers effectively, and checks remain an essential tool for meeting their financial needs.

- 2. Revenue from Check-Related Services:** Many businesses rely on FNBO's lockbox services to efficiently process customer payments, and checks remain a substantial portion of those payment streams. Eliminating or significantly degrading check services may impact our ability to provide these solutions.

3-Year and 10-Year Outlook:

The importance of checks and challenges with alternatives will depend on several evolving factors:

Next 3 Years:

- Check usage will continue to decline, but remain meaningful for specific demographics and use cases
- Alternative payment costs (particularly for merchants/payees) will be a key factor in adoption rates

Next 10 Years:

- Demographic changes will accelerate as digital-native generations become the dominant customer base
- The importance of checks will depend on whether alternative payment methods can achieve:
 - True ubiquity without recipient barriers
 - Cost structures are competitive with checks (particularly for payees)
 - Simplicity that matches checks' ease of use
- However, if electronic payment providers charge significant transaction fees, checks will retain a role, particularly for high-value or nonprofit transactions

Critical Factor: The speed of migration from checks ultimately depends on whether technology providers can offer alternatives that are genuinely cost-competitive and universally accessible.

7. What are the unique aspects of checks that lead users to continue to use checks?

Despite the availability of numerous electronic payment alternatives, checks continue to be used because they offer several unique characteristics that other payment methods struggle to replicate simultaneously:

- 1. Acceptance:** Checks are still widely accepted without requiring the payee to have specific accounts, technology, or merchant relationships. Unlike electronic payments that may require both parties to use the same platform or service, checks work across the entire banking system.
- 2. No Technology Requirements:** Checks require no smartphone, computer, internet connection, or digital literacy. This makes them accessible to all demographics.
- 3. No Recipient Setup Required:** A check can be written to anyone without the recipient needing to create an account, download an app, or provide payment credentials in advance. This simplicity is particularly valuable for one-time or infrequent payments.

4. **Physical Documentation:** Checks provide tangible proof of payment with details visible on the instrument itself. Many users value having a physical record for their files, and the cancelled check serves as concrete evidence of payment.
5. **No Transaction Fees for Payers:** Unlike credit cards, debit cards, or many electronic payment platforms, checks typically do not impose transaction fees on the person making the payment. This is particularly important for large-value transactions where percentage-based fees would be substantial.
6. **Payment Timing Control:** Checks give the payer control over when funds are withdrawn from their account (float management). The payer can write and mail a check knowing it will take several days to clear, allowing time for funds to be deposited or for cash flow management.
7. **Simplicity and Familiarity:** For many users, especially older generations, checks are straightforward and well-understood. The process of writing, mailing, and tracking checks is familiar and comfortable, whereas electronic alternatives may feel complicated or unfamiliar.
8. **Ubiquity Across Use Cases:** Checks work equally well for consumer-to-consumer, consumer-to-business, business-to-consumer, and business-to-business transactions. Few payment methods match this versatility across all transaction types and contexts.

The continued use of checks reflects the fact that no single alternative payment method currently replicates *all* of these characteristics simultaneously. While various electronic payments may match checks in some areas, the unique combination of universality, accessibility, simplicity, and cost-effectiveness keeps checks relevant for specific users and use cases.

8. How could other payment methods offer the same benefits as checks if they do not already? Are there any barriers that prevent alternative payment methods from offering the same benefits as checks, or other constraints on adoption of these alternatives?

For alternative payment methods to truly replicate the benefits that checks provide, several fundamental changes would need to occur:

- **Cost Structure Reform:** The most significant improvement would be regulation or market reform of electronic payment costs. Currently, many electronic payment methods impose transaction fees (often 2-3% or more) on merchants, nonprofits, and other payees. These costs either:
 - Get passed on to consumers through higher prices or surcharges
 - Discourage payees from accepting electronic payments
 - Make checks the more economical choice for many transactions

For electronic payments to compete fairly with checks, the industry would need to develop pricing models that don't impose significant per-transaction costs, particularly for nonprofit organizations, small businesses, and person-to-person payments.

- **True Universal Acceptance Without Barriers:** Alternative payment methods would need to achieve genuine ubiquity with:
 - No requirement for recipients to pre-register, create accounts, or download apps
 - Interoperability across all platforms and providers
 - Guaranteed acceptance at all businesses and organizations
 - Simple reconciliation and documentation comparable to checks

Primary Barriers to Adoption: Several significant barriers prevent alternative payment methods from offering the same benefits as checks:

- **Transaction Cost Economics:** The current business models of electronic payment providers rely on transaction-based fees. Unlike checks, which operate on a fixed-cost infrastructure model, most electronic payments impose variable costs that scale with transaction value. This creates particular challenges for:
 - High-value transactions (where percentage fees become substantial)
 - Nonprofit organizations (where donors resist paying fees)
 - Small businesses (where margins are tight)
 - Low-income consumers (who are most sensitive to fees)
- **Technology and Infrastructure Requirements:** Electronic payments require:
 - Internet connectivity (limiting accessibility in rural areas)
 - Smartphones, computers, or point-of-sale terminals
 - Digital literacy and comfort with technology
 - Ongoing device updates and maintenance

These requirements create barriers for elderly users, rural populations, low-income households, and others who lack reliable access to technology.

The barriers to alternative payment adoption are less about technical capability and more about economic structure and accessibility. Until electronic payment methods can match checks' combination of universal acceptance, zero transaction fees for payers, no technology requirements, and simple usability, checks will continue to serve important niches in the payments ecosystem. Regulatory frameworks that encourage cost-competitive electronic payment options, particularly for nonprofit, small business, and person-to-person transactions, could accelerate the transition away from checks while ensuring that vulnerable populations aren't excluded from the payments system.

9. Do you have any planned or ongoing efforts to transition from checks to electronic payments, and why or why not? How can particular communities that may still need to rely on checks, such as the elderly, rural populations, and low- or moderate-income households, be better served?

Yes, FNBO actively promotes the adoption of electronic payments. As a large ACH Originating Depository Financial Institution (ODFI), we have ongoing initiatives to encourage our customers to transition to electronic payment methods where appropriate.

However, we also recognize that checks continue to serve important purposes for specific customer segments and transaction types. Our strategy is to educate customers about available options and help them choose the most appropriate payment method for their needs, rather than forcing a one-size-fits-all approach.

The transition from checks to electronic payments must be managed thoughtfully to avoid excluding vulnerable populations from the financial system. Success requires a combination of education, maintaining necessary check services during the transition period, developing truly accessible electronic alternatives, and addressing the systemic barriers that make checks necessary for some communities.

Financial institutions, regulators, and payment providers all have roles to play in ensuring that the evolution of the payments system serves all Americans, not just those with ready access to technology and digital payment platforms.

10. What benefits and risks to the payments system and to the public should the Board consider as it assesses potential strategies for the Reserve Banks' check services?

As the Board evaluates potential strategies for the Reserve Banks' check services, it should carefully weigh both the benefits and risks to ensure decisions support the overall safety, efficiency, and inclusiveness of the U.S. payments system.

Eliminating or significantly reducing Reserve Bank check services would result in the loss of the critical functions outlined in Question 1, including market leadership (50% of volume), safety net function, competitive discipline, system resiliency, regulatory credibility, and standardization.

The benefits of reducing Federal Reserve check services—primarily cost savings and potential efficiency gains—must be carefully weighed against significant risks including service degradation, loss of market discipline, financial exclusion, and potential retreat to cash.

While potential strategies could reduce the Fed's operational costs, the potential changes would likely shift burden to individual banks, potentially requiring FNBO to:

- Build internal capabilities
- Contract with private vendors
- Accept service degradation
- Pass costs to customers

FNBO believes the most prudent approach is one that:

- Maintains the Federal Reserve's operational presence to preserve market competition and system resiliency
- Makes necessary infrastructure investments to sustain current service levels
- Recovers costs through reasonable fee adjustments that reflect the value provided
- Allows market forces to determine the natural pace of check decline rather than forcing premature transition
- Ensures vulnerable populations are not excluded from the payments system
- The Federal Reserve's continued involvement in check services, even as volumes decline, provides insurance against market failure and ensures that the transition away from checks occurs in an orderly manner that serves all Americans