



Reg. CC – Elimination of Non-Local Checks

On December 31st, 2009, the Federal Reserve published a final rule amending Appendix A to Regulation CC (funds availability), announcing the restructuring of the Fed's check-processing operations. This was the last step in the Fed's multi-year process of consolidating check-processing regions in the U.S. to just one, at the Federal Reserve Bank of Cleveland.

Fed Press Release: <http://www.federalreserve.gov/newsevents/press/bcreg/20091231a.htm>

Federal Register (January 5, 2010; 75 FR 219): <http://edocket.access.gpo.gov/2010/pdf/E9-31254.pdf>

No More Nonlocal Checks

The larger meaning of this change is that after February 27th, 2010 (the date of the consolidation and final rule's effective date), there will be only a single check-processing region for the purposes of Reg. CC. All checks will be local checks; there will no longer be any nonlocal checks.

Since 2003, the Federal Reserve has announced more than 35 consolidations of check-processing regions through closures of various check-processing centers. On February 27th, 2010, check-processing operations in Atlanta will transfer to Cleveland, leaving Cleveland as the only Fed check-processing center in the country.

Appendix A of Reg. CC provides a routing numbers guide that financial institutions utilize to determine whether a check is local or nonlocal under Reg. CC, and thus determine which availability schedule is appropriate. After February 27th, 2010, there will be only region (Cleveland) listed in Appendix A; thus all checks will be considered local to all institutions.

What Does This Mean to Your Institution?

The change will have several impacts on institutions beyond the obvious processing impact of the elimination of nonlocal checks, including:

- *Changes in check-processing procedures and timeframes:* Since all checks will be local checks, the amount of time an institution can hold any check not eligible for next-day availability (such as government checks or official-type checks) is 2 business days after the banking day of deposit. Consequently, a check from across the country must be made available in 2 days rather than 5 (the limit for nonlocal checks before the consolidation) unless an exception hold is placed on the deposit.
- *Changes in hold timeframes:* The shorter timeframe affects exception holds, as well. Previously, nonlocal checks could be held for up to 11 business days after the banking day of deposit, provided that an exception was taken and a notice provided. After February 27th, the longest time a check may be held with an exception taken is 7 days, which is the limit for local checks.

The change also affects those institutions that have a more friendly availability policy than the standard Reg. CC schedule (such as next-day availability for everything). For these institutions, a case-by-case hold is available: previous to the February 27th change if a nonlocal check was involved, the funds could be held for up to 5 business days, but now the maximum hold can be only 2 days (since the check is now considered to be a local check). A longer hold can be gained by taking an exception, but again that will only extend to 7 business days after the banking day of deposit, rather than 11.

- *Changes in funds availability policies and disclosures:* Reg. CC requires an institution to provide a disclosure to customers opening a new transaction account that describes the funds availability policies of the institution. Sample policy clauses are found in Appendix C of Reg. CC. As a result of the elimination of nonlocal checks, some of these clauses will change (such as C-4, which includes an explanation of how a customer can tell the difference between a local and nonlocal check).

Although the Fed has yet to make any changes to the clauses in Appendix C, institutions will have to change their policies and disclosures to reflect the fact that there are no more nonlocal checks.

- *Change-in-terms notice:* Reg. CC also requires that anytime an institution's funds availability policy changes, a notice to holders of consumer transaction accounts describing the change must be sent at least 30 days before the change is implemented. The notice may be sent up to 30 days *after* the change is implemented if the change "expedites the availability of funds."

In this case, checks previously considered to be nonlocal (up to 5 days availability) are now local (up to 2 days availability). This is friendlier to the customer, and "results in faster availability of deposits," as Reg. CC's commentary references. Therefore institutions will have 30 days from February 27th, 2010, to deliver a change-in-terms notice to affected transaction account holders describing the change.

The notice can describe the change in detail, or if the institution chooses to send a new availability disclosure, the changes must be highlighted or otherwise referenced in a letter or insert.