American Bankers Association®

CBA CONSUMER BANKERS ASSOCIATION

March 4, 2026

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

Re: Request for Information and Comment on the Future of Federal Reserve Banks' Check Services (Docket No. OP-1874)

Dear Mr. McDonough:

The American Bankers Association (ABA)[1] and the Consumer Bankers Association (CBA)[2], appreciate the opportunity to comment on the Federal Reserve's Request for Information (RFI) regarding Check Services. We recognize the critical role checks have historically played in U.S. commerce; however, the environment has changed dramatically. Check volumes have declined steadily for more than two decades, while the cost of processing paper checks and the incidence of check fraud have risen sharply. Absent intervention, fixed processing costs will increasingly be absorbed by a shrinking volume of check transactions, resulting in materially higher per-item costs. This trajectory is not sustainable over the long term. These trends underscore the need for a deliberate, industry-wide transition toward faster, safer, and more efficient payment alternatives. This transition will be a substantial undertaking. It is further complicated by the fact that billions of paper check transactions are still processed annually and continue to provide essential benefits to many users. These services must therefore be maintained as consumers, small businesses, and corporate clients transition completely to secure electronic payment methods.

As noted in the RFI, continuing to offer the same level of check services is increasingly challenging because costs are largely fixed while transaction volumes continue to decline. The RFI outlines four broad strategic options: (1) continue providing the same level of service without significant infrastructure investment, which would likely result in degraded reliability and increased outage risk; (2) simplify the scope of Reserve Bank check services to reduce costs, potentially at the expense of service levels; (3) substantially wind down Reserve Bank check

[1] The American Bankers Association is the voice of the nation's $25.3 trillion banking industry, comprised of small, regional, and large banks that together employ over 2 million people, safeguard $20.1 trillion in deposits, and extend $135 trillion in loans.

[2] The CBA is a member-driven trade association, and the only national financial trade group focused exclusively on retail banking—banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members operate in all 50 states. They include the nation's largest bank holding companies as well as regional and super-community banks. Eighty-three percent of CBA's members are financial institutions holding more than $10 billion in assets.

services; or (4) upgrade Reserve Bank infrastructure at significant cost, which would be passed through to depository institutions pursuant to the Monetary Control Act of 1980. In practice, a combination of these strategies may yield the most balanced outcome. Continuing operations without infrastructure investment while maintaining current service levels would result in an unreliable payment rail, which would be unacceptable. Conversely, there is limited industry appetite for making substantial investments to support a slow, and fraud-prone payment instrument.

Accordingly, ABA recommends a two-pronged approach: (1) undertaking a coordinated, long-term initiative to accelerate the adoption of electronic payment alternatives, and (2) identifying opportunities to reduce costs by discontinuing select paper check services that can be eliminated without undue harm. These efforts should be led through a public-private partnership including, but not limited to, financial institutions, commercial check users, consumer groups, solution providers, check clearing operators, the Federal Reserve, and other relevant government agencies.

This effort will require changes from every part of the economy that use check services today. The Federal Reserve should consult with the legislative and executive branches of the federal government to ensure that their input is received, and support given to this migration plan.

I. The Case for Migrating to Electronic Payments

Checks are increasingly an outlier in a modern payment ecosystem dominated by electronic transfers, ACH, card payments, and emerging instant payment rails. Federal Reserve Payments Studies show that check usage continues to decline at double-digit annual rates, while fraud losses associated with checks remain among the highest of any payment instrument. At the same time, checks remain an essential part of the payment ecosystem, with the Federal Reserve clearing approximately $2.3 trillion in check value in the third quarter of 2025 alone.[3]

The banking industry believes the time has come to set a clear, long-term goal to increase the use of electronic payments by consumers and businesses. Achieving this objective will require coordinated action across financial institutions, regulators, technology providers, and public-sector partners.

As part of this broader effort, industry participants should work with check clearing operators to identify opportunities to reduce fraud risk, streamline services, and lower processing costs while the migration to electronic payments continues.

II. Key Pillars of the Transition

A. The Federal Reserve Should Maintain Its Check Services Role

Before any service simplification or sunset, Reserve Banks should (1) maintain end-to-end availability and timeliness at or above current performance baselines; (2) provide 18–24 months' public notice with published readiness criteria; and (3) run pilot certifications with representative

[3] https://www.federalreserve.gov/paymentsystems/check_commcheckcolqtr.htm

large, midsize, and community institutions to validate functional equivalency, fraud/exception handling, and customer impacts.

The Federal Reserve's central role in check processing underpins the integrity, security, and resilience of the U.S. payments system and is critical to maintaining public confidence in the movement of funds. It is important for the Federal Reserve to maintain a high and consistent level of service, reliability, and security while supporting the transition to electronic payments where feasible.

Any consideration of reducing or winding down check services should be approached with reasonable transition timelines, adequate public input, and robust replacement alternatives, given the potential implications for financial inclusion, government disbursements, and overall payments system integrity. This should include full consideration of any federal or state laws or regulations that require the use of paper checks or hard copies of documents. State laws governing negotiable instruments, including checks, must be considered as well. If states' commercial codes continue to allow or require for the issuance of checks as a form of payment, there will be a need to process check deposits, settlement, returns and adjustments through the U.S. payments system.

The Federal Reserve's broad connectivity is essential to ensuring that all financial institutions—regardless of size or geographic location—can participate fully in the payments system. While private-sector providers play an important role in check clearing and settlement, their networks generally do not match the Federal Reserve's nationwide reach. Community banks rely heavily on the Federal Reserve and their interests need to be considered if and when any changes are contemplated.

While private-sector exchanges are effective for high-volume bilateral clearing, a material residual of industry volume continues to rely on Federal Reserve connectivity to reach thousands of institutions—disproportionately community banks and credit unions. Eliminating or thinning this reach would strand volume, raise per-item costs, and heighten fraud/exception risk for smaller institutions and their customers.

From the industry's perspective, the following Reserve Bank services are mission-critical and should be preserved as foundational elements of the U.S. payments system:

- **Fed Forward Services:** Enables financial institutions to submit Image Cash Letters (ICLs) for forward collection items, including Treasury items, Postal Money Orders (PMOs), and eligible savings bonds, for clearing and presentment to paying banks.
- **FedReturn Services:** Provides essential return item processing for all financial institutions, ensuring timely and standardized handling of returned checks.
- **Check Adjustments Service:** Supports the resolution of discrepancies, errors, and exceptions in check processing, which is vital for maintaining accuracy, reducing operational risk, and ensuring customer confidence.

- **FedReceipt Services:** Allows financial institutions to use "straight through" electronic check processing for all inclearings or inbound returns. This is a key service that provides the only way for many small banks to send On Us items to large banks.
- **Accelerated Imaged Returns Delivery:** Provides expedited electronic delivery of returned check images, supporting faster return resolution, earlier fraud detection, and reduced financial exposure for depositing institutions.

Other Federal Reserve check services, including Paper Check Clearing Services, International Check Clearing, and Check Monitoring and Reporting Services are considered value-added or selective offerings. While not all banks utilize these services, those that do find them highly valuable and benefit significantly from their features. For institutions that do not use their services, they may be viewed as less essential or necessary to their operations.
ABA recommends that the Federal Reserve:

- Conduct a comprehensive review of all check services in consultation with financial institutions, their clients, and core service providers upon which many small and midsize banks rely upon, through in-person meetings in the Federal Reserve Bank districts as well as a formal public notice and comment period;
- While private-sector exchanges are effective for high-volume bilateral clearing, a material residual of industry volume continues to rely on Federal Reserve connectivity to reach thousands of institutions—disproportionately community banks and credit unions. Eliminating or thinning this reach would strand volume, raise per-item costs, and heighten fraud/exception risk for smaller institutions and their customers;
- Identify opportunities to streamline or reduce costs associated with underutilized or duplicative services; and
- Continue to offer advanced tools—such as error correction, fraud detection, digital archiving, and electronic presentment—where they demonstrably reduce risk, enhance compliance, or improve operational efficiency.

Checks remain embedded in legally sensitive and reconciliation-heavy workflows (e.g., escrow and trust accounts, legal settlements, property management/HOAs, healthcare reimbursements, and insurance claims). Abrupt service changes would extend funds-availability windows, increase exception rates, and create consumer harm—particularly for older adults, low-income households, and digitally underserved communities.

Future investments should prioritize the resilience and security of core services, with value-added offerings evaluated based on demonstrated utilization, risk-reduction benefits, and cost-effectiveness.

B. The Importance of Financial Inclusion

A successful transition requires broad access to safe, affordable transaction accounts that support electronic payments. Although the unbanked rate is at historic lows, millions of households remain outside the banking system and often rely on checks or money orders.
ABA recommends that the Federal Reserve:

- Support the expansion of Bank On-certified accounts that feature low fees, no overdraft, and digital payment capabilities; and
- Promote Direct Express and similar programs for federal and state benefit disbursements to ensure recipients receive funds electronically.

C. Customer Education and Outreach

Consumers and small-business reliance on checks often reflects habit, perceived security, or uncertainty about adopting new policies and procedures. It is essential that all participants in the payments ecosystem share a baseline understanding of the benefits and limitations of different payment rails. Commercial enterprises often prefer to receive checks because they often include remittance stubs or invoices containing purchase order details and avoid transaction fees. State and local governments rely heavily on checks for incoming payments. These groups would benefit from targeted messaging.

ABA recommends that the Federal Reserve:

- Lead an industry group of all participants to inform the public of the benefits of electronic payments;
- Highlight the speed, safety, and convenience of digital payments relative to checks;
- Provide step-by-step guidance for small businesses adopting e-invoicing, ACH, and instant payment solutions;
- Address fraud concerns by explaining available consumer protections and best practices;
- Partner with consumer advocacy organizations and small-business groups to reach target audiences; and
- Produce materials that banks may use to educate their customers.

D. Product Innovation: Safer, More Efficient Alternatives

To fully replace checks, alternative payment solutions must replicate key check attributes—such as control, confirmation, and trust—while offering improved speed and security. To achieve broad adoption, alternatives must support broad acceptance, allow payments using minimal recipient information, provide robust recordkeeping and dispute resolution, and accommodate higher-value transactions.

ABA recommends that the Federal Reserve:

- Promote instant Payments (FedNow and RTP): Support real-time settlement for bill payments, B2B transactions, and disbursements and enhanced ACH Solutions: Expand the use of Same Day ACH for payroll and recurring obligations; and
- Consider new payment solutions yet to be developed that replicate the functional characteristics of paper checks.

III. Implementation Roadmap

ABA proposes a phased, adaptive approach to encourage a thoughtful transition to electronic payments:

Years 1–3

- Establish an industry working group including financial institutions, solution providers, core service providers, consumer groups, payment system operators, and corporate check users;
- Identify opportunities to reduce check processing costs while encouraging migration to ACH and instant payment rails;
- Launch national education campaigns;
- Identify gaps in current payment platforms;
- Incentivize digital adoption by emphasizing lower cost and improved security;
- Support implementation of White House Executive Order 14247, Modernizing Payments To and From America's Bank Account;[4] and
- Develop a mechanism to track check volume on a quarterly basis rather than the current three-year cycle.

Years 4–7

- Encourage broader migration to electronic payments based on industry recommendations;
- Recognize that per-item check processing costs will increase as volumes decline; and
- Continue targeted education efforts, particularly for individuals and small businesses.

Years 8–10

- Reevaluate check usage based on industry group findings;
- Develop check services final wind down exemption frameworks as needed; recognizing that such exemptions would likely introduce significant operational complexity, elevated costs, and increased fraud risk; and
- Continue education and outreach efforts.

[4] March 25, 2025, White House, Modernizing Payments To and From America's Bank Account: https://www.whitehouse.gov/presidential-actions/2025/03/modernizing-payments-to-and-from-americas-bank-account/

IV. Conclusion

The banking industry stands ready to work with the Federal Reserve to modernize the U.S. payments system while preserving essential check services during a responsible and orderly transition. We urge the Board to engage with industry stakeholders to advance a faster, safer, and more efficient payments ecosystem without disrupting critical payment flows.

We appreciate your consideration and welcome the opportunity to discuss these recommendations further.

Sincerely,

Stephen K. Kenneally
SVP, Payments
American Bankers Association