



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

May 30, 2003

**H.R. 1474
Check Clearing for the 21st Century Act**

As ordered reported by the House Committee on Financial Services on May 21, 2003

H.R. 1474 would alter the process of clearing checks. It would allow a depository institution that has a check presented to it to choose on its own to provide to the paying depository institution a paper copy of the check, called a “substitute check,” rather than the original check itself. The substitute check would be the legal equivalent of the original check. Under current law, the depository institution presented with the check must transmit the original check to the paying institution for settlement, unless the two institutions have entered into an agreement for transmission of a paper copy of the check or the electronic information from the check.

CBO estimates that enacting H.R. 1474 would have a negligible effect on federal revenues through its effects on the Federal Reserve’s income and expenses from its check processing operations. The Federal Reserve remits its net income to the Treasury, and those payments are classified as governmental receipts, or revenues, in the federal budget. Any additional income or costs to the Federal Reserve, therefore, can affect the federal budget. By reducing the transportation costs associated with clearing checks, the bill would reduce the costs that the Federal Reserve incurs in providing check processing services to depository institutions. It could change the Federal Reserve's costs of processing checks in other ways, as well. However, the Federal Reserve is required by law to charge the depository institutions for its check processing services. Based on information provided by the Board of Governors of the Federal Reserve System, CBO estimates that any reductions to the Federal Reserve’s costs as a result of H.R. 1474 would result in a nearly equal reduction in its income. As a result, CBO estimates that H.R. 1474 would have a negligible effect on the Federal Reserve’s net income and, hence, on federal revenues.

H.R. 1474 provides that the substitute check would be the legal equivalent of the original check under any provision of federal or state law. H.R. 1474 would thereby preempt state laws, including the Uniform Commercial Code, to the extent that such laws require an

original check. Such a preemption of state law is a mandate under the Unfunded Mandates Reform Act (UMRA). CBO estimates that enacting this mandate would impose no costs on state, local, or tribal governments and that its costs, therefore, would not exceed the threshold established in UMRA (\$59 million in 2003, adjusted for inflation). The bill contains no new private-sector mandates as defined in UMRA.

The CBO staff contacts for this estimate are Mark Booth (for federal revenues) and Victoria Heid Hall (for the state and local government impact). This estimate was approved by G. Thomas Woodward, Assistant Director for Tax Analysis.