



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 24, 2003

### **Check Truncation Act of 2003**

*As ordered reported by the Senate Committee on Banking, Housing, and  
Urban Affairs on June 18, 2003*

The Check Truncation Act of 2003 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. In addition, the bill would require the Board of Governors of the Federal Reserve System and the General Accounting Office (GAO) to conduct studies on aspects of the check-clearing process and the implementation of this legislation.

CBO estimates that enacting the bill would have a negligible effect on federal revenues through its effects on the Federal Reserve’s income and expenses from its check-processing operations and its expenses in producing the mandated study. 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 of check clearing as a result of the bill would result in a nearly equal reduction in its income. Furthermore, CBO estimates that any additional expenses incurred by the Federal Reserve in order to produce the mandated report would be negligible. As a result, CBO estimates that the bill would have a negligible effect on the Federal Reserve’s net income and, hence, on federal revenues.

In addition to mandating that the Federal Reserve produce a study, the legislation would require GAO to report on the implementation of this bill, including gains in economic efficiency and benefits to consumers and financial institutions made possible from check truncation. Based on information from GAO, CBO expects that new reporting requirements would cost less than \$500,000, assuming the availability of appropriated funds.

The bill provides that a substitute check would be the legal equivalent of the original check under any provision of federal or state law. It 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.

On May 30, 2003, CBO transmitted a cost estimate for H.R. 1474, the Check Clearing for the 21<sup>st</sup> Century Act, as reported by the House Committee on Financial Services. CBO estimated that, like the Check Truncation Act of 2003, H.R. 1474 also would have a negligible effect on the federal budget.

The CBO staff contacts for this estimate are Mark Booth (for federal revenues), Matthew Pickford (for federal spending), and Victoria Heid Hall and Greg Waring (for the state and local government impact). This estimate was approved by G. Thomas Woodward, Assistant Director for Tax Analysis, and Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.