

CHECK 21 GLOSSARY OF TERMS

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| Automated Clearing House (ACH) | A nationwide electronic funds transfer system that provides for interbank clearing of electronic payments for participating financial institutions. Common examples of ACH deposits include automated deposits for social security, payroll or income tax refunds. |
| Accounts Receivable Conversion (ARC) | An automated clearinghouse (ACH) transaction format that supports the electronic clearing and settlement of checks converted to electronics at lockboxes or other remittance collection sites. An example of this would be when a check is written typically to pay a bill, and the biller converts that check to an ACH transaction. |
| Check 21 | The Check Clearing for the 21 st Century Act is legislation authorizing financial institutions to decide to truncate checks and exchange images in lieu of paper checks. The law also allows for the creation of "Substitute Checks" or image replacement documents IRDs when necessary. |
| Check Safekeeping | Retaining copies of paid checks rather than returning the items to check writers in monthly account statements |
| Check Truncation | Simply stated, truncation is the non-return of checks, either to the issuing bank or to the issuing individual, and the discard and destruction of the source paper document. |
| Federal Reserve | The central bank of the United States. The Federal Reserve carries out various system functions, including operating a nationwide payments system, distributing the Nation's currency and coin, supervising and regulating member banks and bank holding companies, and serving as banker for the U.S. Treasury. |
| Image Archive | A relational database that stores individual image files and allows for quick retrieval of any given image. Checks are typically stored and retrieved according to MICR information. |
| Image Research | Using an imaging system to pull up a check or other imaged banking statement by customer, name, check number, or other item in the image index. Image research takes considerably less time than researching via microfilm or retrieving original documents from file cabinets. |

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| Image Statements | Bank statements that include representations of checks or other scanned documents. Electronic image statements may be easier to reconcile accounts since you can see the entire check image – including name of the payee and memo – instead of just the date and check amount as on a traditional statement. |
| Image Replacement Document (IRD) | Paper substitutes created from check image files. An IRD incorporates images of the front and back of a paper check and MICR encoding for ease of processing in traditional check sorting environments. It carries the same legal status as the original paper check. |
| MICR (Magnetic Ink Character Recognition) | Type of recognition that relies on detecting characters that have been machine-printed in magnetic ink to rigid specifications. The distinctive shape of each character and the amount of magnetic material in the ink are strictly defined by the American National Standards Institute. |
| MICR line | The row of characters printed in machine readable magnetic ink at the bottom of each check. Part of this MICR line identifies the issuing bank and the check number and is usually preprinted on the check. The face value of the check is typed into the far right of the MICR line before that check is routed back to the issuing bank. This allows the check to be recognized cheaply and easily by the Federal Reserve in order to forward it back to the bank on which it was drawn. |
| On-Us Checks | Checks drawn and deposited from the local bank. |
| POD (Proof of Deposit) | Matching the amount on the courtesy line of the check against the deposit slip, an electronic record or other form of record. |
| Point of Purchase Processing (POPP) | An ACH transaction format for converting checks tendered at the point of sale to electronic (ACH) transactions. |

Positive Pay

A system that provides companies with a way to notify their bank of the checks written, check numbers, amounts, accounts, etc. This way, the bank can scrutinize all payments received against this information to check their validity. Positive pay provides a powerful weapon against fraud, allowing accounts to be reconciled quickly against items as they are being cleared.

Substitute Check

To make check processing faster, federal law permits banks to replace original checks with "Substitute Checks". These checks are similar in size to original checks with a slightly reduced image of the front and back of the original check. The front of the substitute check states: "This is a legal copy of your check. You can use it the same way you would use the original check." You may use a substitute check as proof of payment just like the original check