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TREASURY RESOURCES

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Check Clearing & Availability: Keys to Your Cash Management System

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Purpose of This Presentation

Provide participants with detailed information so that they can measure, monitor, negotiate, improve and manage the element of liquidity pertaining to funds availability, as a result of their company's receipt of check deposits and/or the issuance of check disbursements

Discussion Outline

- **Setting: The Check**
- **The Check Clearing Process**
- **Float & Availability...THE Game!**
- **The Math**
- **Summary**

Please:

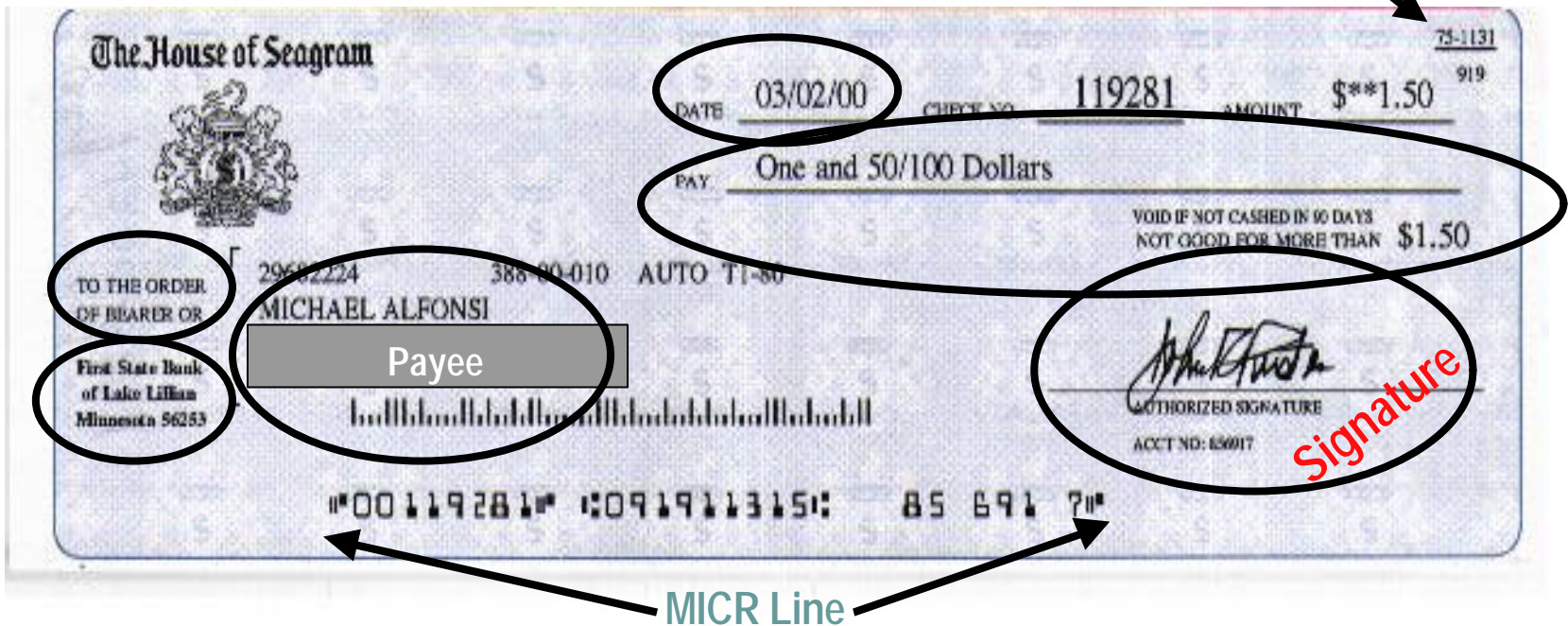
Q & A Anytime

The Setting....

The Check

Check Basics...MICR & More....

A Paper Check...

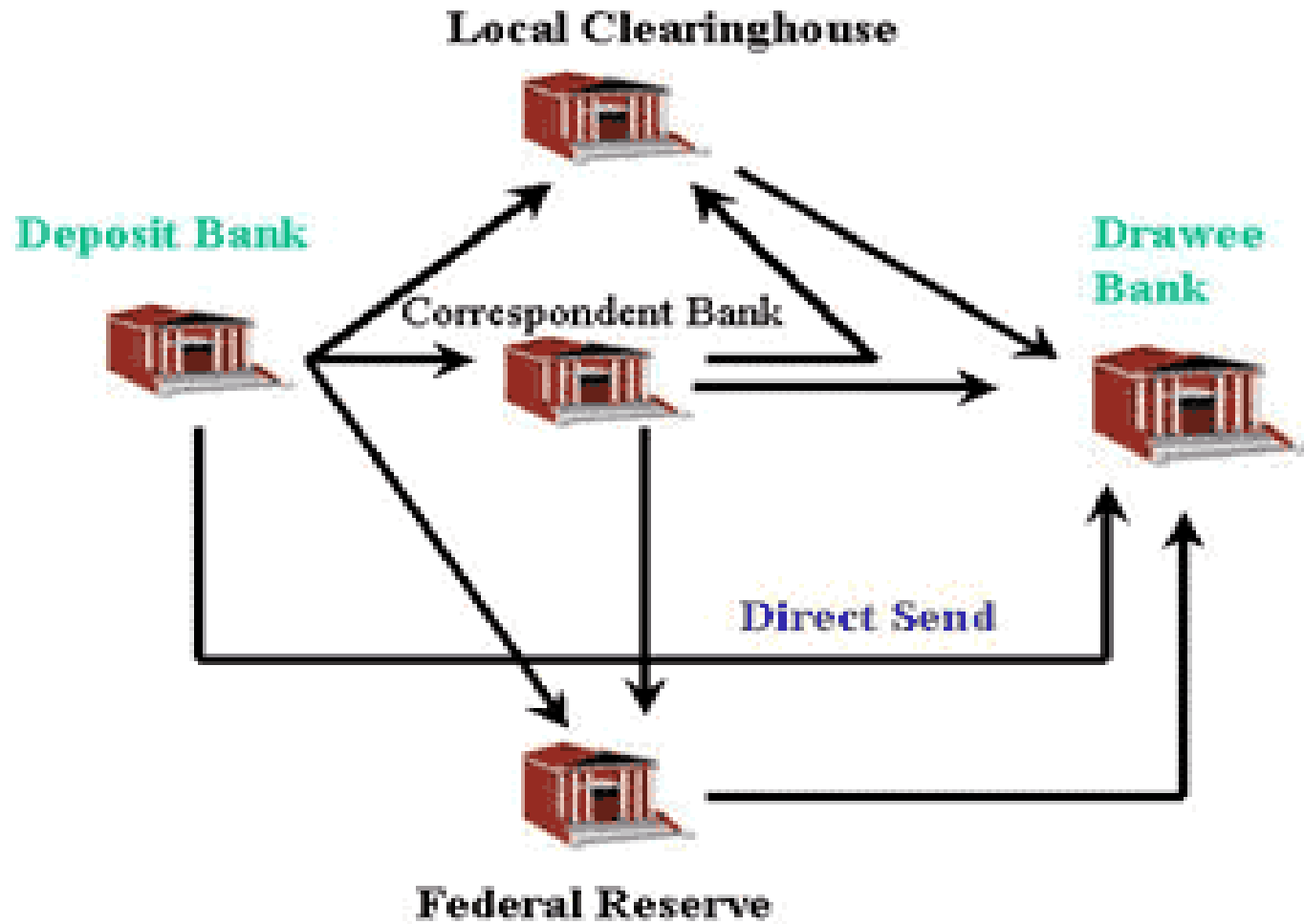


The "Magic Seven" or what makes a check a check:

1. On Something/Written
2. Holder/Payee/Pay Instructions
3. Dated
4. Signed
5. Bank Name
6. \$ Words
7. Endorsement

The Check Clearing Process

Check Clearing Paths



The Mechanics of the Process

The “OLD” days...then MICR

Presentation is ***the Thing***

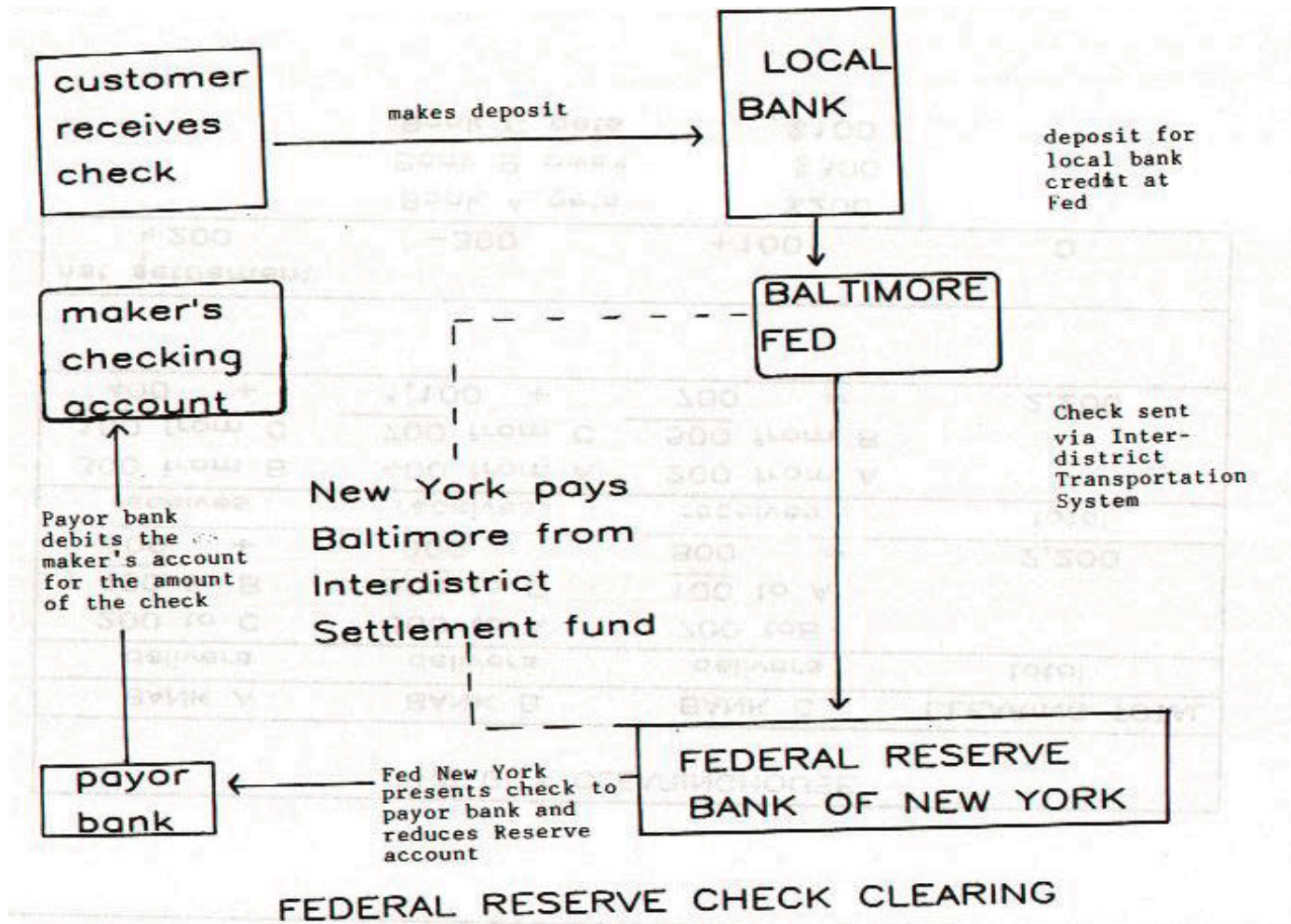
Transportation

Bookkeeping

Returns

Laws, Regulations, Rules, Conventions

Actual Federal Reserve Process Flow



How Efficient Bank/Check Processor is ... a Major Factor...

SAMPLE SORT PATTERNS

SORT PATTERN 101

0	1	2	3	4	5	6	7
Rejects	DDA Debits	DDA Credits	Misc. On-Us and Control Documents	CLR AGT A	CLR AGT B	S201	S202
	1234-5678 -5999	TC-60	TC-70	01XXX 02XXX	07XX 0910 1230	1234-0001 1234-0004 1234-0007 1234-0010 1210-XXXX	all others

SORT PATTERN 201

0	1	2	3	4	5	6	7
Rejects	Clearing House	Clearing House	Clearing House	Clearing House	FRB L.A.	Unused	Unused
	1234-0001	1234-0004	1234-0007	1234-0010	1210-0000		

Measurement from the Lockbox Customer Perspective

Customer sends
payment
Date Mailed

Day Check
Deposited

Day Funds
Available

Collection Float

Mail Float

Availability

+

= Total Float

The Opportunity Cost Calculation:

Dollar “Day”

Valuing a “Day” – or a Year!

One sample job aid for measuring float's impact....

DAILY OPPORTUNITY COST FACTOR					
INVESTABLE RATE	CHECK VALUE				
	\$100	250	500	750	1,000
8%	.022	.055	.110	.164	.219
10%	.027	.068	.137	.205	.274
12%	.033	.082	.164	.247	.329
14%	.038	.096	.192	.288	.384
16%	.044	.110	.219	.329	.438

Float & Availability...The Game!

Monitoring & Improving Availability

Assessment Tools & Methodologies

Calendar vs ***Business*** Days

Balance Reporting Systems & Workstations

Availability as a ***Pricing/Negotiation*** Point

The Consequences...

Availability

How Availability is Expressed

- Proof of Deposit

- Factored or Assigned

- Bank Average

- Account Average

How Availability is Defined

- Fed Consolidated Shipments

- RCPC Direct Sends

- Correspondent Direct Sends

The Meaning of Availability Schedules

Availability Assignment

Who, When & Where

Availability Schedules

Skim & Breakage...Backcharging

Taking, and Maintaining, a Business Position

Availability Schedule

FIRST NATIONAL BANK OF PHILADELPHIA

Ledger cutoff 11:00 p.m.

Immediate Availability

1:00 a.m.	New York City	0210, 0260, 0280
	Pittsburgh City	0430
	Baltimore City	0520
	Washington Clearing House	0540-0001
		0540-0002
		0540-0009
		0540-0285
		0540-0719
	Atlanta City	0610
	First Chicago	0710-0001
	Continental Illinois	0710-0003
	Northern Trust	0710-0015
	Bank of America	1210-0035, 1220-0066
	Crocker National Bank	1210-0008, 1220-0008
	First Interstate	1210-0057, 1220-0021
5:00 a.m.	Philadelphia City	0310, 0360
	Postal Money Orders	0000-0020, 0000-0119
	U.S. Treasury Checks	0000-0050, 0000-0051
11:00 p.m.	First National Bank of Philadelphia	0310-0026

One Day Availability

4:00 p.m.	Windsor Locks RCPC	0111, 0118, 0119, 0211
	Boston RCPC	0113, 0114, 0115
	NWNE RCPC	0116, 0117
	Cranford RCPC	0212, 0270
	Utica RCPC	0213
	Jericho RCPC	0214, 0219
	All City endpoints not previously listed	
11:00 p.m.	Newark Clearing House	0212-0001 0212-0101
		0212-0002 0212-0102
		0212-0009 0212-0216
		0212-0057 0212-0233
		0212-0098 0212-0271
	Philadelphia RCPC	0311, 0312, 0313, 0319
	Baltimore RCPC	0540, 0550, 0560, 0570

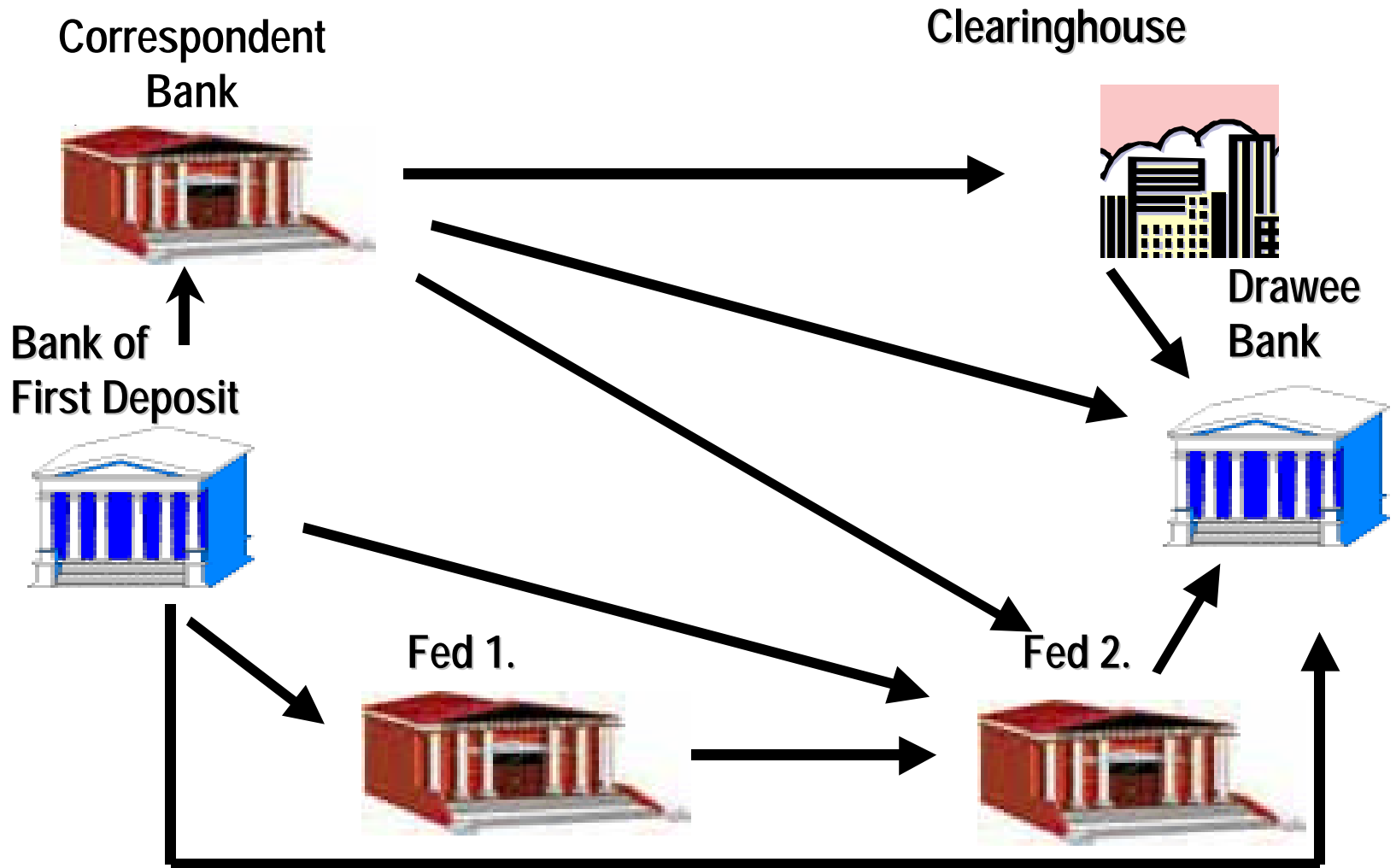
Two Day Availability

All RCPC endpoints not previously listed
All Country endpoints
All Travelers checks

Price: Philadelphia City \$.01

All other \$.025

Check Clearing Alternatives–Non Local Items



Fed 1: Fed unit near Bank of First Deposit

Fed 2: Drawee Bank's Fed. unit

Direct Send

Expected Availability

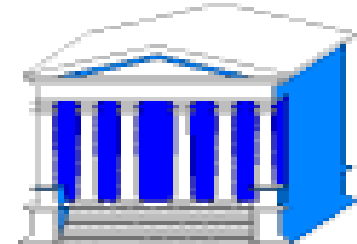
A "Unique" Measurement

Bank A



- Availability Schedule
1 @ 9:00 am

Bank B



- Availability Schedule
1 @ 7:00 am

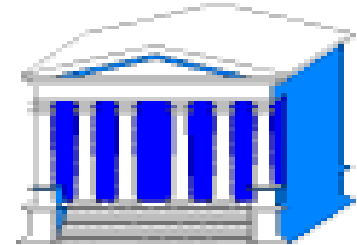
Expected Availability

Bank A



- Availability Schedule
1 @ 9:00 am
- Mail Pickup Schedule
M-F @ 10:00 am

Bank B



- Availability Schedule
1 @ 7:00 am
- Mail Pickup Schedule
M-F @ 3:00 am

Expected Availability

Bank A



Availability Schedule

1 @ 9:00 am

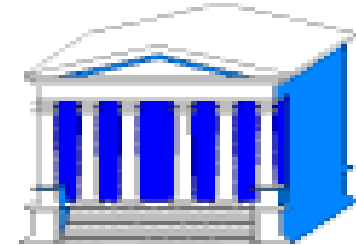
Mail Pickup Schedule

M-F @ 10:00 am

Deposit Time

M-F @ 3:00 pm

Bank B



Availability Schedule

1 @ 7:00 am

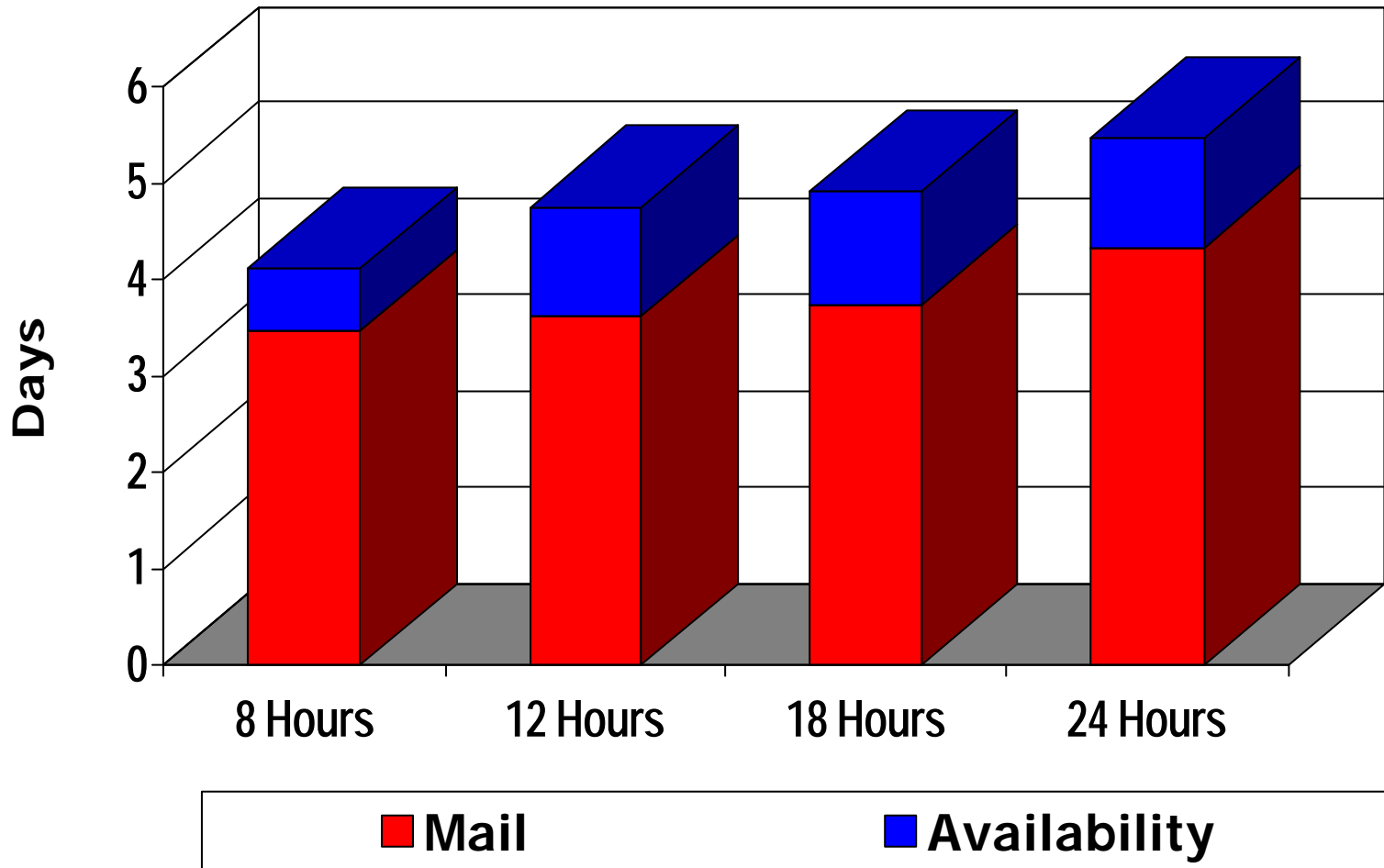
Mail Pickup Schedule

M-F @ 3:00 am

Deposit Time

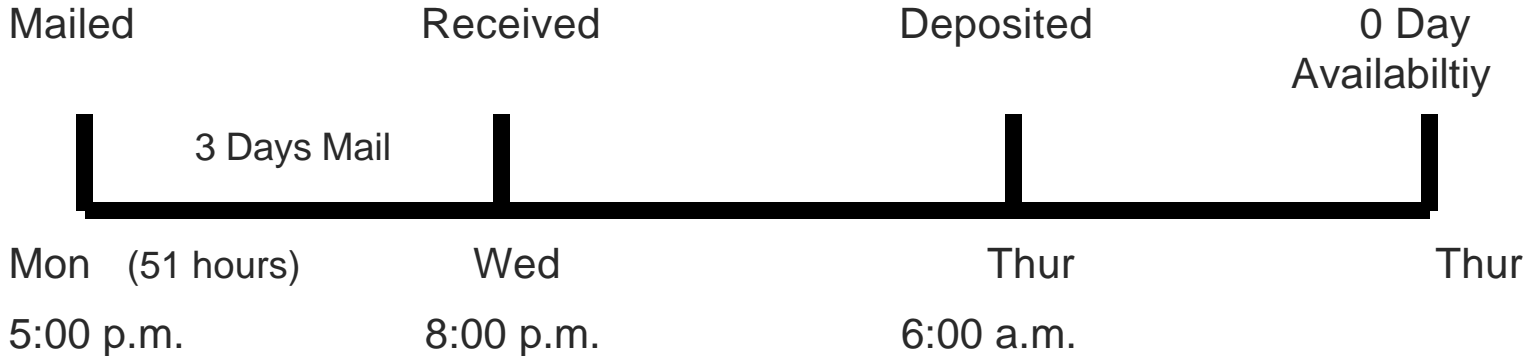
M-F @ 9:00 am

Effects of Processing Hours



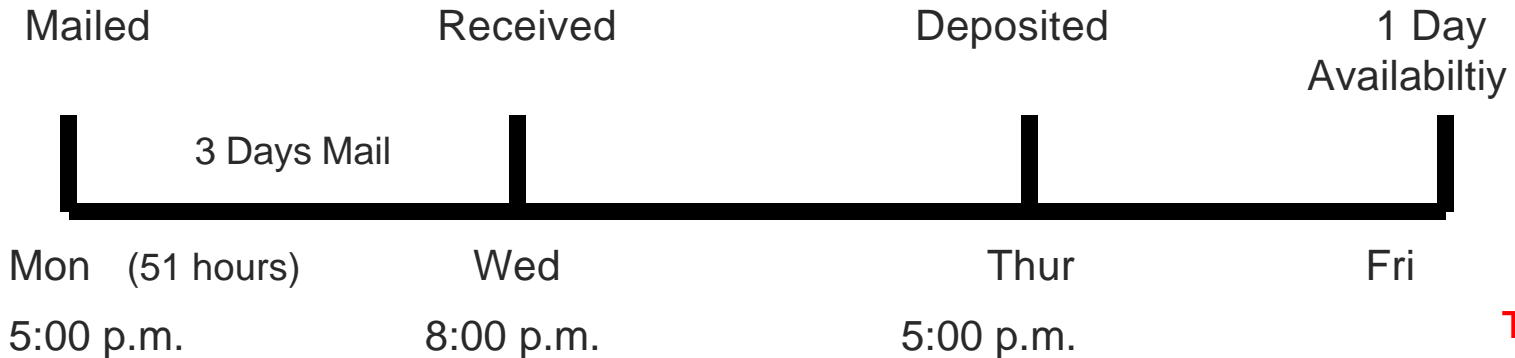
Assumption Impact

PROCESSING ASSUMPTION 8 hours



Total Floa
3 Days

PROCESSING ASSUMPTION 12 hours



Total Floa
4 Days

LEDGER CREDIT 5:00 p.m.

DEPOSIT TIMES 6:00 a.m. 5:00 p.m. Monday - Friday

AVAILABILITY QUOTE 0 day @ 10:00 a.m. Monday - Friday

The Math

Measurements from the Lockbox Customer Perspective

Customer sends
payment
Date Mailed

Day Check
Deposited

Day
Funds
Available



Mail Float



+

Availability



= Total Float

Tracking Float

AVERAGE DAYS TO COLLECT

<u>Deposits</u>		<u>Days</u>		<u>Float (\$-days)¹</u>
\$ 185,607	X	0 Days	=	\$ 0
\$1,968,556	X	1 Day	=	\$1,968,556
\$ 413,930	X	2 Days	=	\$ 827,860
<u>\$ 31,712</u>	X	3 Days	=	<u>\$ 95,136</u>
\$2,599,805			Total Float	\$2,891,552

Total Float $\underline{= \$2,891,552}$ $\text{\$/Days}$ = 1.11 business days x 1.4 =
 Total Deposits² \$2,599,805 1.56 calendar days

¹From Endpoint Analysis

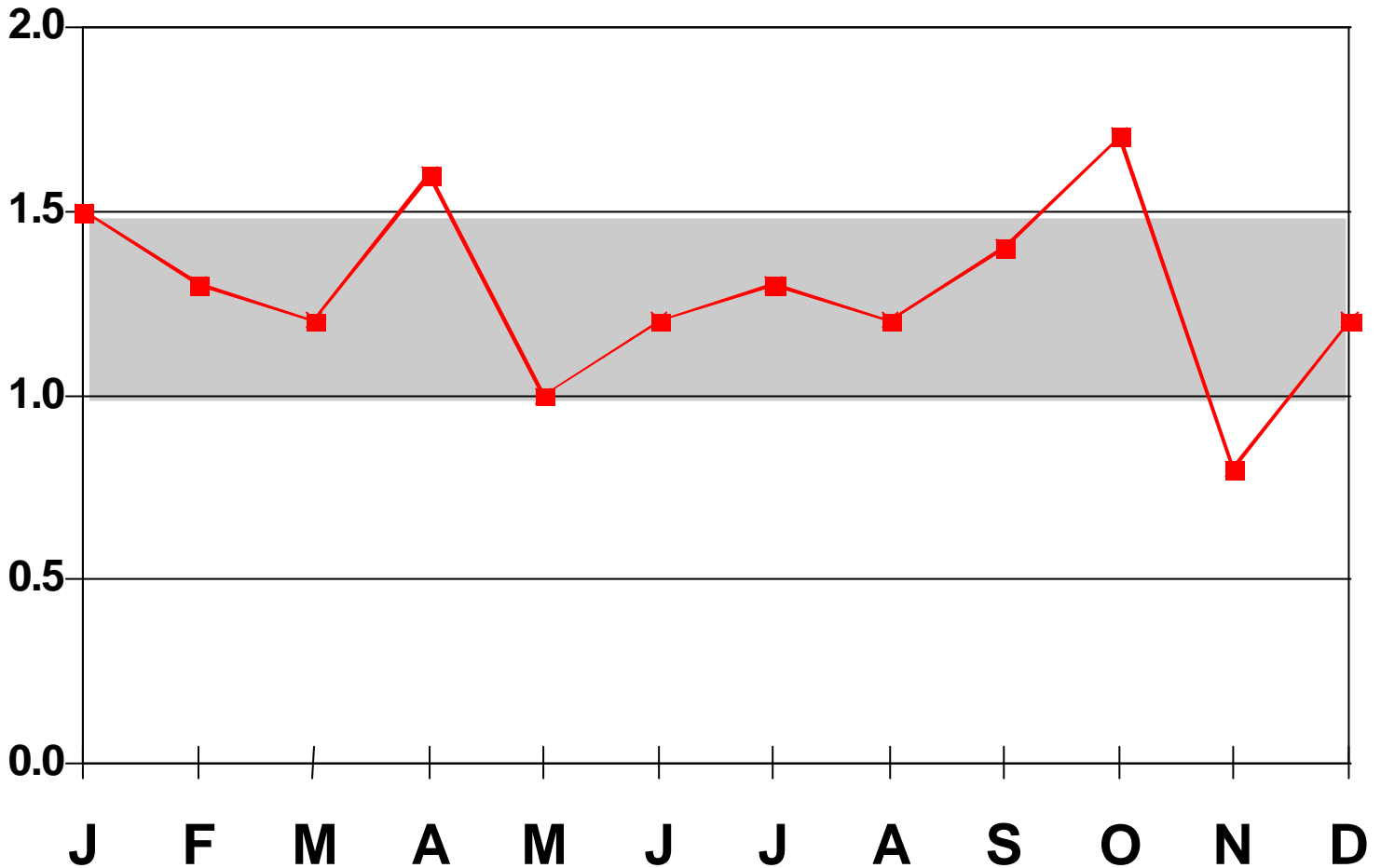
²From Bank Statement

Validated Sampling by RTN, to Determine Float "Factor"

DEPOSIT FLOAT ANALYSIS									
25-Aug-01									
<u>Mellon/Chicago</u>				<u>Harris/Chicago</u>			<u>F. C. /NBD/Chicago</u>		
RTN	\$ Deposit	Float Assgn	Wgt'd \$	\$ Deposit	Float Assgn	Wgt'd \$	\$ Deposit	Float Assgn	Wgt'd \$
0213-0937	5,436,242	1.02	5544966.84	5,436,242	1	5436242	5,436,242	1	5436242
0815-1789	3,217,453	1.51	4858354.03	3,217,453	2	6434906	3,217,453	1	3217453
1220-0066	3,053,377	0.5	1526688.5	3,053,377	1	3053377	3,053,377	0	0
0724-0034	2,369,145	1.02	2416527.9	2,369,145	1	2369145	2,369,145	1	2369145
0311-0026	2,299,844	1.02	2345840.88	2,299,844	1	2299844	2,299,844	1	2299844
0929-0527	1,899,050	1.51	2867565.5	1,899,050	1	1899050	1,899,050	1	1899050
0642-0434	1,803,767	1.02	1839842.34	1,803,767	1	1803767	1,803,767	1	1803767
0724-1292	1,764,599	1.02	1799890.98	1,764,599	1	1764599	1,764,599	1	1764599
0219-0032	1,703,722	1.02	1737796.44	1,703,722	1	1703722	1,703,722	1	1703722
0412-0389	1,619,843	1.02	1652239.86	1,619,843	1	1619843	1,619,843	1	1619843
0531-0035	1,419,543	1.02	1447933.86	1,419,543	1	1419543	1,419,543	1	1419543
0912-1592	1,325,342	1.02	1351848.84	1,325,342	1	1325342	1,325,342	1	1325342
0433-0160	1,322,348	1.02	1348794.96	1,322,348	1	1322348	1,322,348	1	1322348
0719-2382	1,297,118	1.02	1323060.36	1,297,118	1	1297118	1,297,118	0	0
0433-0162	1,217,466	1.02	1241815.32	1,217,466	1	1217466	1,217,466	1	1217466
0720-0032	1,208,890	0.02	24177.8	1,208,890	0	0	1,208,890	0	0
0759-0090	1,166,923	1.02	1190261.46	1,166,923	1	1166923	1,166,923	1	1166923
0611-0124	1,120,573	1.02	1142984.46	1,120,573	1	1120573	1,120,573	1	1120573
0611-1278	1,087,203	1.02	1108947.06	1,087,203	1	1087203	1,087,203	1	1087203
0119-0044	981,107	0.02	19622.14	981,107	0	0	981,107	0	0
0719-2302	957,931	1.02	977089.62	957,931	1	957931	957,931	0	0
0653-0115	956,813	1.02	975949.26	956,813	1	956813	956,813	1	956813
0611-1327	923,539	1.02	942009.78	923,539	1	923539	923,539	1	923539
0759-1216	728,244	1.02	742808.88	728,244	1	728244	728,244	1	728244
0749-0019	672,958	1.02	686417.16	672,958	1	672958	672,958	1	672958
0910-0001	671,204	0.02	13424.08	671,204	0	0	671,204	0	0
1220-3426	644,679	0.51	328786.29	644,679	1	644679	644,679	1	644679
0719-2269	638,107	1.02	650869.14	638,107	1	638107	638,107	1	638107
0720-0009	635,827	0.02	12716.54	635,827	0	0	635,827	0	0
0110-0002	569,415	1.02	580803.3	569,415	1	569415	569,415	1	569415
	44,712,272		42,700,034	44,712,272		44,432,697	44,712,272		35,906,818
Float Factor/Sample			0.954995836			0.993747242			0.803064045

Tracking Float

¹Float Days



¹ From Bank Statement

Disbursement Site Survey

Service Provider

Presentment

Notification

Funding

Phoenix-Hecht Clearing Study™
Clearing Time for Drawee Point:
AmSouth - Jasper AL (0622 - RCPC)

Fed District	Checks Deposited in:	<u>Lockbox</u>			<u>Over-The-Counter</u>		
		Unsmoothed	Smoothed	Difference	Unsmoothed	Smoothed	Difference
01	Boston, MA	2.00	1.85	0.15	2.60	2.60	0.00
	Portland, ME	N/A	N/A	N/A	2.60	2.60	0.00
	Manchester, NH	N/A	N/A	N/A	2.60	2.60	0.00
	Providence, RI	N/A	N/A	N/A	3.40	3.00	0.40
	Hartford, CT	2.60	2.25	0.35	2.60	2.25	0.35
02	New York, NY	2.10	1.90	0.20	2.40	2.05	0.35
	Newark, NJ	2.60	2.60	0.00	2.60	2.60	0.00
	Rochester, NY	2.60	2.60	0.00	2.60	2.60	0.00
03	Philadelphia, PA	1.90	1.95	-0.05	3.60	3.10	0.50
	Wilmington, DE	N/A	N/A	N/A	3.20	2.90	0.30
04	Cleveland, OH	1.50	1.72	-0.22	2.00	1.97	0.03
	Cincinnati, OH	2.60	2.65	-0.05	2.60	2.70	-0.10
	Pittsburgh, PA	1.40	1.40	0.00	2.60	2.60	0.00
	Columbus, OH	1.40	1.40	0.00	2.60	2.60	0.00
05	Richmond, VA	2.60	2.00	0.60	2.80	2.10	0.70
	Charleston, WV	N/A	N/A	N/A	2.60	2.60	0.00
	Baltimore, MD	3.20	3.10	0.10	3.60	3.30	0.30
	Charlotte, NC	1.40	1.40	0.00	1.40	1.80	-0.40
	Columbia, SC	N/A	N/A	N/A	2.60	2.60	0.00
	Washington, DC	2.60	2.60	0.00	2.60	2.60	0.00

Summary

Monitoring Availability: A Practitioner's Perspective...Case Studies

The Facts

The Options

The Choice/es

The Outcomes

Your Reactions

Innovations & Enhancements

ECCHO

Imaging

Truncation

NACHA & ACH...even AFP (old TMA)

ABA

The Fed