

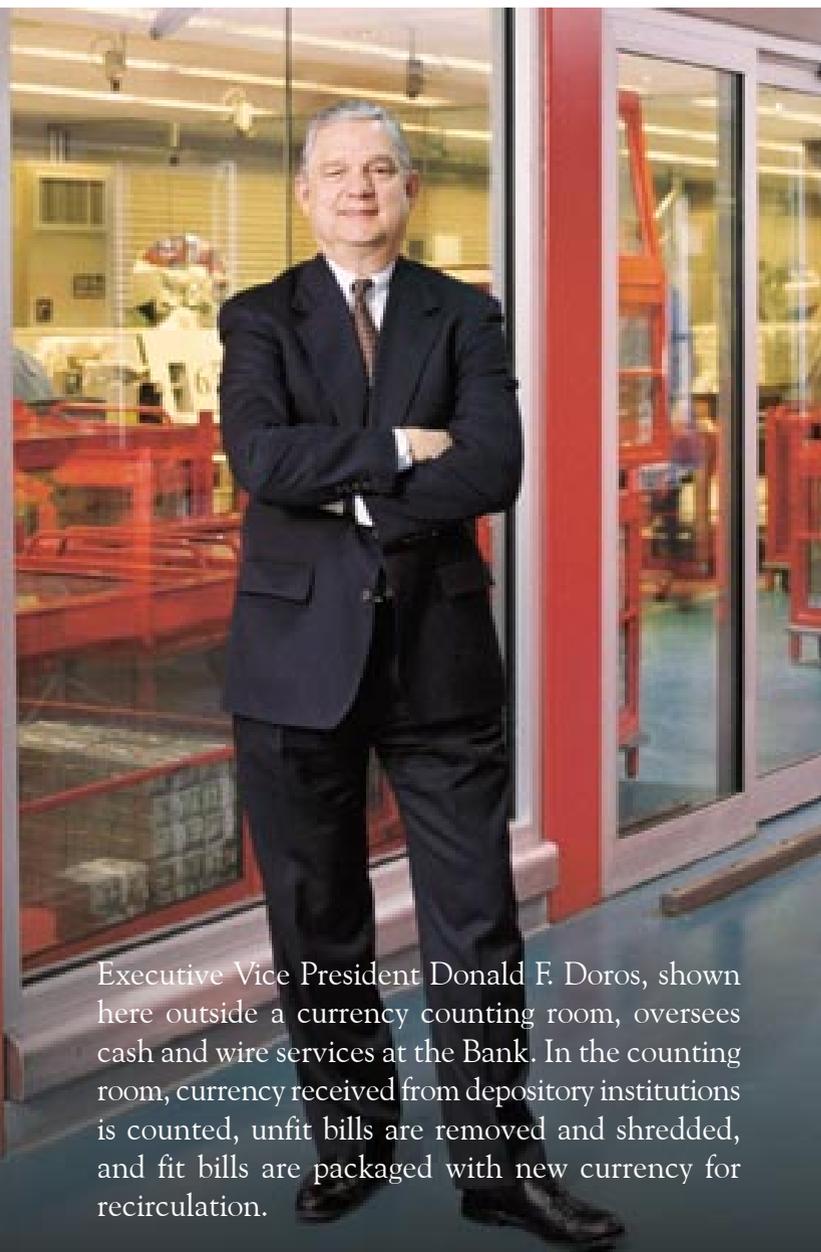
Payments Services

Supporting Everyday Commerce

Open your wallet, your checkbook, or your online financial account and the Fed is there. Almost imperceptibly, the Federal Reserve is involved

in the millions of everyday monetary transactions in the American economy. The need to ensure that payment transactions are made efficiently and securely was one of the reasons behind the creation of the central bank in 1913. As facilitator of the payments system, the Federal Reserve reliably moves funds among individuals, businesses, banks, and the government.

Regardless of the specific exchange, people take payment transactions for granted. They expect money to be universally accepted, checks and credit cards to be honored, and electronic funds to be as good as cash. And they are. It all happens without incident because the Fed works behind the scenes supplying banks and thrift institutions with coin and currency, clearing checks, and transferring funds among them electronically.



Executive Vice President Donald F. Doros, shown here outside a currency counting room, oversees cash and wire services at the Bank. In the counting room, currency received from depository institutions is counted, unfit bills are removed and shredded, and fit bills are packaged with new currency for recirculation.

Our currency is accepted not only because of the strength and stability of the American economy but also because the Fed, in cooperation with the U.S. Treasury, guarantees its value. When the Fed receives excess cash from banks, worn and counterfeit tender is pulled from circulation, and fit notes are packaged for redistribution. The Fed also supports the Treasury in redesigning currency to enhance its security. In 2000, the introduction of new five- and ten-dollar bills completed the latest currency redesign. As public demand for cash fluctuates throughout the year, the Fed is responsible for providing depository institutions with needed supplies of new and fit bills.

The Philadelphia Fed is a busy cash processing center, preparing bundles of currency for destinations up and down the East Coast. In 2000, a total of \$37 billion in cash and coin was recirculated by the Philadelphia Fed. Beyond meeting the cash needs in its own vicinity, the Philadelphia Fed serves as the headquarters of the Federal Reserve's national cash distribution network.

The most visible changes in cash during 2000 were the redesigned \$5 and \$10 bills, which joined the previously redesigned \$20, and the ongoing series of commemorative state quarters.

The Philadelphia Fed receives between 8 and 9 million notes a day from depository institutions. About 80 percent of these are \$1 and \$20 bills.





At the Philadelphia Fed, 250 Check Services employees work on three shifts in functions that include Receiving, Data Preparation, High-Speed Sort, Low-Speed Sort, Shipping, Settlement, and Adjustment.

Of the 65 billion checks written each year, about a quarter are cleared through Federal Reserve Banks. Even when banks clear checks themselves, they settle debits and credits through their reserve accounts at the Fed. Thanks to its business with the large banks' operations centers in Delaware, the Philadelphia Fed is the busiest check processor in the Federal Reserve System, clearing as many as five to seven million checks on a peak night. In 2000, this amounted to 1.3 billion checks worth \$1.9 trillion.

The Fed first transacted electronic payments in 1918, between banks, through the Fedwire network. In the early 1970s, the Fed pioneered the use of electronics for smaller payments, such as payrolls, through its automated clearinghouse, Fed ACH. Today, as the payments system increasingly relies on the speed and economy of electronic transfers of funds, the Federal Reserve continues to be a major processor of electronic payments, annually handling a half-trillion dollars through its automated clearinghouse and almost \$23 trillion in electronic funds transfers – everything from direct Social Security deposits to multimillion-dollar transactions.

Late in 2000, the Philadelphia Fed established a Payment Cards Center to study the economic impact of credit cards, debit cards, smart cards, and stored-value cards. The Center will bring together academic researchers, industry experts, and public policymakers to examine how these methods of payment affect wholesale and retail commerce and to explore their potential. Philadelphia is a natural setting for the Payment Cards Center because some of the nation's largest issuers of these payment vehicles are headquartered in Delaware.

Demand for all forms of payment – cash, check, and electronic – is rising, thanks to a growing population, an expanding economy, and increasing opportunities to spend. Still, the payments system of the future will rely increasingly on faster, cheaper electronic transfers of funds, and the Federal Reserve is committed to the technological innovation that will make this shift possible. At the same time, the Fed remains committed to increasing the efficiency and safety of all forms of payment, so that whatever method people choose, they can remain confident that their transactions will be completed uneventfully.



Senior Vice President D. Blake Prichard directs retail payment operations at the Philadelphia Federal Reserve, the busiest single check-processing site in the Fed System.