

# CHECKS

**O**n a normal day, the Philadelphia Fed, the largest processor of checks in the Federal Reserve System, clears approximately 5 million checks.

Although other forms of payments continue to make inroads against checks, we are far from achieving a checkless society.

So what happens when there's a crisis? Blake Prichard, senior vice president, Retail Payment Services, talked about disruptions to services and how the System and the Philadelphia Fed handled the events of September 11 and their aftermath. Here's his account.

"Several times in the past, the Fed System has had to respond to emergencies. These problems involved individual Federal Reserve Banks or their Branches. For example, flooding on the Mississippi, Missouri, and Raccoon rivers put the St. Louis Fed and the Des Moines office of the Chicago Fed in jeopardy. When Hurricane Andrew ravaged southern Florida, the Miami Branch of the Atlanta Fed was knocked out for a time. Similarly, Hurricane Hugo impaired activity at both the Regional Check Processing Center in Columbia, South Carolina, and the Charlotte Branch of the Richmond

Fed. In these instances we participated in System-wide conference calls to decide how we could offer mutual support.

"But the events of September 11 eclipsed anything by far. That day, of course, the FAA grounded all flights in the U.S., an unprecedented move. Although the Federal Reserve and all the private check-collection arrangements rely significantly on both regional and national air transportation, we had no contingency plans for that. So we instantly began to put together plans to overcome such a problem."



**ON SEPTEMBER 11, WITHOUT AIR TRANSPORTATION, WE HAD NO CHOICE BUT TO DEVISE A SYSTEM OF GROUND TRANSPORTATION. WE PUT TOGETHER A FAIRLY SOPHISTICATED NETWORK OF VEHICLES TO MOVE CHECKS OUT OF PHILADELPHIA.**

**D. BLAKE PRICHARD**

SENIOR VICE PRESIDENT

## **PLANNING TRANSPORTATION**

"On September 11, without air transportation, we had no choice but to devise a system of ground transportation. We put together a fairly sophisticated network of vehicles to move checks out of Philadelphia. We made arrangements with all the adjacent Districts to continue to move checks. Normally, we would ship checks to a Fed office only if those checks were going to be processed there: New York's checks would go to New York for processing, and

Baltimore's to Baltimore. But because of the extraordinary circumstances, we loaded a big truck with checks for New York; Utica; Windsor Locks, Connecticut; and Boston. We drove the truck to the New York Fed's processing center in North Jersey and dropped off not only New York's checks but Utica's as well. New York then took care of getting checks to Utica, since Utica is part of the New York Fed. Then we drove to Windsor Locks, Connecticut, and gave them both their own checks plus Boston's. The Connecticut processing center took the responsibility of moving checks to Boston.

"At each stop, we also loaded the truck with checks destined for Philadelphia. In that way, we brought back all the checks from New England and from the Second District (New York) for processing. That took care of the Northeast corridor.

"Simultaneously, we sent a truck to western Pennsylvania and made arrangements with the Pittsburgh Branch of the Cleveland Fed to ship all the checks that belonged to its Cincinnati and Columbus offices. Likewise, we supplemented a truckload of checks for Baltimore with checks for all offices of the Richmond and Atlanta Feds. Richmond then took care of forwarding the checks to their respective destinations, going as far south as Florida.

"Simply stated, we were collecting almost all of our checks east of the Mississippi, though days later than normal. But at least checks were moving. However, we

were unable to get anything to or beyond Chicago, and nothing was coming here from Chicago or further west. This situation persisted from September 11 to the weekend, when air transportation resumed."

### **PROCESSING AN AVALANCHE OF CHECKS**

"That weekend, with transportation more or less under control, our check operations area received an avalanche of checks. We're

almost—but not quite—a 24/7 operation. But we supplemented our operations to ensure that we'd have enough additional manpower to process whatever volume came in. People worked in-

credible amounts of overtime. In fact, our unit worked continuously through the weekend to keep up with the flood of checks.

"Let me give you an order of magnitude for Philadelphia: Our average daily volume is about 5 million checks, and we're the single largest check processor in the System. During the height of the crisis, we processed 9.4 million checks a day. That's close to 11.4 million 'item passes' because checks often have to go through the sorter more than once. The dollar value was over \$12 billion; on a normal day we present about \$6 billion in checks."

### **WORKING WITH OUR CUSTOMERS**

"We worked closely with our local banks. The biggest banks didn't want to get one big presentment on Monday morning. So, we made courtesy shipments to

**PEOPLE WORKED INCREDIBLE AMOUNTS OF OVERTIME. IN FACT, OUR UNIT WORKED CONTINUOUSLY THROUGH THE WEEKEND TO KEEP UP WITH THE FLOOD OF CHECKS.**

them throughout the weekend. PNC, Mellon, Citibank, and others got checks as they became available. Consequently, operations at those banks ran smoother.

“In addition, the Federal Reserve System agreed to accept checks from any financial institution. Normally, the System clears about one-third of all checks written. But for a while, we were handling a significantly larger percentage. By doing this, the Fed provided significant liquidity and predictability to the banking industry. Most banks were surprised by this action. Ultimately, though, they realized it was the Fed being the Fed: bringing stability during a crisis.

“In fact, throughout the crisis, the Federal Reserve Banks took the position of extending credit to check depositors regardless of the Fed’s ability to physically collect checks. This action provided certainty of credit to financial institutions at a time when the larger payments system was under significant stress. This mea-

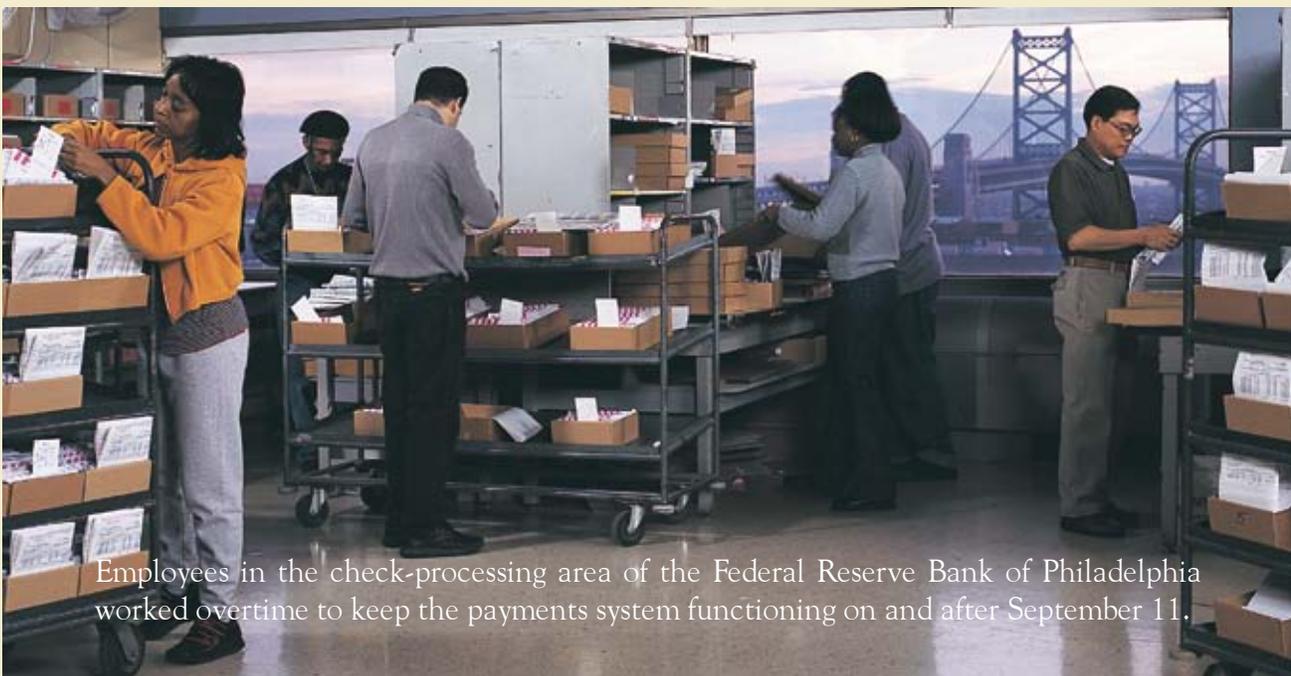
sure of liquidity went a long way toward allowing depositors to manage their financial positions and helped to avoid a ripple effect caused by other liquidity concerns.”

#### **GETTING BACK TO NORMAL**

“Within a week of the crisis, check payments were pretty much back to normal. The only area that lagged was check adjustments. Under the best circumstances, adjustments usually lag processing by several weeks. So, of course, the extraordinary circumstances of those months meant longer lags.

“Reflecting on our response to the crisis, we clearly see the value of our strong national payments system. The Fed met the challenge and provided both the leadership and the operational commitment to overcome adversity and support the economy and the businesses that underlie each check payment.”

### **[THE FED’S] ACTION PROVIDED CERTAINTY OF CREDIT TO FINANCIAL INSTITUTIONS AT A TIME WHEN THE LARGER PAYMENTS SYSTEM WAS UNDER SIGNIFICANT STRESS.**



Employees in the check-processing area of the Federal Reserve Bank of Philadelphia worked overtime to keep the payments system functioning on and after September 11.