

MEMO# 1022

March 7, 1989

CHECK AGING STUDY - NOVEMBER, 1988

March 7, 1989 TO: OPERATIONS COMMITTEE NO. 5-89 RE: CHECK AGING STUDY - NOVEMBER, 1988

This is the first Institute check aging study following the implementation of the Federal Reserve rules, effective September 1, 1988, under the Expedited Funds Availability Act. The Act includes specific and detailed provisions requiring banks to: (1) Make funds available to their customers within specified time frames, (2) Pay interest on interest-bearing transaction accounts not later than the day the bank receives provisional credit, and (3) Disclose their funds availability policies to their customers. Under the temporary schedule that became effective on September 1, 1988, the following must take place: (1) a depository bank must make the proceeds of local checks available for withdrawal by the third business day following deposit; that is, the proceeds of local checks deposited on a Monday must be available for withdrawal by the following Thursday, and (2) the depository bank must make the proceeds of nonlocal checks available for withdrawal by the seventh business day following deposit; that is, the proceeds of a Monday deposit must be available for withdrawal by Wednesday of the following week. Attached hereto are the results of the Operations Committee Check Aging Study of investors' checks presented to money market and other income funds during the month of November, 1988. Thirty-seven (37) management companies representing five hundred fifty-four (554) funds participated in the survey. One hundred ninety-eight (198) funds reported no returned check activity. -2- The results of the funds surveyed show that for the month of November 1988, a total of 978,877 shareholder checks were deposited and cleared. A total of 5,142 shareholder purchase checks were dishonored or returned. Of these, a total of 4,532 or 88.1% were returned within 10 days of deposit. For analysis purposes, a summary table of the previous six check aging studies compared to the November, 1988 study, with the new rules in effect since September 1, 1988, is attached. It is important to note that it appears that the new Federal rules requiring stepped-up clearing and availability of check deposits is working. The November, 1988 check aging survey, which covered many more funds than previous studies, shows that approximately 88% of returned checks took place within the first 10 days following deposit. This percentage is better than the last two - 1985 and 1987 - check aging studies which showed that 78% and 76% of checks were returned within the first 10 days. Within 15 days of deposit, 4,956 or 96.3% of all dishonored checks were returned to funds. Thus, unlike previous check aging studies which showed that 25% of all checks were taking longer than 10 days to clear, the 1988 study shows that only slightly less than 12% of checks are taking over 10 days to clear. Still, 2.0% of dishonored checks take from 16-20 days to be returned and 1.7% of dishonored checks take up to 25 days or longer to be returned. Overall, the net analysis at this early stage is that checks are clearing somewhat faster and it appears that the new Federal Reserve rules may be serving their purpose. The numbers, however, are not, as yet, conclusive and it is recommended that a follow-up check aging study be performed in mid-year to see if further improvement takes place. It

would seem that as a matter of routine, over 92%-94% of checks should be returned within the first ten days of deposit. This number (over 90%) will enable funds to re-set with confidence their criteria for check holds on shareholders purchases of mutual fund shares with personal checks. Donald E. O'Connor Vice President - Operations Attachments

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