

July 14, 2004

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th and C Streets, NW
Washington D.C. 20551

RE: Regulation J Proposal to Implement Check 21

Dear Board Members:

Thank you for providing the opportunity to comment on the proposed implementation of Check 21 within Regulation J.

We support the revisions to the definitions, expanding the law to provide for new items such as substitute checks and electronic images. We also support the use of common reference terms such as "Regulation CC" versus legal citations.

We encourage the board to consider changes to the warranties and indemnities rules. If proper warranties are not in place to protect the converting and re-converting institutions, the industry will rely on the paper clearing system where established warranties exist. Institutions converting paper items to electronic images must be responsible for the accuracy of those electronic images. Similarly, those creating substitute checks from image files must be liable for the accuracy of those substitute checks. Reserve Banks, to the extent they participate in these activities, should also warranty their processes.

Additionally, documentation of a clear recovery chain would assist in promoting the use of electronic clearing methods. For example, if a substitute check contains an encoding error, should the paying bank return the item through the Federal Reserve, the bank of first deposit, the converting bank? Such rules may currently be under construction. Our hope is that revisions to Regulation J would clearly coincide with such rules so that electronic check clearing procedures would be well defined, creating a safe and inviting electronic environment.

If I can be of any further assistance, contact me at 1-800-500-MFCU (6328) or 858-546-2204.

Sincerely,

Nara Hartmann
Compliance Specialist
Risk Management – Legal/Compliance Division
Mission Federal Credit Union
5785 Oberlin Drive #301
San Diego, CA 92121
narah@missionfcu.org