

Clearing Checks

Key Bank		Huntington Bank	
A	L	A	L
Deposit at Fed: \$50,000 \$49,900	Fred's Checking Account: \$500 \$400	Deposit at Fed: \$30,100 \$30,100	Sam's Checking Account: \$400 \$500

What does the Fed Do?

- The Fed regularly audits banks, approves bank mergers, etc.
- Don't confuse with other regulators
 - Controller of the Currency
 - Federal Deposit Insurance Company (FDIC)
 - Securities and Exchange Commission (SEC)

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Fred writes Sam a check for \$100. Sam deposits it at Huntington Bank

\$400

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Huntington takes it to its bank, the Fed, who credits Huntington with \$100 and deducts \$100 from Key's account.

Key then deducts \$100 from Fred's Account.

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Clearing Checks

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Traditionally, the check had to be sent physically from Huntington to Key. No longer.

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Traditionally, the check had to be sent physically from Huntington to Key. No longer.

Obviously there are checks to make sure that Fred has enough money to cover the check.

Can you imagine the difficulties for our economies without a inter-bank clearing mechanism.

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Key Bank

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Factoid:

While many checks clear through the Fed, there are private clearing arrangements that clear a large number of checks.

End

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