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M E M O R A N D U M

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To Our Clients and Friends

Re: FFIEC Guidance on Risk Management For Remote Deposit Capture

The Federal Financial Institutions Examination Council (“FFIEC”) has released guidance to financial institutions regarding risk issues involved in remote deposit capture (“RDC”) programs. An RDC program is one in which a bank customer scans paper checks at the customer’s location and transfers the check images to its bank for deposit and processing.

The guidance, which will be applied to financial institutions by the federal banking agencies, requires institutions to perform a risk assessment of their RDC programs and implement risk management procedures as follows:

Risk Assessment: Prior to establishing an RDC program, senior management should assess legal, compliance, reputation and operational risks associated with offering the service. The institution should consider:

- Risks relating to the security and confidentiality of personal information
- Legal risks that may arise from image capture or image exchange under arrangements and contracts for clearing and settling checks (such as Check 21, Regulations CC and J, the UCC and check clearing house rules)
- Money laundering risks, such as whether offering an RDC program could expose the financial institution to increased risk of money laundering

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activities or impact the institution's ability to comply with anti-money laundering laws (This issue may be of particular relevance for international use of the RDC program.)

- Operational risks associated with RDC, including risks from RDC processing technology, faulty equipment or inadequate procedures that may result in image or data quality issues associated with the check images

Risk Management: A financial institution should adopt a risk management program to address risks associated with its RDC program. The program should:

- Review customer suitability for the RDC product
- Review vendor technology and other outsourced services
- Implement operational controls at customer locations and at the financial institution, including franking or a notation that the original check has been processed (Required franking of original items has been a topic of concern in the check industry.)
- Establish contracts imposing customer operational and legal responsibilities

A copy of the final rule can be found on our website at http://www.schwartzandballen.com/whats_new.html.

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox or Heidi Wicker at (202) 776-0700.