

# Shopping

## When I pay for my groceries by check, where does that check go?

Once you've paid by check for your groceries, the first place that check goes is to the grocery store's bank, where it is deposited. But the funds may not be immediately available, unless you and your grocery store use the same bank -- and actually, about 30 percent of checks are drawn on and deposited into the same bank, in which case the processing, or **clearing**, is handled internally. But otherwise, the grocery store's bank will probably want to verify the check with your bank, the **paying bank**, before it converts the check value to cash. But most banks do not communicate with each other directly; instead, they go through a middle man, an **intermediary bank**.

There are three types of intermediary banks:

- Federal Reserve Bank
- Correspondent bank
- Clearinghouse corporation

The **Federal Reserve Bank** is the central bank of the United States. Regional branches of the Federal Reserve handle check processing for banks that hold accounts with them, and they charge a fee for their services. Such services include check collection, air transportation of checks to the Reserve Bank and delivery of checks to paying banks. Reserve Banks handle about 27 percent of U.S. checks.

**Correspondent banks** are banks that have formed "partnerships" with other banks in order to exchange checks and payments directly, bypassing the Federal Reserve and its fee. Outside banks may go through a correspondent bank to exchange checks and payments with one of its partners.

Correspondent banks may also form a **clearinghouse corporation**, in which members exchange checks and payments in bulk, instead of on a check-by-check basis, which can be pretty inefficient when each bank might receive thousands of checks in a day. The clearinghouse banks save up the checks drawn on other members and exchange them on a daily basis. The net payments for these checks are often settled through [Fedwire](#), an electronic funds transfer (EFT) system that handles large-scale check settlement between U.S. banks.

Correspondent banks and clearinghouse corporations make up the private sector of check clearing, and together they handle about 43 percent of U.S. checks.

There are five basic steps in the **settlement** process:

1. The grocery store deposits your check in its bank.

2. The grocery store's bank passes your check, along with a payment request, onto an intermediary bank for verification and settlement. The intermediary bank identifies the paying bank.

To identify the paying bank, the intermediary bank looks at your check's **routing number**, the nine-digit number on the bottom left hand corner of your check, to the left of your account number. The routing number identifies the bank that issued the check. Every bank in the United States has at least one routing number.

3. Having identified your bank as the paying bank, the intermediary bank presents your bank with the check you wrote, along with a payment request. If your bank agrees to pay, the check has been verified.
4. The intermediary bank proceeds to settle the check, debiting your bank and crediting the grocery store's bank for the value of the check.
5. Your bank debits your checking account.

At the end of this process, the grocery store has full access to the cash value of the check you wrote. And at the end of the month, when your bank statement arrives, that check is right back in your hand.

## Banks

### How Banks Work

The funny thing about how a bank works is that it functions because of our trust. We give a bank our money to keep it safe for us, and then the bank turns around and gives it to someone else in order to make money for itself. Banks can legally extend considerably more credit than they have cash. Still, most of us have total trust in the bank's ability to protect our money and give it to us when we ask for it.

Why do we feel better about having our money in a bank than we do having it under a mattress? Is it just the fact that they pay interest on some of our accounts? Is it because we know that if we have the cash in our pockets we'll spend it? Or, is it simply the convenience of being able to write checks and use debit cards rather than carrying cash? Any and all of these may be the answer, particularly with the conveniences of electronic banking today. Now, we don't even have to manually write that check -- we can just swipe a debit card or click the "pay" button on the bank's Web site.

In this edition of [HowStuffWorks](#), we'll look into the world of banking and see how these institutions work, what you would have to do to start your own bank, and why we should (or shouldn't) trust them with our hard earned cash.