

FF-AR-001

Lockbox Routing for Customer Check Receipts

A control framework for eliminating manual check handling and compressing collection float.

Use Notice

This framework is provided for informational and reference purposes only. It does not constitute accounting, legal, tax, or professional advice. No client relationship is created through access to or use of this framework. Users should adapt thresholds, controls, and implementation steps to their own operating environment and professional judgment.

Executive Takeaway — Read This First

Failure mode: checks mailed to the office sit in the mailroom, wait for manual processing, get batched once a day, and arrive at the bank too late for same-day deposit. Cash that should be working is not.

Control: route all check remittances to a bank-operated lockbox. The bank picks up mail multiple times daily, processes immediately, and deposits the same day.

Mechanism: lockbox eliminates mail float, holdover float, and availability float simultaneously. It also removes internal check handling — the primary origin of check fraud.

Key metrics: average days from customer payment to collected funds; exception checks received at office instead of lockbox.

What Manual Check Processing Actually Costs

A company processing \$5M in annual check receipts with 3 days of avoidable float transfers approximately **\$42,000 of working capital** into the clearing system earlier than necessary. Every year.

At 8.5% LOC rate, that float costs roughly **\$3,542/year** in avoidable interest.

Staff time for manual check handling: 2–3 hours per business day. At \$35/hour loaded rate, that is approximately **\$18,750/year**.

Total cost of manual processing: approximately \$22,000/year. Lockbox cost: \$3,000–\$5,000/year.

Net savings: \$17,000+/year.

1. Scope

This framework applies when incoming check payments are mailed to the company's office address and processed manually by internal staff before deposit. It governs the collection mechanism for check-based receivables, with the objective of compressing float, eliminating manual handling, and reducing internal fraud exposure.

Operating Conditions

Before applying this framework, confirm:

- the company receives at least 15 checks per month from customers
- annual check receipts exceed \$3M

- at least one internal staff member currently handles incoming checks before deposit
- the company's primary bank offers a lockbox service (wholesale or retail)

2. Failure Mode

Incoming check payments travel through a manual collection chain that leaks value at every stage. The check travels by mail to a suburban office address rather than a central bank processing center. Someone opens the mail, copies the check, prepares a deposit ticket, and drives to a bank branch. By the time the check reaches the bank, 2–4 days of float have been lost. Staff time consumed by this process is buried in salary and invisible. Internal check handling also creates the primary fraud exposure vector for check-based payments.

Cash is yours on paper — but not in your account.

3. Control Rule

Rule

No check remittance touches the office. All mailed payments route directly to the bank-operated lockbox. Staff processes remittance data — not physical checks.

Owner

Controller or the person responsible for cash management and AR operations.

Allowed exceptions

- Checks hand-delivered by a customer or sales representative — log and deposit same day.
- Checks mailed to the office by a customer who has not updated payment instructions — redirect to lockbox within 24 hours, contact customer to update records.

Documentation threshold

Any check above \$10,000 received at the office instead of the lockbox must be logged with the reason. Monthly exception count tracked and reviewed.

4. Minimum Viable Implementation

1. Contact your bank and request lockbox service terms, pricing, and setup timeline.
2. Vet the lockbox agreement: confirm same-day deposit, electronic remittance data transmission, exception handling procedures, and imaging access.
3. Update every invoice template and payment instruction to show the lockbox address as the remittance destination. Remove the office address from all payment correspondence.
4. Contact your top 20 check-paying customers directly to confirm the new remittance address.
5. Assign daily remittance application as a defined AR task with a cutoff time.
6. Set daily exception review — checks flagged by the bank (wrong payee, postdated, unsigned) must be reviewed within one business day.
7. Track monthly: exception checks received at office, average days to collected funds, total float compressed.

5. Decision Thresholds

Situation	Action
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Annual check receipts above \$3M, any volume	Implement wholesale lockbox. Float compression alone covers cost.
High-volume consumer checks (100+ items/month)	Evaluate retail lockbox with automated MICR processing.
Fewer than 15 checks/month, all known payers	Lockbox cost may exceed float benefit. Evaluate for fraud control alone.
Company carries a revolving LOC balance	Use LOC rate in float calculation. Float compression directly reduces interest.
Company holds idle cash in money market/sweep	Use yield rate in float calculation. Float compression increases investable balance.
Any employee currently handles incoming checks	Fraud risk is active regardless of volume. Lockbox is a controls decision.
Office address is suburban, not central city	Mail float is higher. Lockbox benefit is amplified.

6. Impact Logic / Cost of Inaction

Float formula

Daily cash in transit = Annual check receipts ÷ 360. Annual float cost = Daily cash in transit × Float days × Cost of capital rate.

Staff cost formula

Annual staff cost = Hours per day on check processing × Loaded hourly rate × 250 business days.

Worked example

\$5M annual check receipts. 3 days float compressed. 8.5% LOC rate. 2.5 hours/day staff time at \$35/hour loaded.

Float benefit: $(\$5M \div 360) \times 3 \times 8.5\% = \$3,542/\text{year}$.

Staff benefit: $2.5 \text{ hours} \times \$35 \times 250 = \$21,875/\text{year}$.

Total annual benefit: approximately \$25,400.

Cost of this control

Lockbox service: \$3,000–\$5,000/year typical for wholesale lockbox. Net annual benefit: \$20,000+.

Break-even test

If annual float benefit + staff time saved exceeds annual lockbox cost: implement. For most companies processing more than 30 checks per month with annual receipts above \$3M, lockbox pays for itself on float compression alone.

7. When It Stops Working

- Fewer than 15 checks per month. Float benefit does not cover lockbox cost. Manual processing overhead is minimal at this volume.
- Customers pay primarily by ACH or wire. This framework applies to check-based collections only. Electronic payment timing is governed separately.

- Remittance data is not connected to the AR workflow. Lockbox compresses float but if no one applies the cash same-day, the visibility benefit is lost. Daily remittance application must be assigned as a defined task.
- Customers continue mailing to the office address. If invoice templates and payment instructions are not updated, checks bypass the lockbox entirely. Update all templates and directly contact the top 20 check-paying customers.
- Wholesale lockbox used for high-volume consumer payments. Per-item cost is too high. Retail lockbox with MICR processing is the correct mechanism for 100+ items/month.

8. Adaptation Notes

- Companies with both B2B and consumer check receipts: evaluate wholesale lockbox for B2B and retail lockbox for consumer volume separately. Do not combine in one service.
- Companies in suburban locations: mail float is structurally higher than central city. Lockbox benefit is amplified because bank processing centers are in central postal zones.
- Companies transitioning customers to ACH: lockbox remains appropriate for remaining check volume during the transition period. Do not wait until all customers are electronic.
- Companies with no LOC and no invested idle cash: use opportunity cost rate (what you could earn) rather than actual interest rate. Even at 2–3% the discipline is worth building if check volume justifies it.

Change Log

Version	Change
v1.0 — April 2026	Initial publication. Covers wholesale lockbox for B2B check collections. Float quantification, fraud prevention logic, staff cost analysis, and decision thresholds by company profile.