

**FEDERAL RESERVE BANK**  
OF DALLAS

Dallas, Texas, March 1, 1963

**COLLECTION OF ENVELOPE DRAFTS AND  
OTHER ITEMS REQUIRING "SPECIAL  
HANDLING" AS NONCASH ITEMS**

**To All Member and Nonmember Banks in the  
Eleventh Federal Reserve District:**

Effective January 1, 1964, checks, drafts, or similar instruments that cannot be handled by the Federal Reserve office to which they are to be first sent in a manner in which such office customarily handles cash items, will be considered by such Federal Reserve office to be items requiring special handling and must be sent to such Federal Reserve office as noncash items. On and after the effective date, all such items which should have been sent as noncash items, but which were sent as cash items, will be handled by the receiving Federal Reserve office as follows:

- (a) Items of less than \$1,000 received from banks located outside the city of the receiving Federal Reserve office will be charged back and returned;
- (b) Items of \$1,000 or more received from banks located outside the city of the receiving Federal Reserve office will be charged back and entered for collection as noncash items; and
- (c) Items received from banks located in the same city as the receiving Federal Reserve office, regardless of amount, will be charged back and returned.

For the purposes of this circular, an item requiring special handling is any item that cannot be processed in the customary manner through the low-speed proof machine equipment in use at Federal Reserve offices.

Since the introduction of the Magnetic Ink Character Recognition Program by The American Bankers Association, bankers have become increasingly aware of the operating problems caused by "headache" checks. The term "headache" is used to describe any of a number of nonstandard checks, drafts, or similar instruments which, because of their design or size, cause errors or require special handling in present check handling operations. Efforts have been made and are continuing to be made by The American Bankers Association, individual commercial banks, and the Federal Reserve System to eliminate such items from, or reduce the number of such items entering, the check collection system. Despite these efforts, the use of envelope drafts, one of the most troublesome types of "headache" items, appears to be increasing. Although many envelope drafts can be processed in the normal manner on low-speed equipment, such as proof machines, many others, because of their length, width, or thickness, cannot be so processed and therefore require special handling.

The foregoing action has been taken by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System primarily to eliminate "headache" items from cash item collection channels. It is believed that such action will be accepted readily by commercial banks as a constructive and mutually beneficial step in minimizing the operating problems caused by the hand-

(over)

ling of "headache" items as cash items. We urge you to support the action and request your cooperation in complying with it.

In furtherance of the above action, the Board of Governors of the Federal Reserve System has amended its Regulation G, Collection of Noncash Items, also effective January 1, 1964, by adding a new class of noncash item to the section defining noncash items (207.1), reading as follows:

"Checks, drafts, and other items with special instructions or requiring special handling."

A conforming change will be made in this bank's Bulletin No. 9 relating to the collection of noncash items. In addition, the first sentence of paragraph 4 of this bank's Bulletin No. 8 relating to the collection of cash items will be amended by deleting the word "should" and substituting therefor the word "must," so that such sentence will read as follows:

"Items with passbook, certificate or any other document attached, and items with special instructions or requiring special handling must be sent to us as noncash collections, subject to the terms of our current bulletin relating to the collection of noncash items."

Copies of the amendments to Regulation G and Bulletins Nos. 8 and 9 will be forwarded to you on or about the effective date, January 1, 1964.

With reference to the foregoing action, we would point out that it is contemplated that as an increasing volume of items is processed by Federal Reserve offices on high-speed document handling equipment, additional instructions with respect to the forwarding of "headache" items, including all envelope drafts and checks with vouchers attached, may be issued.

Additional copies of this circular will be furnished upon request.

Yours very truly,

Watrous H. Irons

President