

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-9

January 9, 1974

TO ALL BANKS
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

As part of a program recently adopted by all Reserve Banks, to encourage improved efficiency in the processing of paper checks among the Nation's commercial banks, and strengthen the future viability of this existing payments mechanism, the following uniform changes in check collection services are announced:

Nonmachineable Checks

Effective July 1, 1974, a close-off hour of 6:00 a.m. daily Monday through Friday will be established for cash letter deposits consisting of checks which have been rejected as unreadable by the depositing bank's computer systems or bear other physical faults to be unprocessable on high speed equipment. Credit availability for such deposits will be deferred one additional business day, up to a maximum of two business days.

Non-Amount Encoded Checks

Effective January 1, 1975, the Federal Reserve Banks will discontinue handling as cash items all checks, drafts and similar items received by them on which the dollar amount of the items has not been previously encoded in magnetic ink characters in the prescribed location assigned by the American Bankers Association. (Thus, the present sort option provided in our Bulletin No. 10 which permits member banks to deposit up to 300 unencoded items daily in a single cash letter, commingled as to credit availability of the enclosed checks will be rescinded. Up to 2,000 amount encoded checks may be included in such cash letters on the effective date.)

The restrictive action on non-machineable checks has been taken to provide necessary time for the processing of such items at slow speeds, and establishes a realistic deferment of credit availability consistent with the time required for collection of the items. This action does not apply to photocopies of checks which will continue to be handled as cash items in accordance with current provisions of this Bank's operating circular.

The discontinuance of the handling of checks which do not bear the encoded dollar amounts is another uniform step taken by all Reserve Banks to encourage conformity by all banks with the principle adopted by the American Bankers Association in 1958. An important concept embodied in the original M.I.C.R. plan was that the first bank of deposit in the check collection cycle should prepare the items for subsequent high speed handling.

It is hoped that this prior announcement of the forthcoming change in procedures will provide ample time for affected banks to acquire the necessary encoding equipment, or alter the capability of existing machinery, and permit continued use of the Federal Reserve System's check collection service. The operating circulars of this Bank will be revised to reflect the actions described in this letter, and distributed at a later date.

Questions about the new procedures may be referred to this Bank's officers or appropriate branch officers having responsibility over the check collection function.

Yours very truly,

P. E. Coldwell

President