

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-45
April 19, 1978

TO ALL BANKS AND OTHERS CONCERNED IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

In our Circular No. 77-116, dated October 19, 1977, we announced that a new program had been developed by a joint American Bankers Association/Federal Reserve System (ABA/FRS) task force to reduce the number of check processing exception items. This program incorporates the addition of a check digit in the routing number field on checks, and is scheduled for implementation on July 1, 1978. The primary purpose of including the check digit in the MICR line is to enable banks and processing centers with automated check processing operations to regenerate any single digit in the routing number field if that digit cannot be read by a reader/sorter. The check digit will also enable such banks and processing centers to detect and reject misread items in the routing number field, as is currently done by many banks and processing centers with regard to the account number field.

Thus, checks with the new check digit encoded on them will begin to enter the check collection stream on July 1, 1978. So that you will be prepared to handle these items, we have developed a "checklist" of things to do before that date.

Checklist

General

- Know your check digit.

Your check digit is the same digit that is currently being used in transferring funds and securities over the Federal Reserve Communications Network. The check digit assigned to each financial depository institution can be found in the 1975 or later editions of the Rand McNally publication entitled Key to Routing Numbers

- Continue to use existing check stock until supplies are exhausted, even after the July 1, 1978 implementation date. These non-check digit checks can still be used after July 1 without causing any problems for the new program.

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

- Specify the nine-digit routing number for your institution when placing new orders for checks that are to be used after July 1, 1978.

Your commercial check printer has been notified of this change in specifications and should be able to assist you in the ordering of checks with the new nine-digit routing number.

- Note the appearance of the MICR line which contains a check digit. (The routing number in fractional format or linear format located in the upper right-hand corner of the check will not change.)

⑆1234---5678⑆
↑ ---CURRENT

⑆123456789⑆
NEW---↑

- For those institutions interested, a recent publication entitled Routing Number Excerpts from the Final Report of the ABA/FRS Check Digit Task Force is available for purchase from the American Bankers Association.

Software Changes

- Make and test the necessary changes to your check processing software system to accommodate the new nine-digit format before July 1.

Those institutions using a vendor-supplied software package should contact their vendor to determine if they will supply the necessary software modifications. It is essential that all institutions have these changes made before July 1; those failing to do so will experience an ever increasing reject rate as nine-digit items become more prevalent in the check collection system.

Hardware Changes

- Make the necessary hardware changes to your check processing hardware, if any. In most instances, the replacement of the dash with a numeric character is accommodated by a software modification only. However,

in a few instances (depending on the type of reader/sorter) hardware changes, such as additional memory, are necessary.

The joint ABA/FRS task force has determined that there is a significant cost savings for the banking industry associated with this new program. In order to accrue the benefits that will be gained from the program, it is extremely important that all financial depository institutions become familiar with the program, and take the necessary steps as outlined above to insure that their check processing systems will be capable of handling the new check-digitized checks on July 1, 1978.

If you have any questions pertaining to the above information, please contact Larry J. Reck, Assistant Vice President at this Bank, Ext. 6337; Joel L. Koonce, Jr., Assistant Vice President at the El Paso Branch, 915-544-4730; Vernon L. Bartee, Assistant Vice President at the Houston Branch, 713-659-4433; or Robert W. Schultz, Assistant Vice President at the San Antonio Branch, 512-224-2141.

Sincerely yours,

Robert H. Boykin

First Vice President