

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-9
January 13, 1983

RETURN ITEM PILOT PROGRAM

TO ALL DEPOSITORY INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Over the past few years, the processing of checks for collection has been expedited by the financial community through automation, standardization, and improved air transportation. However, there has been little effort to speed up the collection of returned checks even though these items contribute disproportionately to the cost of check collection services. Thus, the collection of return items continues to be a slow, labor-intensive operation.

In an effort to further improve the payments mechanism through faster collection of return items, on February 24, 1983, the Federal Reserve Bank of Dallas and its Branches will implement Phase I of a pilot program to evaluate a new return item service for the financial community. Although the pilot will be implemented in three phases, the proposed service will ultimately entail: 1) processing all returns by the Federal Reserve Bank regardless of whether the items were originally handled for collection through the Federal Reserve System, 2) sorting and delivering these items to the financial institution of first deposit, 3) providing notification of nonpayment on all large returns to the institution of first deposit, and 4) charging a fee to the payor institution.

The benefits of this type of service to the financial community and its customers include:

- Faster notification and return of an item
- Immediate credit for payor institutions for all returns deposited with the Federal Reserve Bank
- The potential for improved availability of funds for customers of the financial institution of first deposit
- Reduced risk of loss for the depositing institution due to forgery, check kiting, fictitious checks, etc.
- Fewer adjustments, misroutes and errors associated with return item processing for payor institutions
- Reduction in the sorting burden for the payor institution handling return items

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

Phase I

During the first phase of the pilot program, Eleventh District offices will accept only those returns that were originally presented for collection through the Federal Reserve Banks. These unpaid items will be returned to the endorsing institution through the normal collection process. In addition, all Eleventh District Reserve offices will provide wire notification of nonpayment to Eleventh District endorsing institutions on all returns of \$2,500 and over, even if previous notification has not been received by the Reserve Bank. This notification procedure is not intended as a substitute for existing wire advice procedures which require prior notification for large return items.

Payor institutions will be charged a fee of \$.50 per item for unpaid items returned to Eleventh District Reserve offices for processing. No fee will be charged for misrouted items. Since Eleventh District users of Federal Reserve check collection services will be paying separately for return item handling during the pilot program, the prices of other check collection services will be reduced accordingly.

Also during Phase I, the Dallas office will serve, on a contractual basis, as a return item processor for the North Texas Regional Clearinghouse Association by returning unpaid checks to the first endorsing clearing member. City clearinghouses generally will not return unpaid items to the Reserve Bank which the Reserve Bank did not handle on the original presentation since such an arrangement might delay the return of items.

Phase II

Phases II and III of the pilot program are still under legal review. After the successful completion of Phase I and upon resolution of any legal issues, Phase II of the pilot will be implemented. This phase will operate exactly as Phase I except that Eleventh District Reserve offices will begin returning items to the institution of first deposit. Unpaid items will be returned to the institution of first deposit if located within the Eleventh District or the Reserve Bank of last endorsement if the item is being returned outside the Eleventh District. This phase of the pilot will introduce price incentives for payor institutions depositing fine sorted returns or returns that can be processed by automated means. Payor institutions exercising one of the previously-cited options would be charged a processing fee of \$.25 per item. All other payor institutions would be charged \$.50 per item.

Phase III

During the third phase of the pilot program, Eleventh District Reserve offices will accept all returns for processing even if the items were originally presented for collection outside the Federal Reserve System. All unpaid items will be returned to the institution of first deposit if that institution is located in the Eleventh District or to the Reserve office of the institution of first deposit if the item is endorsed by an out-of-District institution. It is expected that the pilot program will be completed during 1983. The results of the program will be evaluated carefully to determine if this return item service should be continued.

Your institution will need to make some minor operational changes when depositing return items with the Federal Reserve Bank. Return item deposit form TR-418 will be revised to indicate the number of items in the deposit. Until this revision is made and forms are supplied to your institution, the number of items in each deposit should be indicated on the TR-418 form in the space titled "Total of Return Items". The dollar amount of each deposit should continue to be indicated in the space titled "Net Amount to be Credited". In addition, to assure that your institution is not charged for misrouted items, another return item deposit form including only the misroutes should be prepared. This deposit form should be clearly marked "MISROUTES". No volume information is required for those deposit forms containing only misrouted items.

Prior to implementation of Phases II and III, you will be advised of the implementation date and of the specific changes that will be made in those phases. If you have any questions, please contact Donald L. Jackson, (214) 651-6118 at the Head Office; Robert W. Schultz, (915) 544-4730 at the El Paso Branch; Vernon L. Barteel, (713) 659-4433 at the Houston Branch; or John A. Bullock, (512) 224-2141 at the San Antonio Branch.

Additional copies of this circular will be furnished upon request from the Public Affairs Department, Extension 6289.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

William H. Wallace
First Vice President