



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT

DALLAS, TEXAS 75222

September 24, 1985

Circular 85-120

TO: The Chief Executive Officer of all
depository institutions in the
Eleventh Federal Reserve District

SUBJECT

Amendments to Bulletin 8 - Collection of Cash Items. The
revisions reflect changes in notification requirements for large-dollar
return items.

DETAILS

Paragraphs 42 through 46 of Bulletin 8 have been revised to concur with the new Regulation J amendment effective October 1, 1985. The amendment requires a paying institution to notify the institution of first deposit when it returns unpaid a check of \$2,500 or more that has been presented through a Federal Reserve Bank. This Bank's Return Item Pilot Appendix has also been revised and is now designated as Appendix C.

Notification by telephone, online wire, or initiated from the items in special large-dollar return item letters will be provided at no additional fee to the current Return Items Pilot charges, for unpaid items previously handled as cash items by the Federal Reserve. For unpaid items not previously handled by the Federal Reserve, the Reserve Bank will accept telephone or wire notification of nonpayment on such items from Eleventh District paying institutions. The Reserve Bank will pass those notifications on to the institution of first deposit and charge a fee of \$2.25 for each wire notice or a fee of \$4.25 for each telephone notice. Paying institutions will be responsible for the timeliness of notifications.

For additional copies of any circular please contact the Public Affairs Department at (214) 651-6289. Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank (800) 442-7140 (intrastate) and (800) 527-9200 (interstate).

Exhibit III is the Paying Bank's Notification Agreement form letter required from each paying institution for the Federal Reserve to provide nonpayment notification services for them. Institutions that wish this Bank to provide notification must indicate to us, in the format specified in Exhibit III, the method they intend to use, by no later than October 1, 1985.

The Federal Reserve is interested in receiving comments and suggestion from financial institutions on the procedures described in this Bulletin. The attached procedures will apply when the Regulation J requirement for large-dollar return item notification becomes effective on October 1, 1985. However, comments received will assist the Federal Reserve in considering possible revisions or enhancements for implementation as early as possible after the effective date. Please forward any comments you may have to:

Robert L. Whitman
Assistant Vice President
Federal Reserve Bank of Dallas
Station K
Dallas, Texas 75222

In addition, the Federal Reserve intends to amend Regulation J to clarify the impact of holidays on the deadline for notification. The proposed amendment will reflect the provisions set forth in this Bulletin.

ATTACHMENTS

Attached is Bulletin 8 - Collection of Cash Items, effective October 1, 1985.

MORE INFORMATION

For further information on the amendment, please contact the following individuals: Robert L. Whitman, (214) 698-4357 at the Head Office; Robert W. Schultz, (915) 544-4370 at the El Paso Branch; Vernon L. Bartee, (713) 659-4433 at the Houston Branch; or John A. Bullock, (512) 224-2141 at the San Antonio Branch.

Sincerely yours,

William H. Waller

BULLETIN 8

Collection of Cash Items

FEDERAL RESERVE BANK OF DALLAS

SCOPE

This bulletin contains the terms and conditions under which we will handle cash items for collection and other instructions regarding the handling, return, and adjustment of cash items.

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GENERAL

1. Subpart A of Regulation J ("Regulation J") of the Board of Governors of the Federal Reserve System ("Board"), this operating Bulletin, and our time schedules apply to the handling of all checks and other cash items that we accept for collection and all bank drafts and other forms of payment that we receive for such items. This Bulletin also contains instructions to paying and collecting banks for handling and paying checks and other cash items contained in cash letters received from this Bank. Additional provisions for the collection of cash items through our Regional Check Processing Centers are included in our Bulletin No. 13. This Bulletin is issued pursuant to Sections 4, 13, 14(e), and 16 of the Federal Reserve Act and related statutes in conformity with Regulation J. It is binding on the sender, on each collecting bank, paying bank and nonbank payor to which we or a subsequent collecting bank presents or sends a cash item, and on other parties interested in the item, including the owner.

2. Each Reserve Bank has issued a Bulletin substantially similar to this one. When we send a cash item to another Reserve Bank, that Reserve Bank handles the item subject to its operating Bulletin and time schedules. We give credit to the sender for the item in accordance with our time schedules.

3. All terms defined in Regulation J have the same meaning in this Bulletin. Many terms used in this Bulletin, including terms not defined in Regulation J, have specialized meanings that have developed through law, custom and commercial usage. Unless otherwise stated, all references to this Bank include our Head Office, and our El Paso, Houston, and San Antonio Branches.

4. This Bulletin applies to any State or political subdivision of a State to which we present direct, as cash items, bills, notes, and war-

rants that are issued by the State or political subdivision and are payable in the Eleventh Federal Reserve District. Each such issuer is treated as a paying bank and each day on which the issuer is open for the regular conduct of its affairs or the accommodation of the public is treated as a "banking day" for the issuer.

ITEMS THAT WE HANDLE AS CASH ITEMS

5. A sender may send the following items to us for handling as cash items, unless otherwise provided in this Bulletin:

(a) Checks, including postdated checks, except checks drawn on a bank included in the Board's current "Memorandum on Exchange Charges" indicating banks not paying checks at par;

(b) Government checks, postal money orders, and food coupons¹; and

(c) Other demand items, collectible at par in funds acceptable to the Reserve Bank of the Federal Reserve District ("District")² in which the items are payable, that we are willing to accept as cash items.

6. When we accept an instrument for credit to our own account, the account of another Reserve Bank, or any account on our books, we handle the instrument as a cash item if it qualifies as a cash item even though it is sent to us by one other than a "sender," as defined in §210.2 of Regulation J.

ITEMS THAT WE DO NOT HANDLE AS CASH ITEMS

7. We do not handle any item as a cash item if:

(a) A passbook, certificate, or other document is attached to the item;

(b) Special instructions, including a request for special advice of payment or dishonor, accompany the item;

(c) The item consists of more than a single

¹Provisions governing the collection of Government checks and postal money orders are contained in Appendices A and B of this Bulletin. Provisions governing the collection of food coupons are contained in Bulletin 5, Currency, Coin and Food Coupons.

²The Virgin Islands and Puerto Rico are deemed to be in the Second District, and Guam and American Samoa in the Twelfth District. Regulation J, note 1.

thickness of paper, except as provided in paragraphs 55 and 56 of this Bulletin regarding photocopies, but we do handle as a cash item a mutilated, erroneously encoded, or other cash item contained in a carrier that qualifies for handling by high-speed check processing equipment; or

(d) Except as provided in paragraphs 55 and 56 of this Bulletin regarding photocopies, the item has not been preprinted or postencoded, as prescribed by the American Bankers Association, before we receive it with (1) the Federal Reserve routing symbol and the suffix of the institutional identifier³ of the paying bank (or nonbank payor), and (2) except as provided in our time schedule, the dollar amount of the item. We handle these items as cash items, however, when we judge that special circumstances justify such handling; or

(e) the item does not state on its face the city and state address of the paying bank associated with the routing number on the item.

These items should be sent to us for collection only as noncash items under our operating Bulletin No. 9, "Collection of Noncash Items."

8. We do not handle an item payable by or through one office of a bank that is sent by another office of the same bank.

9. We do not handle an item that has been dishonored two or more times. We reserve the right to return an item or to handle it as a noncash item if it has been dishonored once, or if we judge that special conditions require that it be so handled.

10. If an item that we do not handle as a cash item is sent to us in a cash letter, we will charge it back and return it to the sender. In addition, we reserve the right to return and charge back a cash letter that does not conform to the sorting requirements of this Bulletin and our time schedules.

COLLECTION AND PRESENTMENT

11. Under Section 4-204(1) of the Uniform Commercial Code, a collecting bank must send items by reasonably prompt methods. Accordingly, we discourage indirect routing of cash items. Senders should not send to us, or to other Reserve Banks for our account, items that are payable in other Districts and that bear the indorsements of banks located in other Districts if it is evident that the items have been routed indirectly.

12. We do not by this operating Bulletin, or otherwise, agree to present, or cause presentation of, an item earlier than is required by State Law. We have no responsibility for giving notice to senders of anticipated delays in presentation or return of cash items unless the delay is expected to involve at least ten paying banks and to last at least three banking days. We reserve the right to return without presentation an instrument payable by or through a bank that is designated in the Board's "Memorandum on Exchange Charges" or that has been reported closed.

PREPARATION OF CASH LETTERS

13. All cash items sent to us, or to another Reserve Bank direct for our account, may be listed by amount without further description in tape listings accompanying cash letters. All cash letters and tape listings should be dated and identified with the sender's name and nine-digit routing number, if any.

14. Each sender should keep records that permit it to identify its depositors or indorsers on items so that the sender can take appropriate action if an item is lost or destroyed. We do not generally keep copies or descriptions of items. We do not keep any records of items in end-point-

³The terms "routing number," "routing symbol," and "institutional identifier" have the meanings given by the Routing Number Task Force of the American Bankers Association and the Federal Reserve System.

sorted cash letters that we handle without our indorsement. We have no responsibility for describing a lost or destroyed item that we charge back to a sender, or for obtaining from another person reimbursement or insurance for a sender's costs or other loss, except as provided in Appendix A concerning Government checks.

15. We reserve the right to require banks located in the same city, town, metropolitan or similar area to sort, list, and package items payable in the same area according to the office of the paying bank where the items are payable. We also reserve the right to require separate sorts of cash items, and separate sorts of Government checks, postal money orders, and food coupons. Our time schedules contain other instructions for sorting and listing cash items.

Indorsements

16. All cash items sent to us, or to another Reserve Bank direct for our account, should be indorsed:

(a) without restriction to, or to the order of, the Reserve Bank to which sent,

(b) to, or to the order of, any bank, banker, or trust company, or

(c) with equivalent words or abbreviations. The sender's indorsement should be dated and should show its institutional identifier, if any, in prominent type on both sides of the indorsement.

17. If we receive a cash item without the sender's indorsement, we may

(a) present or send the item as if it bore the sender's indorsement,

(b) place on the item the sender's indorsement and the date we received it, or

(c) return the item to the sender for proper indorsement. We make the warranties stated in Section 210.6(b) of Regulation J by presenting or sending a cash item (or an instrument that we

handle as a cash item under paragraph 6 of this Bulletin, whether or not the item bears our indorsement.

DIRECT SENDING TO OTHER RESERVE OFFICES

18. A sender that maintains or uses an account with us and that has cash items payable in another District, or in the territory of another office of this Bank, may send the items directly to the Reserve office of that District or territory under procedures we prescribe. Under Section 210.4 of Regulation J, items sent direct are deemed to have been handled by us.

Senders that by arrangement deliver cash items payable in other Districts to us or to another designated location for consolidated shipment should give us prior notice of any deviation from that arrangement.

TIME SCHEDULES AND AVAILABILITY OF CREDIT

22. We give immediate or deferred credit for all items that we accept as cash items in accordance with our published time schedules. For cash letters containing items unsorted as to credit availability, we may defer credit for the longest period prescribed in our time schedules for any item enclosed.

23. Because in many instances our time schedules do not show the actual time required for collection, our advices cannot be considered advices of actual payment on the dates we make credit available. Credit is in all instances subject to our receipt of payment in actually and finally collected funds. We reserve the right to refuse to permit a sender to withdraw or otherwise use any credit (immediate or deferred) until we receive payment in actually and finally collected funds.

24. We enter credit at full face value in the reserve account or other appropriate account on the day we receive a cash item as follows:

Immediate Credit

Immediate credit at once qualifies as reserve for purposes of Regulation D and is available for use by the sender.

Deferred Credit

The amount entered as deferred credit does not qualify as reserve for purposes of Regulation D and is not available for use by the sender until the time specified in our time schedules. At that time we will transfer credit from the deferred account to the reserve account or other appropriate account.

DELIVERY AND PRESENTMENT

24A. A paying bank that wants delivery and presentment of cash items to be made at an off-premise location in the same Reserve office territory as that where the paying bank is located may submit a request to us. For arrangements involving delivery of cash letters to a processing organization, execution of special presentment agreement form TR-411 is required. A paying bank may also pick up cash items at this Bank by arrangement with us. The person to whom delivery is made as requested or who picks up the items is considered to be the paying bank's agent. Delivery and presentment of the items occurs at the time the items are delivered to the off-premise location or are made available for pick-up as arranged. Cash items delivered to or picked up by a person other than the paying bank may be commingled with other cash items delivered to or picked up by that other person.

24B. A paying bank that wants delivery and presentment of cash items to be made at an off-premise location in a different Reserve office territory from that where the paying bank is located may submit a request to us. For arrangements involving delivery of cash letters to a processing organization, execution of special presentment agreement form TR-411 is required. In appropriate cases, we will attempt to arrange, at the paying bank's expense, transportation to the out-of-territory location that ensures presentment, in the ordinary course by public means, on the same banking day that presentment would have been made within the territory where the paying bank is located ("same-day delivery").

(a) If we arrange same-day delivery, delivery and presentment to the paying bank occur when the items are delivered to the out-of-territory location as requested, or when the items are shipped if scheduled transportation is cancelled or rescheduled and we do not arrange alternate same-day delivery.

(b) If we do not arrange same-day delivery, the paying bank may arrange for transportation of the items to the out-of-territory location, and delivery and presentment to the paying bank is considered to occur when we make the items available for shipment as requested.

The person to whom same-day delivery is made, or who receives the items for shipment if we do not arrange same-day delivery, is considered to be the paying bank's agent. Items delivered or shipped as requested by the paying bank may be commingled with other cash items delivered or shipped to the same person out-of-territory.

PAYMENT FOR CASH LETTERS

25. A paying bank must pay for all cash items that it has not returned prior to the close of its banking day of receipt.⁴ Payment shall be made at

⁴A paying bank is deemed to receive a cash item on its next banking day if it receives the item:

- (1) on a day other than a banking day for it; or
- (2) on a banking day for it, but
 - a. after its regular banking hours;
 - b. after a "cut-off hour" established by it in accordance with State law; or
 - c. during afternoon or evening periods when it is open for limited functions only.

par and by:

- (a) debit to an account on our books;
- (b) cash; or
- (c) in our discretion, any other form of payment.

The proceeds of any payment shall be available to us by the close of our banking day on the banking day of receipt of the item by the paying bank. If the paying bank's banking day of receipt is not a banking day for us, payment shall be made by the close of our next banking day; we may make appropriate adjustments as of the day of receipt (unless that day is a Saturday) for purposes of computing reserves under the Board's Regulation D. Our terms for payment of cash items are contained in Bulletin No. 12 and No. 13 of this Bank.

25A. As provided in §210.9(a)(2) of Regulation J, a paying bank that closes regularly on a weekday that is a banking day for us shall, with respect to a cash item made available to the paying bank on that day, either (a) pay the amount of the item by the close of our banking day on that day, or (b) compensate for the value of the float associated with the item and pay the amount of the item, on the banking day of receipt of the item by the paying bank. We may charge the account on our books maintained or used by the paying bank for the amount of the item on the day we make the item available, unless the paying bank elects to compensate for the float associated with the item. The paying bank may elect to eliminate float by "as of" adjustment or pay for the float by explicit charge, as we prescribe with respect to interterritory float. An item is available to the paying bank if we deliver it or are prepared to deliver it as if the paying bank were open. A paying bank that pays for an item made available to it, or compensates for the float associated with the item, is not considered to receive the item until its next banking day, such as for purposes of determining the deadline for return of the item.

26. A subsequent collecting bank (other than a Reserve Bank) that is paid for a cash item shall make the proceeds available to us not later than the close of our banking day on the day the subsequent collecting bank receives the proceeds.

Differences and Adjustments

27. Unless a paying bank has otherwise agreed

with us, a paying bank may pay for our cash letter in an amount different from the total of the cash letter if the accompanying cash items do not prove to the amount of the cash letter. The bank should furnish at the time of payment a complete explanation of the difference on the form we provide. We request that paying banks not report adjustments of \$1.00 or less.

28. A member bank or other account holder must promptly advise us in writing of an objection to an entry in our statement of its account. An account holder that fails to advise us of its objection within one calendar year of the date of the entry (and any sender, collecting bank, or paying bank that has used the account and has handled the item to which the entry relates) is deemed to have approved the entry, and the statement of account is deemed finally adjusted. This paragraph does not relieve an account holder from the duty of using due diligence in examining statements of account sent to it and of notifying us immediately on discovery of an error. Further, this paragraph does not relieve a Reserve Bank from liability for breach of warranty on an item to which an entry relates.

RETURN ITEMS

29. A paying bank may return to us with entry (that is, for credit or refund) a cash item for which it has previously made payment only if it returns the item within the time limits of Section 210.12 of Regulation J. We urge that a paying bank recover its payment by requesting a credit to an account on our books, but a paying bank may return an item to us for refund.

30. A collecting bank that receives a cash item from a paying bank for return to us shall send the return item to us before midnight of its banking day next following the banking day it received the return item. A collecting bank that receives a credit or refund from us for an item it returns to us (a) warrants to us and to the sender and all prior parties that its return of the item was timely, and (b) agrees to indemnify us for any loss or expense sustained (including attorneys' fees and expenses of litigation) resulting from its breach of this warranty.

Returns Without Entry

31. A paying or collecting bank may return a cash item to us after the time limits described in paragraphs 29 and 30 of this Bulletin only on a without entry basis (that is, with a request for credit or refund). Items returned without entry may include returns because of a missing or erroneous indorsement or because of a claim of breach of warranty, including a claim of forged indorsement with affidavit of forgery. We make refund to the paying or collecting bank and charge our sender for a without entry return only if the sender specifically authorizes us to do so.

32. Under Section 210.5 of Regulation J, we may charge the account maintained or used by the sender of an item for the amount of any judgment, and of any attorneys' fees and expenses incurred, in certain actions against us or another Reserve Bank, including actions alleging breach of warranty, if we have tendered defense of the action to the sender. We assume no responsibility for defending the action if the sender does not itself undertake the defense.

Preparation of Return Items

33. A cash item returned unpaid should bear a notation clearly indicating the reason for nonpayment.

34. If a cash item is being dishonored and returned for the first time, we urge the paying bank to stamp a star:★ on the upper right area of the face of the item. If a cash item is being dishonored and returned for the second time, the paying bank shall invalidate the MICR routing number on the face of the item so that the item no longer qualifies for handling by high-speed automated check processing equipment. We assume no responsibility for handling as a cash item an item whose MICR routing number has not been invalidated as required.

35. The paying bank shall cancel an indorsement, "paid" or other identifying stamp of the paying bank on the back of a cash item before returning the item to us. We assume no respon-

sibility for any delay resulting from our handling an item on the basis of an uncancelled stamp.

36. For its own protection, each paying or collecting bank that returns a cash item to us should keep records that permit it to reproduce or trace the item if it is lost or destroyed in transit or afterwards.

37. If a paying or collecting bank, in accordance with State law, returns direct to the depositary bank an unpaid item that it has received directly or indirectly from us or another Reserve Bank, the provisional credits become final between the paying or collecting bank and the Reserve Bank, between the Reserve Bank and the sender, and between us and the other Reserve Bank.

38. We handle end-point-sorted cash letters without indorsing the items in the cash letters. Each collecting and paying bank should keep records that permit it to identify the source of receipt of items. By sending to us as a return item an item that does not bear our indorsement, a collecting or paying bank (a) warrants to us and to the sender and prior parties that we presented or sent the item to the collecting or paying bank, and (b) agrees to provide source of receipt information on request.

Disputed Returns

39. If a sender (other than a Reserve Bank) believes that a paying bank has returned a cash item late, the sender may dispute the return one time by the following procedure:

(a) The sender may furnish us with the item and, on a form prescribed by us, a signed statement that the sender believes that the paying bank did not take all action necessary to recover its payment within the time limits of Regulation J. We will credit the amount of the item to the sender's account (or the account of the forwarding Reserve Bank). We will charge that amount to the account of (and send the item and statement to) the collecting or paying bank to which we had originally presented or sent the item.

(b) We will revoke the credit given to the sender and recredit the collecting or paying bank if:

- (i) for any reason we cannot obtain the amount of the credit from the paying bank, or
- (ii) we (or another Reserve Bank) receive the item with a properly executed statement from the paying or collecting bank within fifteen (15) banking days after we (or the other Reserve Bank) sent the item and the sender's statement to the collecting or paying bank.

(c) A properly executed paying bank's statement must:

- (i) be on a form prescribed by us,
- (ii) be signed by an officer of the paying bank,
- (iii) show the banking day of receipt and the date of return of the item by the paying bank, and explain any difference in dates exceeding one banking day, and
- (iv) state that the paying bank took all action necessary to recover its payment within the time limits of regulation J.

40. We assume no responsibility for determining whether the paying bank took all action necessary to recover its payment for an item within the time limits of Regulation J or whether a collecting bank returned the item within the time limits of this Bulletin.

41. If we send to a bank in error as a return item an item that the bank did not send to us for collection, the bank is instructed to send the item back to us promptly on a without entry basis with a request for credit or refund, and we will promptly grant the credit or refund. The bank should not send the item to us in a cash letter or return letter.

UNIFORM INSTRUCTIONS ON PROTEST AND ADVICE OF NONPAYMENT

Notice of Nonpayment

42. A paying bank that determines not to pay a cash item in the amount of \$2,500 or more received from or through this Bank must provide notice of nonpayment directly to the first bank to which the item was transferred for collection ("depositary bank"), under Section 210.12(c) of Regulation J. The paying bank must ensure that the notice is received, as defined below, by the depositary bank by midnight of the second banking day of the paying bank following the deadline for return of the item set forth in Section 210.12(a) of Regulation J. If the paying bank's second banking day is not a banking day for the depositary bank, the notice must be received by the depositary bank during its next banking day. The following days shall not be considered banking days for purposes of the deadline for notice of nonpayment: Saturdays and Sundays; New Year's Day (January 1); the third Monday in January; the third Monday in February; the last Monday in May; Independence Day (July 4); the first Monday in September; the second Monday in October; Veterans Day (November 11); the fourth Thursday in November; and Christmas Day (December 25).

43. A paying bank may provide the required notice of nonpayment through any means, including:

- (a) return of the cash item itself to the depositary bank,
- (b) telephone call to the depositary bank,
- (c) telex, Fedwire, or other form of telegraph to the depositary bank,
- (d) return of the cash item to this bank with a request that we provide notice of nonpayment, as provided below, and
- (e) telephone call to this bank with a request that we forward notice of nonpayment, as provided below.

Content of Notice of Nonpayment

44. Notice of nonpayment must include the:
- (a) name and routing number of the paying bank,
 - (b) name of the payee(s),
 - (c) amount,
 - (d) date of the depositary bank's indorsement,
 - (e) account number of the depositor(s) in the depositary bank,
 - (f) branch name of the depositary bank from its indorsement,
 - (g) trace number associated with the indorsement of the depositary bank, and
 - (h) reason for return.

The notice of nonpayment need not include information that cannot be determined from the item itself through the exercise of ordinary care and good faith. If the paying bank is not sure of a piece of information, it is encouraged but not required to include the information and identify it with question marks. If the paying bank cannot determine which of two or more banks with the same or illegible dates in their indorsements is the depositary bank, it is authorized but not required to give notice to each bank indicating that it questions which is the depositary bank so that each bank may determine whether it is the depositary bank. A notice of nonpayment need not be given if neither the name nor the routing number of the depositary bank can be determined at all.

45. The paying bank is encouraged but not required to provide in the notice of nonpayment the:

- (a) name(s) and account number of the drawer (maker),
- (b) item number,
- (c) date of the item, and
- (d) any other information that might be useful, such as the name of the last indorser, other than a bank, if different from the payee, and an obsolete routing number of the depositary bank used on the item.

Receipt of Notice by Depositary Bank

46. Notice is considered received by the depositary bank by the deadline for receipt under the following circumstances:

Telephone notice—

- (a) Telephone notice is received: if a telephone call is made to (i) the general purpose number of the head office of the depositary bank, (ii) the general purpose number of the branch named in the depositary bank's indorsement, (iii) the number of the return item unit of the depositary bank (or branch), or (iv) the number of the depositary bank or its processor held out by the depositary bank for receipt of notice of nonpayment; and if the telephone is answered and the notice is accepted by the depositary bank.
- (b) The paying bank must exercise good faith and ordinary care in ensuring that notice is received. Unless the paying bank has reason to believe that a depositary bank will receive telephone notice after 5:00 p.m. local time of the depositary bank, the paying bank should call prior to that time.
- (c) If the depositary bank's telephone (i) is not answered, or (ii) is answered but the individual answering refuses to accept the notice or transfer the call, or does not appear to understand the nature of the call, then notice will be considered timely if it is received during the morning of the depositary bank's next banking day.

Telegraphic notice—

- (d) Telegraphic notice is received: if it is delivered to (i) the principal telex, TWX or other telegraphic address of the depositary bank, (ii) the return item unit of the depositary bank, or (iii) the address of the depositary bank or its processor held out by the depositary bank for receipt of notice of nonpayment. Telegraphic notice by Fedwire must be received by us by our cut-off hour for such notice as provided in Paragraph 46.F.
- (e) The paying bank must exercise good faith and ordinary care in ensuring that notice is received. Unless the paying bank has reason to believe that a depositary bank will receive telegraphic notice after 5:00 p.m. local time of the depositary bank, the paying bank should give notice prior to that time.

(f) If the paying bank knows that a telegraphic notice is not received by the depositary bank, then the paying bank should deliver a confirming notice, indicating that it is a confirming notice, to the depositary bank during the morning of its next banking day.

Return of Item Itself—

(g) A cash item itself is received for purposes of notice of nonpayment if it is delivered to (i) the principal address of the head office of the depositary bank, (ii) the address of the branch named in the depositary bank's indorsement, (iii) the address of the depositary bank normally used for return of cash items, (iv) the address of the depositary bank or its processor held out by the depositary bank for receipt of notice of nonpayment, or (v) a messenger of the depositary bank.

Responsibilities of Depositary Bank—

46.A (a) The depositary bank must exercise good faith and ordinary care in accepting notice of nonpayment by telephone or telegraph, and may not instruct operators to refuse to accept notices. The depositary bank may transfer calls, offer to return a call, or use a recording device. The depositary bank must exercise diligence in bringing a notice to the attention of responsible individuals. Telephone notice accepted by any person at the depositary bank that reasonably appears to the paying bank to understand the nature of the notice is considered received by the depositary bank. A depositary bank that uses an electronic link with this Bank must manage its link so as to permit us to send notices to it during its day.

(b) Depositary banks should recognize that notice cannot be given if their indorsements are illegible. Depositary banks and other collecting banks are encouraged but not required to comply with the indorsement standard of the American National Standards Institute and to use only valid routing numbers.

Provision of Notice from the Item by This Bank (Physical Item Service)

46.B A paying bank may request this Bank to provide notice of nonpayment on its behalf by signing and delivering to this Bank a letter in the form attached as Exhibit III requesting the service. The request shall apply to all cash items in the amount of \$2,500 or more received from or through this Bank for which notice of nonpayment is required, and returned by the paying bank to this Bank, provided such items are separately sorted and identified as to items for which notice is desired ("applicable items"). If we receive applicable items by our cut-off hour for physical item notice, as set forth in our time schedule, on the paying bank's next banking day following its deadline for return, we undertake to provide notice of nonpayment to the depositary bank by the paying bank's deadline for notice of nonpayment. A paying bank should not include with applicable items other items that it did not receive from or through this Bank, unless otherwise agreed by us.

46.C Upon our acceptance of such a request, beginning on an agreed effective date, this Bank will provide notice of nonpayment for applicable items received by our cut-off hour on behalf of the paying bank under the terms set forth in Sections 210.12(c)(7) and (8) and 210.14 of Regulation J. We will otherwise handle applicable return items as provided elsewhere in Regulation J and this circular, and shall assume no responsibility for determining whether the paying bank returned the item timely. We will provide notice of nonpayment for applicable items received after our cut-off hour for notice of nonpayment as if the items had been received prior to our cut-off hour on our next banking day, and shall have no responsibility for loss caused by the failure of the paying bank to meet our cut-off hour. The paying bank shall remain responsible for loss resulting from its lack of good faith or failure to exercise ordinary care in providing the item timely to this Bank under Section 210.12(c)(6) of Regulation J. The paying bank should itself provide notice of nonpayment to the depositary bank if the paying bank learns that applicable items have not been received by our cut-off hour and should indicate to the

depository bank that the notice may be duplicated by us. This Bank assumes no responsibility for a paying bank's failure to indicate on an applicable item the reason for return of the item. The paying bank may terminate its request that we provide notice of nonpayment by prior written notice to this Bank.

**Telephone Notice to This Bank
(Telephone Notice Service)**

46D. A paying bank may request this Bank to forward to the depository bank notice of nonpayment given by telephone to this Bank by signing and delivering to this Bank a letter in the form attached as Exhibit III requesting the service. The request shall apply to all items for which notice of nonpayment is telephoned to this Bank. If we receive telephone notice by our cut-off hour for telephone notice, as set forth in our time schedule, on the paying bank's next banking day following its deadline for return, we undertake to provide notice of nonpayment to the depository bank by the paying bank's deadline for notice of nonpayment.

46.E Upon our acceptance of such a request, beginning on an agreed effective date, this Bank will forward notice of nonpayment received by our cut-off hour on behalf of the paying bank under the terms set forth in Sections 210.12(c)(7) and (8) and 210.14 of Regulation J. We will forward notice of nonpayment received after our cut-off hour as if the telephone notice had been received prior to our cut-off hour on our next banking day, but shall have no responsibility for loss caused by the failure of the paying bank to meet our cut-off hour. The paying bank shall remain responsible for loss resulting from its lack of good faith or failure to exercise ordinary care in providing accurate and timely telephone notice to this Bank under Section 210.12(c)(6) of Regulation J, and should itself provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cut-off hour. The paying bank may terminate its request that we forward notice of nonpayment by prior written notice to this Bank.

**Fedwire Notice to Depository Bank
(Fedwire System Service-RESPONSE Network)**

46.F A paying bank may request this Bank to forward to the depository bank notice of nonpayment given by Fedwire in proper format by signing and delivering to this Bank a letter in the form attached as Exhibit III requesting the service. If we receive Fedwire notice by our cut-off hour for Fedwire notice, as set forth in our time schedule, on the paying bank's second banking day following its deadline for return, we undertake to provide notice of nonpayment to the depository bank by the paying bank's deadline for notice of nonpayment. We handle Fedwire notice under the terms set forth in Sections 210.12(c)(7) and (8) and 210.14 of Regulation J. We will forward notice of nonpayment received after our cut-off hour as if the Fedwire notice had been received prior to our cut-off hour on our next banking day, but shall have no responsibility for loss caused by failure of the paying bank to meet our cut-off hour. The paying bank shall remain responsible for loss resulting from its lack of good faith or failure to exercise ordinary care in providing accurate and timely Fedwire notice to this bank under Section 210.12(c)(6) of Regulation J, and should itself provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cut-off hour.

Other Provisions

46.G Notice of nonpayment should not be given for a cash item drawn on the account of the U.S. Treasury or for an item indorsed by, or for credit to, the U.S. Treasury.

46.H If the depository bank is not located in a state of the United States, the District of Columbia, Puerto Rico, or a territory, possession, or dependency of the United States, the paying bank shall provide the notice to the bank located in such an area that first handled the item for collection.

46.I If a paying bank provides or requests us to forward a notice and subsequently determines to pay an item, the paying bank shall provide to the depository bank a second notice as soon as

reasonably possible. The second notice shall indicate that it is a second notice cancelling a previous notice and shall contain all the information in the original notice to enable the depositary bank to match the second notice with the original notice.

46.J A depositary bank may request this Bank in writing to provide notice of nonpayment, given by us on behalf of a paying bank, to a single specified department of the depositary bank or its processor. This bank will attempt to comply with the request, but such request shall not be binding on the paying bank. A depositary bank that uses an electronic link with this Bank to provide notice of nonpayment is deemed to authorize this Bank to provide notice to it by means of an electronic link to this Bank, unless the depositary bank requests otherwise. We are not responsible for a delay in sending a notice, if the delay results from the depositary bank's failure to manage its link so as to permit us to send notices to it through the close of Fedwire.

46.K A paying bank should keep records to show compliance with notice of nonpayment requirements. We may record telephone calls.

46.L This Bank has no responsibility for giving or correcting notice of nonpayment if notice is not properly given by the paying bank except to the extent provided above with respect to notice we provide or forward on behalf of the paying bank. As provided in Section 210.12(b) of Regulation J, this Bank assumes no responsibility for determining whether the paying bank took all action necessary to recover its payment for an item within the time limits of Regulation J.

Uniform Instructions on Protest

46.M All Reserve Banks and collecting and paying banks shall handle cash items in accordance with the following uniform instructions regarding protest, except as provided in Paragraph 46.N and except that Government checks shall not be protested. All Reserve Banks

and collecting and paying banks shall disregard any contrary or special instructions on protest noted on cash letters or otherwise transmitted with cash items.

(a) PROTEST a dishonored item of \$2,500 or over: (i) that appears on its face to have been drawn at a place not within a State⁵, unless the item bears on its face the American Bankers Association no-protest symbol of a Reserve Bank or a preceding bank indorser; or (ii) that bears on its face the legend, "PROTEST REQUIRED", of a Reserve Bank or a preceding bank indorser.

(b) DO NOT PROTEST any other item.

46.N DO NOT PROTEST a cash item indorsed by or for credit to the United States Treasury, or bearing on its face or in an indorsement the legend "This check is in payment of an obligation to the United States and must be paid at par. N.P. Do not wire nonpayment." or words of similar import.

46.O A sender may instruct a Reserve Bank to handle an item (other than a Government check, postal money order, or food coupon) under instructions differing from these uniform instructions, only if the sender sends the item to us for collection and credit as an individual noncash item with the instructions noted in the letter of transmittal.

46.P The paying bank is responsible for making any protest, except as otherwise provided by the rules or practices of any clearinghouse through which the item is presented or by agreement between us and the paying.

46.Q We assume no responsibility for:

- (a) determining whether another bank has made a protest; or
- (b) making a protest if a required protest has not been made by another bank.

⁵Under Section 210.2 of Regulation J, "State" means a State of the United States, the District of Columbia, Puerto Rico, or a territory, possession or dependency of the United States.

CHARGES

47. Our fee schedule for commercial check services shows the charges imposed for cash item collection services. We may make the charge to the account maintained or used by the sender or other bank requesting the service.

SIZE; ROUTING NUMBERS; RECORDS

48. We urge paying banks to imprint the routing number in fractional form in the upper right corner in at least 8 point Gothic type and to conform cash item dimensions to American Bankers Association standards - between 2-3/4 and 3-2/3 inches in width, and 6 and 8-3/4 inches in length.

49. We may present or send a cash item, under Section 210.6(a)(2) of Regulation J, on the basis of any routing number or other designation of a paying bank appearing on the item when we receive it. We are not responsible for any delay resulting from our acting on a designation of a paying bank, whether inscribed by magnetic ink or other means, and whether consistent with any other designation of the paying bank on the item.

50. If in our judgment processing requires it, we may inscribe on an item, in magnetic ink or otherwise, (a) the amount of the item, or (b) the Federal Reserve routing symbol or the suffix of the institutional identifier, or both, of the paying bank (or nonbank payor). The sender assumes the risk of loss resulting from any delay caused by our inscribing the item and presenting or sending it accordingly, except in the case of an item that is not amount encoded and is classified as a cash item in our time schedule.

51. In addition to the recordkeeping requirements of this bulletin, Treasury regulations (31 Code of Federal Regulations, Part 103) require that banks keep legible records of many items. These regulations apply whether or not the item is capable of being photocopied.

**MISSING OR DESTROYED ITEMS;
PHOTOCOPIES****Mutilated Cash Letters**

52. A paying or collecting bank that receives

from us a cash letter in a mutilated condition should telephone us before attempting to process any part of it. Sometimes tracing and identification of mutilated or destroyed cash items can be expedited when the cash letter is returned to us intact.

Items Discovered Missing or Destroyed

53. We credit or refund the amount paid for a cash item if (a) a subsequent collecting bank or the paying bank reports that it discovered during initial proving that the item is missing, or (b) a subsequent collecting bank reports that it knows the item to be missing or destroyed in transit to a subsequent collecting bank or the paying bank. We will credit or refund the amount only if we (or a subsequent collecting bank that promptly sends the report to us) receive the report within five (5) banking days from the date of the cash letter that listed the item. This time is measured by the banking days of the paying or collecting bank.

54. We charge back to the sender the amount of a cash item (a) that we or another Reserve Bank discover to be missing, or (b) that a subsequent collecting bank or paying bank reports to be missing or destroyed as provided in paragraph 53 of this bulletin.

Handling of Photocopies of Cash Items

55. We handle a correctly prepared photocopy as a cash item through our adjustment department if we (or a prior collecting Reserve Bank) receive the photocopy and a copy of the advice of chargeback within thirty (30) banking days from the day we (or the prior Reserve Bank) charged back the original item. The prior Reserve Bank should send the photocopy and advice to us when received.

56. If a shipment of cash items is lost or destroyed in transit to the first collecting Reserve Bank, we handle correctly prepared photocopies of the items as cash items through our cash item department in a cash letter if (a) the sender determines that at least several items in the original shipment remain unpaid, and (b) the photocopy cash letter is identified as containing

nonmachineable photocopies of items from a lost or destroyed shipment.

57. We present or send a photocopy as a cash item subject to all the rules as to payment and return of cash items, other than the instructions regarding protest and wire advice of nonpayment. A paying bank has the right to return a photocopy, through our adjustment department, within twenty (20) banking days from its banking day of receipt if:

(a) the drawer has refused to authorize payment of the photocopy, or the paying bank has been unable to contact the drawer, and the paying bank returns a signed statement to that effect; or

(b) the original item was paid and the paying bank returns a copy of the front and back of the paid original cash item and a signed statement that the original was paid and giving source of receipt information. The information required is the name and routing number, if any, of the bank or person from which, and the date on which, the original was received. If the original was received from us, include the date of the cash letter and the amounts of the items listed before and after the original, the total of the cash letter and the batch or package that contained the original and the sequence number of the original.

58. A correctly prepared photocopy must bear the sender's current indorsement and the following or equivalent signed legend:

This is a photocopy of the original check which we indorsed and which was reported missing or destroyed in the regular course of bank collection. We guarantee all prior and any missing indorsements and the validity of this copy. Upon payment of this copy in lieu of the original check, we agree to hold each collecting bank and the payor bank harmless from any loss suffered, if payment is stopped on the original check and it is unpaid.

59. We assume no responsibility for determining whether a return of a photocopy is timely. Nor do we assume any responsibility for determining whether a report of a missing or destroyed cash item or a statement regarding the handling of a photocopy is correct. We handle, on a without entry basis, return photocopies received by us or a subsequent collecting Reserve Bank within nine (9) months of the banking day of receipt by the paying bank. We also handle without entry a late report of a missing or destroyed cash item.

RIGHT TO AMEND

60. We reserve the right to amend this Bulletin at any time.

APPENDIX A GOVERNMENT CHECKS

1. We handle checks drawn on the United States Treasury ("Government checks") as cash items under Treasury Department Circular No. 21 (31 Code of Federal Regulations, Part 240). Copies of that Circular will be furnished on request. As to matters that Circular does not cover, Regulation J, this bulletin, and our time schedules apply.

2. We give immediate credit, subject to payment in actually and finally collected funds, for Government checks as provided in our time schedules. After we handle Government checks as fiscal agent of the United States under Treasury requirements, the checks are subject to examination and payment by the United States Treasury. We may reimburse a sender for its reasonable costs of reconstructing a Government check cash letter lost or destroyed in transit between Federal Reserve offices.

3. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to Government checks. If the United States Treasury refuses payment of a Govern-

ment check upon first examination and returns the check, or a photocopy, to us as outlined in Treasury Department Circular No. 21, we charge back the amount of the check to the sender and credit that amount to the United States Treasury. We have no responsibility to the sender or another owner or holder for the nonpayment and return by the United States Treasury of a Government check or photocopy.

4. Under Federal statute, 31 U.S.C. §§ 122 and 129: (a) a claim on a Government check that appears of record to have been paid must be made to the Government within six years after the date of issuance of the check and (b) an action by the Government to enforce liability on a forged or unauthorized signature or indorsement or alteration of a Government check must be commenced within six years after presentment of the check, or written notice of such a claim must be given within that period, but if a claim is made on an apparently paid check, the six-year period is extended an additional 180 days.

**APPENDIX B
POSTAL MONEY ORDERS**

1. We handle postal money orders (United States postal money orders; United States international postal money orders; domestic-international postal money orders) as cash items under an agreement between the United States Postal Service and the Reserve Banks as depositaries and fiscal agents of the United States pursuant to authorization of the Secretary of the Treasury. As to matters that agreement does not cover, Regulation J, this bulletin, and our time schedules apply.

2. We give immediate credit for postal money orders as provided in our time schedules. The credit becomes final as between us and the sender when we debit the amount of the money orders against the general account of the United States Treasury under symbol numbers assigned by it.

3. The agreement between the United States Postal Service and the Reserve Banks provides that: (a) the United States Postal Service may make no claim against or through a Reserve Bank for refund or otherwise with respect to a postal money order debited against the general account of the United States Treasury (other than a claim based on the negligence of a Reserve Bank); (b) the United States Postal Service will deal directly with the bank or the party against which the claim is made; and (c) the Reserve Banks will assist the United States Postal Service in asserting the claim, including making any relevant evidence in their possession available to the United States Postal service. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to postal money orders.

APPENDIX C RETURN ITEM PILOT PROGRAM

General

1. This Bank is currently conducting for the System a multiphased Return Item Pilot Program designed eventually to develop universal return item procedures permitting direct return to the institution of first deposit. For the duration of the present phase of the Pilot Program ("Pilot"), the following provisions will be effective to vary inconsistent provisions of Bulletin 8, 10, 12 and 13, and will be binding with regard to all parties governed by Regulation J. All provisions of Regulation J and relevant Bulletins of this Bank not so varied will continue in effect and govern actions of parties.

Direct Return

2. If an item which has been handled by this Bank for collection is returned unpaid, and (1) if the depository bank is located within the Eleventh District, (2) if the depository bank participates in this Bank's automatic charge plan, and (3) if an office of this Bank presents cash items to the depository bank or its designated intercept point, we will, in accordance with State law, return the unpaid items direct to the depository bank or its designated intercept point.

Charges

3. When this Bank uses the direct return procedure, the unpaid items will be returned to the depository bank and the related charges in the amount of the return item will be made against the account of the depository bank, its designated correspondent or processor, in accordance with the existing arrangements with that bank for the automatic payment for cash letters under the provisions of our Bulletin 12. The existing agreements, as well as any future agreements, evidenced by executed forms TR-383, TR-384, and/or TR-411 will be deemed to be amended to provide all necessary authorization and appointment of agency relationships to permit this Bank to also make such charges for return items and to make further adjustments to the appropriate account as may be necessary in order that settle-

ment for return items shall be effected in the same manner as authorized by the check processing automated payment arrangements.

Notification of Nonpayment

4. This Bank will provide notice of nonpayment to the depository bank on an unpaid cash item in the amount of \$2,500 or more as provided in paragraphs 42 through 46.L of this Bulletin.

Processing Fees

5. Processing fees will be charged to payor institutions in accordance with the schedule as published by this Bank from time to time in its circulars.

Automated Processing

6. In order to obtain price incentives as published from time to time with regard to intraterritory returns, payor banks may deposit such returns qualifying for direct return to the institution of first deposit in a manner permitting processing by automated means as set out below.

7. A payor bank depositing returns in a form for automated processing must determine that the institution of first deposit of the item to be returned is eligible to receive direct return under the provisions of the Pilot and that the institution of first deposit is located in the same Reserve Bank Office territory as the payor bank. No other items will be acceptable for these automated processing procedures.

8. Payor banks must attach an encodable strip to the bottom of the cash item or insert this cash item into a transparent carrier document; the strip or carrier must be encoded with (1) the nine-digit transit routing number of the institution of first deposit and (2) the amount of the item.

9. This Bank will bear no responsibility for the accuracy of the payor bank's determination of the identity of the institution of first deposit.

10. Return items especially prepared for automated processing must not be commingled in a single deposit with non-automated returns and must be deposited with a separate TR-418 form.

EXHIBIT I**Sender's Late Return Item Claim**

Date _____

TO: FEDERAL RESERVE BANK OF DALLAS [_____ BRANCH]

The returned cash item described below and attached is being delivered to you because of LATE RETURN:

1. Amount _____
2. Dated _____
3. Drawn by (Drawer) _____
4. Payable to (Payee) _____
5. Check No. _____
6. Our bank sent this cash item to _____ in a cash letter dated _____ totaling \$_____, tape total \$_____, listed between items for \$_____ and \$_____.
7. This item was apparently returned by the paying bank on _____
(Date)
8. We received the return item on _____
(Date) from your bank in a return item letter dated _____ totaling \$_____, tape total \$_____, listed between items for _____ and \$_____.

We claim that, according to our records and the endorsements and stamps on the item, the paying bank did not take all action necessary to recover its payment within the time limits of Regulation J and we certify that, as to advice of non-payment for the item, we received

[CHECK ONE]

- advice on _____
(Date)
- no advice

This late return caused us to incur financial loss, because of lack of authority to charge the item back to our customer, or for other reasons.

Please credit our account provisionally and advise.

Sending BankBy _____
Authorized Signature

Prepare and submit in duplicate.

Knowingly making a false statement on this form to influence the action of a Federal Reserve Bank in granting a credit may subject the signing party to criminal penalties under Federal or State law.

EXHIBIT II**Paying Bank's Response to Late Return Item Claim**

Date _____

TO: FEDERAL RESERVE BANK OF DALLAS [_____ BRANCH]

Your advice of debit dated _____ forwarded to us a claim of late return of an item in the amount of \$_____.

We certify that our records indicate that this item was received by us or our processor as a cash item on _____ in your cash letter dated _____, (Banking Day) in the amount of \$_____, tape total \$_____, listed between items for \$_____ and \$_____, and that the item was returned to you in our return item letter dated _____, in the amount of \$_____, tape total \$_____, listed between items for \$_____ and \$_____. Notice of nonpayment was given for this item on (date) * _____.

If the number of banking days from the banking day of receipt to the date of return or of notice of nonpayment exceeds one banking day, the explanation for the delay is as follows _____

We took all action necessary to entitle us to recover our payment within the time limits of Regulation J. Please credit our account and advise.

Paying Bank

By _____

Officer's Signature

*Enter "none" if no notice of nonpayment was given or "date and method" if notice was given.

Prepare and submit in duplicate.

Knowingly making a false statement on this form to influence the action of a Federal Reserve Bank in granting a credit may subject the signing party to criminal penalties under Federal or State law.

EXHIBIT III**Paying Bank's Notification Agreement**
(to be typed on paying bank's letterhead)

(Date)

Federal Reserve Bank

of _____

Attention: Payments Mechanism Department

[] Head Office [] El Paso Branch
[] Houston Branch [] San Antonio Branch

Gentlemen:

We request that, in accordance with your Bulletin 8, you provide notice of nonpayment for large dollar cash items that we decide not to pay. We elect to provide the information required by:

- returning the physical item to you
- telephone notification to you
- Fedwire System (RESPONSE Network)

We authorize you to charge our billing account maintained or used by us on your books and to make other appropriate adjustments with this service.

(Name of Paying Bank)

(Nine Digit ABA Number)

By: _____
(Authorized Signature)

(Title)

EXHIBIT IV**Time Schedule for Notification of Nonpayment Service**

In accordance with this Bank's Bulletin No. 8 "Collection of Cash Items", the deadlines for receipt by this Bank of the item, telephoned information, or Fedwire message in connection with this Bank's notification of nonpayment services are set forth below.

<u>Service</u>	<u>Deadline</u>
Physical Item	Noon local time following the deadline for return of the item.
Telephone Notice*	Noon local time following the deadline for return of the item.
Fedwire (RESPONSE Network)**	Noon Eastern Time on the paying institution's second banking day following the deadline for return of the item.

* This Bank will accept telephone notice after the noon deadline until 4:00 p.m. and will make every effort to effect notification to the depositary institution for intraterritory items and to the next Federal Reserve Office for interterritory items.

** This Bank's Fedwire system will remain open until 5:00 p.m. for purposes of this Bank's notification of nonpayment services. Items received after Noon Eastern Time and destined to online institutions will be delivered. Every effort will be made to effect notification to intraterritory offline institutions.