



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

DALLAS, TEXAS 75222

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

SUBJECT

Bulletins of the Federal Reserve Bank of Dallas

DETAILS

The Federal Reserve Bank of Dallas has published a new Bulletin 17--
Check Truncation Services. The new pamphlet should be placed in Volume 1 of
your Regulations and Bulletins Binders.

ATTACHMENTS

The new Bulletin 17--Check Truncation Services is enclosed.

MORE INFORMATION

For additional copies of this bulletin, please contact the Public
Affairs Department at (214) 651-6289.

Sincerely yours,

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

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).

BULLETIN 17

Check Truncation Services



FEDERAL RESERVE BANK OF DALLAS

SCOPE

This bulletin contains the terms and conditions by which this Bank provides check truncation services to financial institutions in the Eleventh District. Any institution using these services shall, by such action, agree to the terms and conditions set forth herein.

**BULLETIN 17
CHECK TRUNCATION SERVICES
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GENERAL

1. This Bulletin sets forth the terms of the agreement ("Agreement") between this Bank and a depository institution ("Institution") where such Institution has requested this Bank to provide check truncation services. Unless otherwise indicated, any reference in this Bulletin to this Bank includes its offices in Dallas, Houston, San Antonio and El Paso.

2. This Agreement constitutes a "special collection agreement" as authorized by Section 210.7(b)(3) of Regulation J of the Board of Governors of the Federal Reserve System ("Regulation J"; 12 CFR 210 et. seq.). This Agreement shall be governed by, and interpreted consistently with, Regulation J, Regulation CC (12 CFR 229 et. seq.), and other applicable law. This Bank's Bulletin 8 shall supplement the terms of this Agreement to the extent consistent herewith, such as with respect to disputed return items, and as referred to herein.

DEFINITIONS

3. As used herein, unless the context otherwise requires, terms not defined herein have the meanings set forth in Regulation J and Regulation CC.

a. "Deliver" or "delivery" means to effect receipt of the information, notice, or eligible item, as relevant;

b. "Eligible item" means either a cash item drawn on or payable through Institution and handled by this Bank for collection, or an over-the-counter item that (i) contains the symbol or account number designating it as an eligible item specified in the Check Truncation Service Request Form and (ii) otherwise complies with the eligibility requirements set forth in the Truncation Procedure Manual;

c. "Instruction to Return" means an instruction by Institution to this Bank to return an item in accordance with the Truncation Procedure Manual;

d. "MICR-line information" means the information inscribed in the MICR-line on an eligible item as specified in the Truncation Procedure Manual;

e. "Over-the-counter item" means a cash item drawn on or payable at or through Institution that has been deposited in Institution for collection or cashed by Institution over-the-counter that is an eligible item and that is delivered to this Bank by Institution in accordance with the Truncation Procedure Manual;

f. "Truncation Procedure Manual" means the manual of procedures established by this Bank, as reasonably amended from time to time by notice to Institution;

g. "Receive" or "receipt" means when information, notice or an eligible item comes to the attention of Institution or this Bank, respectively, or when it is duly tendered at the place of business held out by Institution or this Bank, respectively as the place for receipt;

h. "Record" or "recording" as to an eligible item means to reproduce the item's MICR-line information in accordance with the Truncation Procedure Manual;

i. "Request for information" means a request made in accordance with the Truncation Procedure Manual by Institution that this Bank: (i) provide additional information with respect to an eligible item to Institution, (ii) transmit a facsimile copy of an eligible item to Institution, or (iii) make available a physical eligible item or copy to Institution for pick up;

j. "Time critical request for information" means a request for information necessary to

Institution's determination of whether to pay or dishonor an item.

DESCRIPTION OF SERVICE

4. This Bank shall, for all eligible items, in its capacity as a collecting bank: (a) record MICR-line information and perform reject repair or key entry as provided in the Truncation Procedure Manual; (b) microfilm items; (c) deliver MICR-line information to Institution; and (d) return physical items. This Bank shall also, in its capacity as agent of Institution, with respect to eligible items: (e) receive presentment of items pursuant to Section 210.7(b) of Regulation J; (f) respond to requests for additional information; (g) retain physical items and microfilm copies; (h) provide notification of nonpayment as required under Section 229.33 of Regulation CC; (i) return physical items; and (j) retrieve physical items, microfilm copies, or related information. The procedures with which the parties are to comply in providing or receiving the services described herein are defined in the Truncation Procedure Manual. This Bank may make reasonable amendments to the Truncation Procedure Manual from time to time by notice to Institution.

5. As a collecting bank, this Bank shall automatically record MICR-line information from and make a microfilm copy of the front and back of eligible items received by this Bank. This Bank shall open fine sort packages and process eligible items found therein. This Bank shall perform reject repair or key entry as provided in the Truncation Procedure Manual. This Bank shall endorse all eligible items in accordance with the Truncation Procedure Manual.

6. This Bank shall deliver eligible items to the truncation unit responsible for storage of the items. This Bank shall make available for delivery the MICR-line information, together with the total dollar amount of relevant items, to Institution or to a person designated by it as its agent

for receipt, normally by 12:00 noon on each banking day for this Bank. If Institution is closed on a banking day for this Bank, this Bank shall make available for delivery the eligible items and the MICR-line information on the next banking day on which both this Bank and Institution are open. Institution agrees to establish its cut-off hour for receipt of MICR-line information no earlier than 2:00 p.m. under this Agreement. Delivery shall be in accordance with the Truncation Procedure Manual. If Institution elects to receive MICR-line information through electronic transmission, it agrees to receive information between the hours of 8:00 a.m. and 2:00 p.m.

For the purpose of Regulations J and CC and this Bank's Bulletin 8, the delivery of an eligible item (other than an over-the-counter item) to this Bank's truncation unit constitutes presentment of the item. The eligible item will be deemed presented to this Bank's truncation unit at the time of delivery of the MICR-line information relating to the eligible item (other than over-the-counter item) to Institution by this Bank in its capacity as collecting bank.

SETTLEMENT AND PAYMENT

Provisional Settlement

7. Simultaneous with or subsequent to delivery of the MICR-line information constituting presentment pursuant to paragraph 6 of this Agreement, this Bank, in its capacity as collecting bank, shall debit Institution's account or the account of its designated correspondent at this Bank on that day in the aggregate amount stated in that day's information pursuant to Institution's cash item settlement agreement with this Bank. At the same time, this Bank shall credit the account with the amount of over-the-counter items included in that day's information. In the event Institution closes voluntarily on a day that is a banking day for this Bank, Institution shall make payment for the aggregate amount stated in the

information which is made available to the institution on the day it is closed in accordance with the provisions regarding payment for cash items contained in this Bank's Bulletin 8.

Time Critical Requests for Information

8. Institution may, without dishonor, request this Bank, by telephone or other means permitted by the Truncation Procedure Manual at Institution's expense to do the following: (a) provide additional information with respect to the front and back of an eligible item whose MICR-line information this Bank delivered under paragraph 6; (b) transmit a facsimile copy of the front and back of such an eligible item; or (c) make available for pick up by Institution such a physical eligible item or a copy thereof. Institution must deliver a time critical request for information to this Bank by 10:00 a.m. in accordance with the Truncation Procedure Manual. Institution waives any right to exhibition or production of the eligible item. Upon receipt of a time critical request for information, this Bank, in its capacity as agent of Institution, will use its best efforts to respond to a request for information, in accordance with the Truncation Procedure Manual, by 12:00 noon that day. This Bank makes no representation or warranty that a time critical request for information will be compiled with by such a time, and failure to do so shall not affect presentment of the item or the deadline for return of the item under Regulation J, Regulation CC, and the Uniform Commercial Code.

Return of Eligible Items and Final Payment

9. Institution shall have until 11:00 a.m. on its banking day following the banking day on which presentment of an eligible item was made under paragraph 6 to deliver to this Bank an instruction to return an item in an expeditious manner pursuant to Section 229.30 of Regulation CC. Such instruction shall be in the form and contain the information required by the Truncation Procedure Manual. Upon receipt of an

instruction to return an item, this Bank in its capacity as agent of Institution, shall retrieve the physical eligible item and return it or written notice in lieu of return pursuant to Section 229.30(f) of Regulation CC to this Bank's return item unit. Where an instruction to return an item is delivered to this Bank by 11:00 a.m., the physical item or written notice in lieu of return shall be delivered to this Bank's next return item deadline on the same day. Receipt of an instruction to return an item of \$2,500 or more will also serve as a request to this Bank to give notice of nonpayment to the depository bank under Section 229.33 of Regulation CC.

For purposes of Regulation CC, Regulation J, and this Bank's Bulletin 8, the delivery of an eligible item or written notice in lieu of return of the item by this Bank's return item unit constitutes return of the item by this Bank in its capacity as agent of Institution. Upon return of the physical item or written notice in lieu of return to this Bank's return item unit, this Bank, in its capacity as a collecting bank, shall return item or written notice in lieu of return and credit the account maintained or used by Institution with the amount of the item in accordance with the requirements of Regulation J, Regulation CC, and Bulletin 8. In the event that the Institution fails to give this Bank an instruction to return an item by the 11:00 a.m. deadline, Institution shall be deemed to have finally paid the item. Institution may send on a without-entry basis requests for refund after the specified deadline. This Bank shall assume no responsibility for determining whether institution returned an item within its deadline, but this Bank is responsible to Institution as principle for failing to retrieve and return an eligible item to this Bank's return item unit by Institution's deadline following receipt of a timely instruction to return.

RETENTION OF PAID ITEMS

10. In its capacity as agent of Institution, this Bank shall retain the original of all eligible items

for which final payment has been made ("Paid items") for ninety (90) calendar days from the date on which this Bank delivers the information relating to such items, or for the time period set forth in the Truncation Procedure Manual, whichever is greater ("Retention Period"). During the Retention Period, the original eligible item shall be available to the Institution. Upon Institution's request, this Bank shall use its best efforts to send the original of any eligible item to Institution in accordance with Truncation Procedure Manual by the end of the second banking day following the banking day on which such request was received during the first ninety (90) calendar days of the Retention Period. All original Paid Items shall be destroyed by this Bank after the Retention Period. In its capacity as agent of Institution, this Bank shall retain the microfilm copies made in accordance with paragraph 5 of this Agreement for a period of seven (7) years from the date on which this Bank delivers the information relating to such items. At any time prior to the expiration of such seven-year period, this Bank shall make a reasonable effort to send to Institution a microfilm copy of an eligible item by the end of the second banking day following the banking day on which Institution requests a copy in accordance with the Truncation Procedure Manual. This Bank shall destroy microfilm copies following the expiration of the seven-year period. Except as provided in paragraph 15 of this Agreement, this Bank will not honor request of, or release an eligible item or a copy thereof to, any party other than Institution, including but not limited to customers of Institution.

RESERVE BANK WARRANTIES AND LIABILITIES

Warranties

11. In addition to the warranties made by this Bank under Regulation J, with respect to MICR-line information for an eligible item (in-

cluding an over-the-counter item) delivered to Institution under paragraph 6 of this Agreement, this Bank, in its capacity as agent of Institution, warrants to institution that:

- a. Except as provided in subparagraph b which follows, the MICR-line information delivered to Institution, other than the customer account number and check number, represents the information printed on the MICR-line of the item as read and recorded by this Bank's equipment;
- b. If this Bank repairs or key enters MICR-line information on an eligible item because the MICR-line does not clearly and visibly indicate the amount of the item, the routing number of the paying bank, or the item number delivered to Institution accurately represents the amount, routing number, or item number as it appears elsewhere on the item;
- c. The eligible items and a copy thereof have been stored by this Bank and the eligible item shall not be presented for payment, and shall not be sent to Institution except as requested under paragraphs 8 and 10 hereof.

This Bank makes no warranty concerning and assumes no responsibility for the accuracy of the customer account number and check number. Institution is encouraged to validate the accuracy of the customer account number. Compliance with the warranties set forth above with respect to the MICR-line information (including delivery of MICR-line information concerning the customer account number and check number) shall not constitute a breach of this Bank's warranty of no material alteration of an item under Regulation J. This Bank shall have no responsibility for determining whether an eligible item is properly payable under applicable law, including but not limited to determining: (1) The genuineness of any signature(s) of the drawee(s) appearing on an eligible item; (2) whether an eligible item is stale; (3) whether an

eligible item is postdated; (4) whether an eligible item bears proper and/or genuine endorsement(s); and (5) whether a stop payment has been issued for an eligible item.

Limitations on Liability

12. With respect to any claim arising out of this Bank's performance of functions in its capacity as agent of Institution, this Bank shall not have or assume any liability to any person other than Institution. With respect to any claim arising out of a Reserve Bank's performance of functions in its capacity as a collecting bank, liability is governed by Regulation J, Section 210.6. When performing in its capacity as agent of Institution, this Bank shall have no liability to Institution other than breach of warranties expressly set forth herein, or for this Bank's own lack of good faith or failure to exercise ordinary care in carrying out its duties as agent. This Bank's liability hereunder in its capacity as agent of Institution for breach of the warranties set forth in paragraph 11 or for lack of good faith or failure to exercise ordinary care shall be limited to the actual amount of the eligible item or the amount of the MICR-line information delivered by this Bank with respect to the item, whichever is greater, reduced by an amount which could not have been realized by use of ordinary care, and where this Bank has failed to act in good faith, such amount may include other damages, if any, suffered by Institution as a proximate consequence.

REPRESENTATIONS AND WARRANTIES OF INSTITUTION

13. In requesting this Bank to provide check truncation services pursuant to this Agreement, Institution represents and warrants to this Bank:

- a. That it has obtained all necessary resolutions, signature cards, and authorizations of each customer of the Institution whose items

will be processed by this Bank pursuant to this Agreement, including waiver of any right to the physical item;

- b. That it has fully disclosed to each such customer, and obtained its agreement to, the basic terms of this Agreement, including without limitation that customer may make a claim only against Institution with respect to matters covered by this Agreement, and may obtain eligible items or copies thereof or information relating thereto only from Institution;

- c. That it has not attempted to disclaim its liability to its customer for verifying the drawer's signature on an eligible item; and

- d. That it has received all necessary approvals of its Board of Directors or other appropriate governing body with respect to participating under this Agreement.

14. Institution shall indemnify and hold this Bank harmless from all claims, demands, losses, liabilities, or expenses, including attorneys' fees and expenses of litigation, made against it by any other person (including but not limited to any other depository institution, other business entity, or clearing house or governmental authority), or suffered by it, in connection with this Bank's performance of functions in its capacity as agent under this Agreement, including but not limited to claims, demands, losses, liabilities or expenses, that result from this Bank's failure to exercise ordinary care or act in good faith. These indemnities shall survive the termination of this Agreement.

RECORDS

15. This Bank, as Institution's agent, shall not release or disclose any eligible item, copy or other information retained under paragraph 10 of this Agreement to any person other than Institution, a person designated by Institution as its agent for receipt, or another Reserve Bank sub-

ject to restrictions, except as provided in this paragraph or paragraph 9 of this Agreement. This Bank shall disclose such information in response to a grand jury subpoena or an order of a court of competent jurisdiction, at Institution's expense, or in response to an audit or examination of this Bank authorized by law.

FEES AND REIMBURSEMENTS PAYABLE BY THE INSTITUTION

16. The Institution shall pay for the services described herein the fees specified in this Bank's fee schedule, as that schedule may be amended from time to time by this Bank. Said fees shall be in addition to any other sums payable under this Agreement, may be changed by this Bank upon thirty (30) days' written notice to Institution, and shall be charged to the account maintained or used by Institution on this Bank's books for settlement of service fees.

TERMINATION OR SUSPENSION

17. The services to be rendered by this Bank pursuant to this Agreement shall commence on the date agreed to by Institution and this Bank and continue unless terminated by prior written notice to one party by the other party specifying a termination date at least thirty (30) calendar days after the date of receipt of the notice. Notwithstanding the foregoing, this Bank may terminate this Agreement at any time upon notice to Institution if this Bank determines, in its sole discretion, that the financial condition of the institution poses a risk to this Bank in connection with the services rendered hereunder. Upon termination, this Bank, in its sole discretion, may retain all items and microfilm copies of items then being held by this Bank under this Agreement for the remainder of the applicable Retention Period or other period for each item or copy as specified in paragraph 8 and 10 of this Agreement, or this Bank may deliver to Institution the items and copies then being held for retention by it.

Nothing herein shall affect this Bank's right to refuse to accept items for presentment to Insti-

tution because of Institution's failure to comply with this Agreement, Regulation J, Regulation CC, or Bulletin 8. In addition, if at any time this Bank, in its sole discretion, determines the amount of an eligible item(s) is/are excessive in relation to the financial condition of Institution, it may refuse to handle such item(s) or otherwise comply with this Agreement as to such item(s).

TIMELINESS OF ACTION

Delays

18. If, because of circumstances beyond its control, either party is delayed beyond the time limits provided in this Agreement, or by law, in acting on an eligible item or request, the time for acting is extended for the time period necessary to complete the action if the party exercises such diligence as the circumstances require.

Time

19. All times are Central time.

TRUNCATION PROCEDURE MANUAL

20. The Truncation Procedure Manual referred to in paragraph 3 and throughout this Agreement, as it may be amended from time to time, is hereby incorporated into and made an integral part of this Agreement.

NOTICES

21. Except as otherwise specified herein, all notices shall be in writing and shall be delivered to the parties at their respective addresses set forth in the Check Truncation Service Request Form submitted by Institution to this Bank.

TELEPHONE

22. This Bank and Institution may record telephone calls made under this Agreement.

RIGHT TO AMEND

23. No waiver of the provisions of this Agreement shall be effective unless in writing and signed by the parties hereto. No failure on the

part of either party to exercise, and no delay in exercising, any right hereunder shall preclude any other or further exercise thereof or the exercises of any other right. The right is reserved by this Bank to withdraw, add to, or amend any of the provisions of this Bulletin at any time.

FEDERAL RESERVE BANK OF DALLAS
STATION K
DALLAS, TEXAS 75222

ADDRESS CORRECTION REQUESTED

BULK RATE
U.S. POSTAGE

P A I D

DALLAS, TEXAS
Permit No. 151