



FEDERAL RESERVE BANK
OF DALLAS

TONY J. SALVAGGIO
FIRST VICE PRESIDENT

November 4, 1994

DALLAS, TEXAS
75265-5906

Notice 94-109

TO: The Chief Operating Officer of
each financial institution in the
Eleventh Federal Reserve District

SUBJECT

**Operating Circular 8
(Collection of Cash Items)**

DETAILS

The Federal Reserve Bank of Dallas has revised Operating Circular 8 (Collection of Cash Items). The changes became effective June 6, 1994.

The revisions to Operating Circular 8 relate to same-day settlement services offered by the Federal Reserve Banks. In general, the revisions address guidelines related to Primary and Alternate Presentment Point services, along with ancillary Payor Bank services, associated with same-day settlement.

ENCLOSURES

Operating Circular 8 and a revised index are enclosed. Please file them in your Operating Circulars (Bulletins) binder and discard the old versions.

MORE INFORMATION

For more information regarding collection of cash items, please contact Terry Campbell, (214) 922-6603, at the Dallas Office; Eloise Guinn, (915) 521-8201, at the El Paso Branch; Luke Richards, (713) 652-1544, at the Houston Branch; or Herb Barbee, (210) 978-1402, at the San Antonio Branch.

For additional copies of this Bank's notice, Operating Circular 8, or the index, please contact the Public Affairs Department at (214) 922-5254.

Sincerely,

A handwritten signature in cursive script, reading "Tony J. Saluzzo". The signature is written in black ink and is positioned below the word "Sincerely,".

Operating Circular

F e d e r a l R e s e r v e B a n k o f D a l l a s

8

**Collection of
Cash Items**

Scope

Operating Circular 8 contains the terms and conditions under which this Bank will handle cash items for collection and gives other instructions regarding the handling, return, and adjustment of cash items.

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GENERAL

1. Subpart A of Regulation J of the Board of Governors of the Federal Reserve System, Subpart C of Regulation CC of the Board, this Operating Circular and its appendices, and our time schedules apply to the handling of all cash items that we accept for forward collection, all returned checks that we accept for return, and any form of payment that we receive for such items. This Operating Circular also contains instructions to paying and collecting banks for handling and paying cash items received from us and instructions to returning and depository banks for handling and paying returned checks received from us. This Operating Circular is issued pursuant to Sections 4, 13, 14(e), and 16 of the Federal Reserve Act, the Expedited Funds Availability Act, and related statutes and in conformity with Regulations J and CC. It is binding on each party interested in an item we handle. The provisions of this Operating Circular vary by agreement any inconsistent provisions of the Uniform Commercial Code or of Regulation CC, but only to the extent of the inconsistency.

This Operating Circular, however, is not binding on a bank outside a state to which a subsequent collecting bank presents or sends a cash item payable outside a state ("foreign cash item").¹ For example, paragraphs 25 through 30 regarding off-premise presentment and payment for cash letters, paragraph 32 regarding adjustments with a paying bank, paragraph 38 regarding return by a paying bank, and paragraph 43 regarding identification of a returned check are not binding on a paying bank outside a state with respect to a foreign cash item. In addition, the rules on notice of nonpayment in paragraphs 51–63, the procedures for adjustments with a paying bank in paragraphs 69–70 and 72–74, and the handling of photocopies as cash items in paragraphs 79–83 do not apply to and are not available for foreign cash items. A Reserve Bank may further modify the application of this Operating Circular to foreign cash items in an agreement with a subsequent collecting bank.

2. Each Reserve Bank issues an operating circular substantially similar to this one. When

we send a cash item or a returned check to another Federal Reserve Bank, that Reserve Bank handles the item subject to its Operating Circular and time schedules. We give credit for the item in accordance with our time schedules.

3. The definitions of terms set forth or incorporated in Regulation J, as well as terms defined in Regulation CC, apply in this Operating Circular, except as otherwise provided. "Bank" means a depository institution as defined in Section 19 of the Federal Reserve Act. "Item" applies to a cash item and a returned check. "Cash item" excludes a returned check, and "returned check" refers to a cash item and a check, as defined in Regulation CC, that is returned by a paying bank. The terms "prior" and "subsequent" with respect to a bank are used in relation to our handling of an item. For example, a subsequent collecting bank is an institution that handles a cash item after we handle it. Many terms used in this Operating Circular have specialized meanings that have developed through law, custom, and commercial usage. Unless otherwise stated, all references to "this Bank" are to our Dallas Office and our El Paso, Houston, and San Antonio Branches.

4. This Operating Circular applies to any state or political subdivision of a state to which we present direct as cash items any bills, notes, or warrants that are issued by the state or political subdivision and that 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 Operating Circular:

- A. checks payable in a state (as defined in Section 210.2 of Regulation J), including postdated checks, except checks that cannot be collected at par;

¹ Under 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.

- B. government checks, postal money orders, redeemed savings bonds, and food coupons;²
 - C. other demand items, collectible at par in funds acceptable to the Reserve Bank of the Federal Reserve District in which the items are payable, that we are willing to accept as cash items;³ and
 - D. demand items payable in Canada, collectible at par in funds acceptable to the last collecting Reserve Bank, 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 a sender other than one defined as a sender in Section 210.2 of Regulation J.

ITEMS THAT WE DO NOT HANDLE AS CASH ITEMS

7. A sender should not send to us an item eligible for handling as a cash item under paragraph 5
- A. if a passbook, certificate, or other document is attached to the item;
 - B. if special instructions, including a request for special advice of payment or dishonor, accompany the item;
 - C. if the item consists of more than a single thickness of paper, except as provided in paragraphs 79–80 and 87–88 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;
 - D. if, except as provided in paragraphs 79–80 and 87–88 regarding photocopies, the item has not been preprinted

or postencoded—in accordance with the American National Standard “Specifications for Placement and Location of MICR Printing, X9.13” (September 1983)—before we receive it (1) with the routing number⁴ of the paying bank (or nonbank payor) and (2) except as provided in our time schedules, with the dollar amount of the item. We handle such an item as a cash item, however, when we judge that special circumstances justify such handling or when the item is a foreign item;

- E. if the item, other than a foreign item, does not set forth on its face the name of the paying bank and a city and state address of the bank that is located (1) in the same Reserve Bank check processing region as the address associated with the routing number in magnetic ink on the item and (2) in a Reserve Bank availability zone that provides the same availability as (or slower availability than) the address associated with the magnetic ink routing number; or
- F. if, except as provided in paragraphs 79–80 and 87–88 regarding photocopies, the item does not (1) bear the routing number of the paying bank in fractional form in the upper right corner in at least 8-point Gothic type or (2) conform to the dimension standards of the American National Standard “Specifications for Placement and Location of MICR Printing, X9.13” (September 1983)—between 2¾ inches and 3½ inches in width and between 6 inches and 8¾ inches in length. We handle such an item as a cash item, however, when we judge that special circumstances justify such handling or when the item is a foreign item.

8. A sender should not send to us as a cash item an item that has been dishonored two or more times. We reserve the right to return an item if it has been dishonored once or if we

² The provisions that govern the collection of government checks, postal money orders, and redeemed savings bonds are in Appendixes 1, 2, and 3 of this circular. Provisions governing the collection of food coupons are in Operating Circular 5.

³ The Virgin Islands and Puerto Rico are deemed to be in the Second District; Guam, American Samoa, and the Northern Mariana Islands are deemed to be in the Twelfth District (Regulation J, note 1).

⁴ “Routing number” means a number authorized by the routing number policy of the American Bankers Association.

judge that special conditions require that it not be handled as a cash item. We reserve the right to return an item payable by, at, or through a bank that has been reported closed.

9. Under Section 4-204(a) of the Uniform Commercial Code, a collecting bank must send items by reasonably prompt methods. Accordingly, we discourage indirect routing of cash items. A sender should not send to us, or to another Reserve Bank for our account, an item that is payable in another District and that bears the indorsement of a bank located in another District if it is evident that the item has been routed indirectly. A sender should not send to us an item payable by, at, or through an office of the sender.

10. If an item that we do not handle as a cash item is sent to us in a cash letter, we reserve the right, in our discretion, to charge the item back and return it to the sender. We do not have any responsibility for delay in handling as a cash item an instrument that should not have been sent to us as a cash item. We also reserve the right to return and charge back a cash letter that does not conform to the sorting requirements of this Operating Circular and our time schedules.

NONCASH ITEMS

11. This Bank gives credit, subject to final payment, for coupons from obligations of the United States and its agencies and instrumentalities as fiscal agent of the obligor. Senders may send coupons from obligations of the International Bank for Reconstruction and Development or the Inter-American Development Bank directly to the Federal Reserve Bank of New York for payment.

12. This Bank does not generally collect noncash items. Senders in this District may send bonds, debentures, coupons, and similar securities to the Federal Reserve Bank of Atlanta, Jacksonville Branch, for collection as noncash items after making arrangements with that Reserve Bank for settlement. That Reserve Bank has agreed to handle securities sent by senders in this District, subject to its Operating Circular governing the collection of securities. The payment of securities sent by a Federal Reserve Bank to a bank or nonbank payor in this District may be governed by agreement with this Bank. If a sender in this District desires that we handle a noncash item (other than a security), the sender must first obtain the prior approval of the Manager of the

Securities Department and execute an appropriate agreement with us.

PREPARATION OF CASH LETTERS AND RETURN LETTERS

13. All cash items and returned checks sent to us may be listed by amount, without further description, in tape listings accompanying cash letters or return letters. All letters and tape listings should be dated and identified with the sender's (or paying or returning bank's) name and nine-digit routing number, if any.

14. Each sender (or paying or returning bank) should keep records permitting it to identify the depositor or indorser on a cash item or returned check so that the bank can take appropriate action if the item is lost or destroyed. We do not usually keep copies or descriptions of items. We do not keep any records of items in endpoint-sorted cash letters or return letters that we handle without our indorsement. We have no responsibility for describing a lost or destroyed item that we charge back to a bank or for maintaining insurance coverage or obtaining from another party reimbursement for a sender's (or paying or returning bank's) costs or other loss, except as provided in Appendix 1 concerning government checks.

15. We require that cash items be sorted separately from returned checks, except that a bank that agrees to accept from us intermingled sorts of cash items and returned checks sent to it or its agent may send to us, and direct to other Reserve Banks accepting intermingling, intermingled sorts of cash items and returned checks in accordance with our time schedules. We reserve the right to require separate sorts of government checks, postal money orders, redeemed savings bonds, and food coupons. We reserve the right to require banks located in the same city, town, metropolitan area, or similar area to sort, list, and package cash items payable in the same area according to the office of the paying bank where the items are payable. We reserve the right to require separate sorts of foreign cash items that are payable in U.S. funds and those that are payable in other than U.S. funds. Our time schedules contain other instructions for sorting and listing items.

Indorsements

16. All cash items and returned checks sent to us should be indorsed in accordance with the

requirements of Section 229.35 and Appendix D of Regulation CC. If we receive a cash item without the sender's indorsement or a returned check without the returning bank's indorsement, we may (a) present or send the item as if it bore the indorsement, (b) place on the item the missing indorsement and the date we received it, or (c) return the item for proper indorsement. We handle an endpoint-sorted cash letter and return letter without indorsing the items in the letter. We make the warranties stated in Section 210.6(b) of Regulation J by presenting or sending a cash item (and the warranties stated in Section 210.12[d] of Regulation J by sending a returned check), whether or not the item bears our indorsement.

Responsibility for Back of Check

17. Guidelines concerning the back of checks are the following:

- A. A bank issuing a check drawn on this Bank is responsible for ensuring that the condition of the back of the check when issued does not adversely affect the ability of a bank to indorse the check legibly in accordance with Section 229.35 and Appendix D of Regulation CC. The issuing bank agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check when issued.
- B. We reserve the right to refuse to accept a deposit of a check if, in our judgment, the condition of the back of the check at the time of the deposit adversely affects our or another bank's ability to indorse the check legibly in accordance with Section 229.35 and Appendix D of Regulation CC. If we do accept the check, the depositor is responsible for the condition of the back of the check and agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check at the time of deposit.

Direct Sending to Other Federal Reserve Offices

18. A sender (or a paying or returning bank) that maintains or uses an account with us and that has cash items (or returned checks) payable in another District, or in the territory of any

office of this Bank, may send the items directly to the Federal Reserve office of that District or territory under procedures we prescribe. Under Sections 210.4(b) and 210.12(g) of Regulation J, items sent direct are deemed to have been handled by us. A sender or bank that, by arrangement, delivers items payable in another District 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

19. We give immediate credit or deferred credit for all items that we accept as cash items or returned checks in accordance with our published time schedules and our procedures on intraday posting, as provided in paragraph 21. For letters containing items not sorted as to credit availability, we may defer credit for the longest period prescribed in our time schedules for any item enclosed.

20. Because, in many instances, our time schedules do not show the actual time required for collection or return, our advices cannot be considered advices of actual payment on the dates we make credit available. In addition, in some instances, credit shown in an account balance monitor during a day does not reflect credit available for purposes of the Board's policy on daylight overdraft measurement. In all instances, credit is subject to charge-back by us in the event we do not receive payment in actually and finally collected funds. We reserve the right to refuse to permit a bank to withdraw or otherwise use any credit (immediate or deferred) for a period that is reasonable under the circumstances, including a reasonable time for us to receive notice that another bank seeks to recover from us under Section 229.35(b) of Regulation CC.

21. We enter credit at full face value, in the reserve account or other appropriate account, for a cash item or returned check, as follows:

Immediate Credit

Immediate credit qualifies as reserves for purposes of Regulation D and is available for use by the bank at one float-weighted posting time per time zone for most cash items unless the sender chooses a unique set of fractions for each of four time zones. Credit for separate sorts of government checks, postal money orders, items

drawn on this Bank, and redeemed savings bonds is available at 8:30 a.m. Eastern Time if received by 12:01 a.m. or later (local time) or at 5:00 p.m. Eastern Time if received by 4:00 p.m. Eastern Time. Credit for food coupons and nonmachineable cash items is available after the close of Fedwire.

Deferred Credit

The amount entered as deferred credit does not qualify as reserves for purposes of Regulation D and is not available for use by the bank until the day specified in our time schedules and the posting time referred to in this paragraph.

Items Payable Outside a State (Foreign Items)

For a foreign cash item payable in U.S. funds, we give deferred credit for the full face value of the item in U.S. funds. For a foreign cash item payable in other than U.S. funds, we give deferred credit in U.S. funds, based on the exchange rate applicable on the date we deliver the item to the subsequent collecting bank. In handling a foreign cash item, we act solely as agent for collection. The sender bears all risk of loss arising from exchange rate fluctuation during the processing of a foreign cash item. Our agreements with subsequent collecting banks governing the collection of foreign items are available on request. Senders should recognize that credit is provisional and that the time for return of foreign items may vary under foreign law.

ROUTING NUMBERS; RECORDS

22. 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 by other means, even if the designation is inconsistent with another designation of the paying bank on the item.

23. If, in our judgment, processing of an unencoded or misencoded cash item requires it, we may inscribe on the item, in magnetic ink or otherwise, (a) the amount of the item or (b) the routing number 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 accord-

ingly, except in the case of an item that is not amount-encoded and is classified as a cash item in our time schedules.

24. In addition to the record-keeping provisions of this Operating Circular (see paragraphs 14 and 86), U.S. Treasury regulations (Title 31 of *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.

DELIVERY AND PRESENTMENT

25. We do not, by this Operating Circular or otherwise, agree to present, or cause presentment of, a cash item earlier than is required by the Uniform Commercial Code. We have no responsibility for giving notice to a sender of anticipated delays in presentment or return of cash items unless the delay is expected to involve at least 10 paying banks and to last at least three banking days.

26. A paying bank may request that delivery of cash items be made at an off-premises location in the same Federal Reserve office territory where the paying bank is located. For arrangements involving delivery of cash letters to a processing organization, execution of a Letter of Authority to Deliver Cash Letters and/or Return Letters, Form TR-411, is required (see Exhibit 1). A paying bank may also pick up cash items at this Bank by arrangement with us. The paying bank is considered to receive a cash item when it is delivered as requested or made available for pickup as arranged.

27. A paying bank may request that delivery of cash items be made at an off-premises location in a different Federal Reserve office territory from where the paying bank is located, as provided in this paragraph. For arrangements involving delivery of cash letters to a processing organization, execution of the agreement in Form TR-411 (Exhibit 1) is required.

A. In appropriate cases, we will attempt to arrange public transportation, at the paying bank's expense, that ensures delivery to the out-of-territory location in the ordinary course on the same banking day that delivery would be made within the territory where the paying bank is located ("same-day delivery").

- B. If we arrange same-day delivery, the paying bank is considered to receive the cash items (1) when the items are delivered to the out-of-territory location as requested or (2) when the items are shipped if the scheduled transportation is canceled or rescheduled and we do not arrange alternative same-day delivery.
- C. 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 the bank is considered to receive the cash items when we make the items available for shipment as requested.

28. We may commingle items delivered to or picked up by the paying bank or a bank's agent on behalf of that bank with items delivered to or picked up by that agent on behalf of other banks, unless otherwise requested by the paying bank.

SETTLEMENT FOR CASH LETTERS

29. A paying bank must settle in accordance with Section 210.9(a) of Regulation J for all cash items that it has received from us and not returned in accordance with Regulation J.⁵ Settlement shall be made at par and

- A. by a debit to an account on our books;
- B. by cash; or
- C. in our discretion, by any other form of payment.

Regulation J refers to the Reserve Banks' Operating Circulars for the earliest settlement time, which is 11:00 a.m. Eastern Time. Accordingly, the proceeds of any settlement must be available to us by the later of

- D. the next clock hour that is at least one hour after the paying bank receives the item (but no later than 3:00 p.m. local time); or
- E. 11:00 a.m. Eastern Time.

If presentment to the paying bank is delayed beyond the normal presentment time for any reason and the paying bank desires that a charge to its account be deferred, it should notify us immediately. If the paying bank's banking day of receipt is not a banking day for us, settlement shall be made on our next banking day in accordance with Section 210.9(a)(4) of Regulation J. We may make appropriate adjustments as of the day of receipt (unless that day is a Saturday or Sunday) for purposes of computing reserves under the Board's Regulation D. The proceeds of any settlement must be available to us on such next banking day by the later of

- F. the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or
- G. 11:00 a.m. Eastern Time.

We charge against a paying bank's reserve or clearing account the amounts of cash letters that the paying bank receives directly or indirectly from us, unless it makes other arrangements for payment or issues instructions to the contrary with respect to a specific cash letter. Our terms for payment for cash items are contained in Operating Circular 12 of this Bank.

30. As provided in Section 210.9(a)(3) of Regulation J, a paying bank that closes voluntarily on a day that is a banking day for us shall, with respect to a cash item made available to the paying bank on that day, either settle for the amount of the item on that day or compensate us for the value of the float associated with the item and settle for the amount of the item on the next day that is a banking day for both the paying bank and us. The proceeds of any settlement must be available to us on

- A. either the day the cash item is made available by the later of
 - (1) the next clock hour that is at least one hour after the paying bank ordinarily would have received the item (but no later than 3:00 p.m. local time); or

⁵ A 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 after a cutoff hour established by it in accordance with the Uniform Commercial Code.

(2) 11:00 a.m. Eastern Time;

B. or the next day that is a banking day for both the paying bank and us by the later of

(1) the next clock hour that is at least one hour after the paying bank ordinarily would receive the item (but no later than 3:00 p.m. local time); or

(2) 11:00 a.m. Eastern Time.

A list of standard Reserve Bank holidays, as well as other holidays not considered voluntary (“mandatory nonstandard holidays”), is distributed annually by this 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 us 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 the bank’s next banking day, such as for purposes of determining the deadline for return of the item. We do not charge a paying bank on a mandatory nonstandard holiday for items made available on that day.

31. A subsequent collecting bank (other than a Reserve Bank) that receives settlement 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.

ADJUSTMENTS

32. A paying or depository bank may request an adjustment to its settlement for our cash letter or return letter if (a) the paying or depository bank notifies us of an error in the letter, or (b) the paying bank returns an item on the banking day of receipt by the time set forth in Section 210.9(a) of Regulation J and notifies us of the return, in accordance with this Operating Circular. Adjustments for warranty claims and missing or destroyed items are governed by paragraphs 66–89 of this Operating Circular.

Debits and credits for errors in entries relating to cash items, and other credit adjustments, in the amount of \$1 million or more are made at 11:00 a.m. Eastern Time and hourly thereafter as they are determined. Debits and credits for other adjustments are made after the close of Fedwire. We request that banks not report adjustments of \$1 or less.

GENERAL TIME LIMITS FOR CLAIMS AND ACTIONS

Review of Statement

33. We provide a statement of account to each bank maintaining an account on our books. An 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 bank that has used the account and has handled the cash item or returned check to which the entry relates) is deemed to have approved the entry, and the statement of account is deemed finally adjusted, notwithstanding any longer period for filing suit. Reserve Banks generally keep records for only one year. 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.

Notice of Warranty Claim

34. A bank must give prompt notice to us of a claim for breach of warranty (see paragraph 66, footnote 7). Unless a bank gives us notice of a claim for breach of warranty within 30 calendar days after the bank has reason to know of the breach and of our status as a warrantor, our liability to the bank is discharged to the extent of any loss caused by the delay in giving notice of the claim, notwithstanding any longer period for requesting adjustments or filing suit.

Limitation of Actions

35. Section 229.38(g) of Regulation CC requires that any action for a violation of Regulation CC, including an action for breach of warranty under Section 229.34, be brought within one year after the date of the occurrence of the violation. Section 210.6(c) of Regulation J requires that

action on a claim against a Reserve Bank for failure to exercise ordinary care or act in good faith under Regulation J, except as otherwise provided in Section 229.38(g) of Regulation CC, be commenced within two years after the claim accrues. As provided in Section 4-111 of the Uniform Commercial Code (1990), any action on a claim against a Reserve Bank for breach of warranty, except as otherwise provided in Section 229.38(g) of Regulation CC, must be commenced within three years after the claim accrues.

MISSENT CASH ITEMS

36. If we send to a bank, on the understanding that it is the paying bank, a cash item that does not contain either the routing number or the name of the bank as paying bank and the bank determines not to pay the item, the bank shall send the item back to us promptly on a without-entry basis, with a request for credit or refund and a notation clearly indicating the reason for nonpayment, and we will promptly grant the credit or refund. The bank shall not send the item to us in a cash letter or return letter.

37. A check, as defined in Section 229.2(k) of Regulation CC, that contains the routing number of a bank is considered to be payable by the bank, even if the check does not contain the name of the bank or contains the name of another bank. Therefore, a paying bank shall handle a cash item on which it is identified only by routing number as a cash item drawn on it. The paying bank is encouraged to invalidate any erroneous use of its MICR (magnetic ink character recognition) routing number on the face of the item before return by obliterating only the start and stop symbols of the routing number (and by canceling any erroneous fractional routing number) to prevent redelivery to the paying bank.

RETURNED CHECKS

38. A paying bank may return a cash item received from us and for which it has previously made settlement only if it returns the item within the deadline of Section 210.12(a) of Regulation J, Section 229.30(c) of Regulation CC, and the Uniform Commercial Code (see paragraph 70, footnote 8 of this Operating Circular). A paying bank may return to us a cash item received from us without making settlement to us if it returns the item before the time set forth in Section 210.9(a) of Regulation J. If the paying bank

receives a settlement from a returning bank for a cash item received from us and returned by it but for which it has not previously made settlement to us, it shall immediately remit the settlement to us. A bank may return to us a foreign cash item received from us; and we, any subsequent returning bank, and the depository bank shall handle the item as a returned check under Regulation CC, Regulation J, and this Operating Circular.

39. A paying or returning bank may send to us a returned check not handled by us for forward collection only if it sends the returned check within the deadline of Regulation CC and the Uniform Commercial Code (see paragraph 70, footnote 8 of this Operating Circular). A bank shall not intermingle returned checks with cash items except as provided in paragraph 15.

40. A paying or returning bank that sends a returned check to us and receives settlement for the returned check (a) warrants to us and subsequent parties that its return of the check was within the deadline of Regulations CC and J and the Uniform Commercial Code and (b) agrees to indemnify us for any loss or expense we incur (including attorneys' fees and expenses of litigation) as a result of its breach of this warranty. The paying or returning bank also makes the other warranties and agreements set forth in Section 210.12 of Regulation J and in Section 229.34 of Regulation CC.

41. We do not, by this Operating Circular or otherwise, agree to handle a returned check more expeditiously than is required by Section 229.31 of Regulation CC or agree to convert a returned check into a qualified returned check. We have no responsibility for giving notice of anticipated delays in return of returned checks unless the delay is expected to involve at least 10 depository banks and to last at least three banking days.

42. A paying or returning bank that is unable to identify the depository bank on a returned check may send the check to us, as provided in Section 229.30(b) or Section 229.31(b) of Regulation CC. The check must not be sent as a qualified returned check.

Preparation of Returned Checks

43. A paying bank shall clearly write or stamp on the face of a returned check that it is a returned check and the reason for nonpayment as provided in Section 229.30(d) of Regulation CC. We

may handle the returned check even if it does not indicate the reason for nonpayment. We reserve the right to send back to the paying or returning bank a returned check if the depository bank has been reported closed. Paragraphs 13–21 apply to the preparation and sending of, and the availability of credit for, returned checks.

***Qualified Returned Checks;
Identification of Depository Bank***

- 44. We may rely on
 - A. the amount of a qualified returned check encoded in magnetic ink,
 - B. the identification of an item as a qualified returned check by a “2” properly encoded in magnetic ink in position 44 of the MICR line,
 - C. the identification of the depository bank by nine-digit routing number in magnetic ink on a qualified returned check, and
 - D. the identification of the depository bank by nine-digit routing number on the face of a returned check received in a separate sort of items requiring such identification,

whether or not the amount or identification is consistent with any other information on the returned check. We reserve the right to test whether an item represented to be a qualified returned check is properly machine-readable and, also, to handle a nonmachinable item as a raw return or to return it to our transferor. The paying or returning bank from which we receive the check agrees to indemnify us for any loss or expense we incur (including attorneys’ fees and expenses of litigation) as a result of our reliance on such amount or identification or as a result of any delay in handling an item represented to be a qualified returned check that is not able to be processed on our automated check processing equipment or that does not pass our testing procedures.

Delivery of Returned Checks to Depository Bank

45. We deliver returned checks to a depository bank at the same location and subject to the same terms under which we deliver cash items payable by the bank, except as follows. If we do not usually deliver cash items to the bank for payment, we deliver returned checks to the depository bank in accordance with Section 229.32(a) of Regulation CC, which may include delivery by mail. If a depository bank requests delivery of returned checks at a location other than the location to which we deliver cash items or other than by mail, we will deliver returned checks to a location on an existing Reserve Bank courier route in appropriate cases or will arrange delivery as otherwise agreed with the depository bank. A depository bank may also arrange to pick up returned checks at offices of this Reserve Bank.

46. We deliver returned checks to a depository bank or its agent separately sorted from cash items, unless we and the depository bank agree otherwise in accordance with paragraph 15.

Payment for Returned Checks

47. A depository bank must pay in accordance with Section 229.32(b) of Regulation CC for a returned check that it has received from us.⁶ If the depository bank’s banking day of receipt is not a banking day for us, we may make appropriate adjustments as of the day of receipt (unless that day is a Saturday or Sunday) for purposes of computing reserves under the Board’s Regulation D. A depository bank that closes voluntarily on a day that is a banking day for us shall pay for a returned check or compensate us for the float as provided with respect to cash items in paragraph 30 of this Operating Circular. The proceeds of payment must be available to us in accordance with Sections 210.9(a) and 210.12(g) of Regulation J by the times set forth in paragraphs 29 and 30 of this Operating Circular, even if the returned checks are received by the depository bank at a location and time different from the location and time of receipt of cash items for forward collection.

48. A depository bank shall settle for a returned check in the same manner it settles for a cash

⁶A depository bank is deemed to receive a returned check 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 after its regular banking hours.

item received for payment. If we do not usually send cash items to the depository bank for payment, the depository bank shall settle

- A. by a debit to an account on our books;
- B. by cash;
- C. by wire transfer; or
- D. in our discretion, by any other form of settlement.

Adjustments for returned checks are subject to paragraphs 32 and 66–89 of this Operating Circular.

49. A subsequent returning bank (other than a Reserve Bank) that is paid for a returned check shall make the proceeds available to us not later than the close of our banking day on the day the subsequent returning bank receives the proceeds and shall settle in the same manner as for cash items received for payment.

Missent Returned Checks

50. If we send a returned check or notice of nonpayment to a bank, on the understanding that it is the depository bank, and the bank determines that it is not the depository bank but the bank is able to identify the depository bank, we encourage the bank to send the returned check or notice promptly to the depository bank. If the bank is unable to identify the depository bank, the bank shall promptly send the check or notice back to us on a without-entry basis, with a request for credit or refund, and we will promptly grant the credit or refund. The bank shall not send the returned check to us in a cash letter or return letter.

NOTICE OF NONPAYMENT

51. A paying bank that determines to return a returned check in the amount of \$2,500 or more must provide notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. The paying bank must ensure that the notice is received by the depository bank by 4:00 p.m. (local time for the depository bank) on the second business day following the banking day on which the check was presented to the paying bank. If the day on which the paying bank is required to provide notice is not a banking day for the depository bank, the notice must be received by the depository bank on its next

banking day. The following days are not considered business or banking days for purposes of the deadline for notice of nonpayment: Saturdays and Sundays, January 1, the third Monday in January, the third Monday in February, the last Monday in May, July 4, the first Monday in September, the second Monday in October, November 11, the fourth Thursday in November, and December 25. If January 1, July 4, November 11, or December 25 falls on a Sunday, the next following Monday also is not considered a business or banking day for this purpose. Additional nonbanking days may be observed by the depository bank.

52. A paying bank may provide notice of nonpayment by any reasonable means, including

- A. return of the returned check to the depository bank;
- B. telephone call or telex or other form of telegraph to the depository bank; or
- C. return of the returned check to us, telephone call to us, or Fedwire to the depository bank, with a request that we forward notice of nonpayment, as provided below.

Content of Notice of Nonpayment

53. Notice of nonpayment must include the following:

- A. name and routing number of the paying bank,
- B. name of the payee(s),
- C. amount of the item,
- D. date of the depository bank's indorsement,
- E. account number of the customer(s) of the depository bank,
- F. branch name or number of the depository bank from its indorsement,
- G. trace number associated with the indorsement of the depository bank, and
- H. reason for nonpayment.

The notice may include other information from

the check that may be useful in identifying the check and the customer. A written notice must include the name and routing number of the depository bank from its indorsement. If the paying bank is not sure of a piece of information, it shall include the required information to the extent possible and identify questionable information with question marks. If the paying bank cannot identify the depository bank, it is authorized but not required to give notice to the earliest collecting bank it can identify, indicating that it questions whether the bank is the depository bank.

Acceptance of Notice by Depository Bank

54. The depository bank shall accept notices during its banking day

- A. at the telephone or telegraph number indicated in its indorsement or, if the number is not present or legible, at the general-purpose telephone number or telegraph number of its head office or the branch indicated in the indorsement;
- B. at any other telephone or telegraph number set up by the bank for receipt of notice of nonpayment; and
- C. in the case of written notice,
 - (1) at a location at which presentment of checks for forward collection is requested or
 - (2) (a) at a branch, the head office, or other location consistent with the name and address in the indorsement;
 - (b) if no address appears in its indorsement, at the branch or the head office associated with the routing number of the bank in its indorsement, or
 - (c) if no routing number or address appears in its indorsement, at any branch or the head office of the bank.

The depository bank may transfer a telephone call and may use a recording device.

***Provision of Notice by This Bank
(Physical Item Service)***

55. A paying bank may request us to provide notice of nonpayment on its behalf by signing and delivering to us a letter in the form of Exhibit 3. The request shall apply to all returned checks in the amount of \$2,500 or more for which notice of nonpayment is required, that are returned by the paying bank to us, and that are separately sorted and identified as checks for which notice is desired (“applicable returned checks”). If we receive applicable returned checks by our cutoff hour for physical item notice, as set forth in our time schedules, on a banking day for us, we will provide notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligation under Section 229.33 of Regulation CC, we must receive the returned check no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank.

56. Upon our acceptance of such a request, beginning on an agreed-on effective date, we will provide notice of nonpayment for applicable returned checks received by our cutoff hour on behalf of the paying bank under the standard of care and measure of damages set forth in Section 210.38 of Regulation CC. Otherwise, we will handle applicable returned checks as provided elsewhere in Regulations CC and J and this Operating Circular. We will provide notice of nonpayment for applicable returned checks received after our cutoff hour for notice of nonpayment as if the checks had been received before our cutoff hour on our next banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should provide notice of nonpayment to the depository bank if the paying bank learns that we have not received applicable returned checks by our cutoff hour, and it should indicate to the depository bank that the notice may be duplicated by us.

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

57. A paying bank may request us to forward to the depository bank notice of nonpayment given by telephone to us by signing and delivering to us a letter in the form of Exhibit 3. The request

shall apply to all returned checks for which notice of nonpayment is telephoned to us. If we receive telephone notice by our cutoff hour for telephone notice, as set forth in our time schedules, on a banking day for us, we will forward notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligations under Section 229.33 of Regulation CC, we must receive the notice no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank.

58. Upon our acceptance of such a request, beginning on an agreed-on effective date, we will forward notice of nonpayment received by our cutoff hour on behalf of the paying bank under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC. We will forward notice of nonpayment received after our cutoff hour as if the telephone notice had been received before our cutoff hour on our next banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cutoff hour.

***Fedwire Notice to Depository Bank
(Fedwire System Service)***

59. A paying bank may request us to forward to the depository bank notice of nonpayment given by Fedwire in proper format by signing and delivering to us a letter in the form of Exhibit 3. If we receive Fedwire notice by our cutoff hour for Fedwire notice, as set forth in our time schedules, on a banking day for us, we will forward notice of nonpayment to the depository bank by 4:00 p.m. (local time for the depository bank) that day or on the next banking day if that day is not a banking day for the depository bank. For the paying bank to comply with its obligations under Section 229.33 of Regulation CC, we must receive the notice no later than our cutoff hour on our second banking day following the banking day of receipt of the check by the paying bank. We handle Fedwire notice under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC. We will forward notice of nonpayment received after our cutoff hour as if the Fedwire notice had been received before our cutoff hour on our next

banking day, and we shall have no responsibility for loss caused by the failure of the paying bank to meet our cutoff hour. The paying bank itself should provide notice of nonpayment to the depository bank if the paying bank is unable to meet our cutoff hour.

Other Provisions

60. Notice of nonpayment should not be given for a returned check drawn on the U.S. Treasury, for a U.S. Postal Service money order, or for a check drawn on a state or a unit of general local government that is not payable through or at a bank. Also, notice need not be given for a check deposited in a depository bank that does not maintain transaction accounts.

61. If a paying bank provides, or requests us to forward, a notice and subsequently determines to pay an item, the paying bank should provide to the depository bank a second notice as soon as reasonably possible. The second notice should indicate that it is a second notice canceling a previous notice and should contain all the information in the original notice to enable the depository bank to match the second notice with the original notice.

62. A depository bank that uses an electronic link with us for purposes of wire transfers of funds under Subpart B of 12 C.F.R. Part 210 is deemed to authorize us to provide notice to it by means of that link or another electronic link agreed to by us. We are not responsible for a delay in sending a notice if the delay results from the depository bank's failure to manage its link so as to permit us to send notices to it through the close of Fedwire. We may record telephone calls in connection with a notice of nonpayment.

63. We have no responsibility for giving or correcting a notice of nonpayment if the notice is not properly given by the paying bank except to the extent provided above with respect to a notice we provide or forward on behalf of the paying bank.

PROTEST

64. Reserve Banks shall not protest any returned check, whether or not drawn or payable at a place not within a state. Each Reserve Bank and collecting and paying bank shall disregard any special instructions on protest noted on cash letters or otherwise transmitted with a cash item. A sender may instruct a Reserve Bank to provide

for protest of a cash item (other than a government check, postal money order, redeemed savings bond, or food coupon) 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.

CHARGES

65. Our schedule of charges shows the charges imposed for handling cash items, returned checks, and notices of nonpayment and for related services. We may make the charge to the account maintained or used by the bank requesting the service.

ADJUSTMENTS FOR WARRANTY CLAIMS

66. A bank that has received a cash item or returned check from us and that has settled for the item may request an adjustment from us based on a claim of breach of warranty in accordance with paragraphs 66–75 of this Operating Circular.⁷ Where a request for adjustment involves a warranty made to us by another bank, we will handle the claim against the other bank in accordance with those paragraphs. If the claim against the other bank (other than a Reserve Bank) is denied, the bank requesting the adjustment from us may pursue the claim directly with the other bank. A bank must not attempt to recover on a warranty claim by including the item in a cash letter or return letter after the return deadline (see paragraph 70, footnote 8). A bank that receives a credit adjustment from us relating to a warranty claim must pass the benefit of the adjustment through to its customer if the customer is entitled to a similar adjustment.

67. In handling an adjustment claim form under paragraphs 68–75, we determine that the form is submitted timely and is substantially complete, but we assume no responsibility for determining whether the statements made in the form are correct or for arbitrating disputes between banks. A bank may be subject to criminal penalties under federal and/or state law for knowingly making a false statement to influence the action of a Reserve Bank in granting a credit. We

undertake to handle an adjustment claim and make entries within a reasonable time after receipt but not within the time frames for handling an item.

Claim of Forged or Missing Indorsement or Alteration

68. A bank that has received an item from us may request, on a without-entry basis, an adjustment based on a claim that the item bears a forged or unauthorized indorsement or lacks a necessary indorsement (a paying bank claim) or is altered (a paying or depository bank claim). The bank should include all documentation concerning the alleged breach of warranty, including an affidavit of forged indorsement, if appropriate. We credit the requesting bank and charge the bank from which we received the cash item or returned check only if the latter bank specifically authorizes us to do so. A paying bank may not claim breach of warranty, or return an item with entry after the return deadline, because of a forged or unauthorized drawer signature.

Sender's Claim of Late Return by the Paying Bank

69. If a sender believes that the paying bank returned late a check in the amount of \$100 or more, it may dispute the return by furnishing us (or its Reserve Bank) with the returned check and a signed statement that the bank believes that the paying bank did not return the check timely (within the paying bank's deadline under the Uniform Commercial Code, Regulation J, or Section 229.30[c] of Regulation CC). This procedure may be used only once, only with respect to the first time the check was returned by the paying bank, and only if the check was handled by a Reserve Bank for forward collection or return. The statement must be on a form provided by this Bank and must be sent by the sender within two calendar months after it received the returned check. When we receive the statement, we provisionally credit the amount of the returned check to the sender's account (or to the account of the forwarding Reserve Bank). We also charge that amount to the account of, and send the returned check and the statement to, the paying bank (or the paying bank's Reserve Bank).

⁷The warranties that we make with respect to cash items and returned checks are set forth in Sections 210.6(b) and 210.12(d) of Regulation J and Section 229.34 of Regulation CC, except as otherwise provided in our Operating Circulars. The principal warranties that banks make to us are set forth in Sections 210.5(a) and 210.12(c) of Regulation J and Section 229.34 of Regulation CC.

70. We will revoke the credit given to the sender and recredit the paying bank or other Reserve Bank if

- A. for any reason, we cannot obtain the amount of the credit from the paying bank or other Reserve Bank; or
- B. we (or the paying bank's Reserve Bank) receive the returned check and a statement as provided below from the paying bank within 20 banking days of the Reserve Bank after we (or the other Reserve Bank) sent the check and the sender's statement to the paying bank. The paying bank's statement must be on a form provided by us that is signed by an officer of the paying bank and
 - (1) that states the paying bank returned the check within its deadline under the Uniform Commercial Code, Regulation J, or Section 229.30(c) of Regulation CC;⁸ and
 - (2) that shows the banking day of receipt and the date of return of the check by the paying bank.

***Claim of Amount Encoding Error
or Cash Letter Total Error***

Overencoded Item

71. A bank that has received a cash item or returned check from us and settled for it in the encoded amount may request an adjustment based on a claim that the MICR encoding of the amount is greater than the true amount of the item. The request must be received by us (or the requesting bank's Reserve Bank) within six calendar months after the item was charged to the requesting bank and must provide information required by us, including a photocopy of the front and back of the item that clearly shows the amount encoding error (words control over figures in determining the true amount of the item under Uniform Commercial Code [1990] Section 3-114). When we receive the request, we credit the requesting bank (or its Reserve Bank) in the amount of the difference between the encoded amount and the true amount of the

item and charge in that amount and send the documentation to the bank from which we received the encoded item.

Underencoded Item

72. A bank that has sent a cash item or returned check to us and received settlement for it in the encoded amount may request an adjustment based on a claim that the MICR encoding of the amount is less than the true amount of the item. The request must be received by us (or the requesting bank's Reserve Bank) within six calendar months after the item was credited to the requesting bank, and it must provide information required by us, including a photocopy of the front and back of the item that clearly shows the amount encoding error (words control over figures in determining the true amount of the item under Uniform Commercial Code [1990] Section 3-114). When we receive the request, we provisionally credit the requesting bank (or its Reserve Bank) in the amount of the difference between the encoded amount and the true amount of the item and charge in that amount and send the documentation to the paying or depositary bank (or its Reserve Bank). We reserve the right not to credit the requesting bank (or its Reserve Bank) if we are unable to charge the paying or depositary bank (or its Reserve Bank).

73. We will revoke part or all of the credit given to the requesting bank and recredit the paying or depositary bank if we (or the paying or depositary bank's Reserve Bank) receive a statement as provided below from the paying or depositary bank within 20 banking days of the Reserve Bank after we (or the other Reserve Bank) sent the documentation to the paying or depositary bank. The statement must be on a form provided by us that is signed by an officer of the paying or depositary bank and

- A. state that the paying or depositary bank had charged its customer for the encoded amount of the item and is unable to recover all or a specified portion of the difference between the encoded amount and the true amount of the item by charging the account of the customer, and

⁸This deadline is generally midnight of the banking day following the banking day of receipt of the check by the paying bank (Uniform Commercial Code Section 4-302 and Regulation J Section 210.12[a]), except as the deadline may be extended under Section 229.30(c) of Regulation CC. This deadline applies to checks returned with entry for any reason, including forged indorsement or forged drawer signature.

- B. request an adjustment in that specified amount based on a claim of breach of warranty with respect to the encoding error.

**Other Encoding Errors or
Cash Letter Total Errors**

- 74. A. A claim of an error in a cash letter total that results from an amount encoding error should be made as a claim of an amount encoding error under paragraphs 71–73. A claim relating to any other cash letter listing error should be made as provided in paragraph 32.
- B. A paying bank should handle an item that contains the routing number of the bank as provided in paragraph 37 of this Operating Circular, whether or not the routing number was encoded in error after the issuance of the item.
- C. Notwithstanding Section 229.34 of Regulation CC or state law, we make no warranties with respect to the encoding of an account number or item number. A paying bank is encouraged to validate the accuracy of an encoded account number or item number, particularly when it was encoded after the issuance of the item.

Expenses

75. In handling adjustments under this Operating Circular, we do not have any responsibility or liability with respect to interest cost or expenses incurred by another bank as a result of breach of warranty or negligence, nor do we charge another bank a fee for our interest cost or expenses in handling adjustments resulting from breaches of warranty or negligence.

**MISSING OR DESTROYED CASH ITEMS
AND RETURNED CHECKS**

Mutilated Cash Letters and Return Letters

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

Cash Items Discovered Missing or Destroyed

77. We credit or refund the amount paid for a cash item if a subsequent collecting bank or the paying bank reports that it discovered during initial proving that the item was missing or knows that the item was 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 banking days (of the reporting bank) from the date of receipt of the cash letter that listed the item.

78. We charge back to the sender the amount of a cash item (a) that we discover to be missing or (b) that a subsequent collecting bank or paying bank reports to be missing or destroyed, as provided in paragraph 77.

Handling of Photocopies of Cash Items

79. We handle a correctly prepared photocopy as a cash item through our Adjustments Division if we (or a prior collecting Reserve Bank) receive the photocopy and a copy of the advice of charge-back or request within 20 banking days (of the Reserve Bank) from the day we (or the prior Reserve Bank) charged back the original item or requested the photocopy. The prior Reserve Bank should send the photocopy and advice to us when received.

80. If a cash letter is lost or destroyed in transit to the first processing Reserve Bank, we handle correctly prepared photocopies of the items as cash items in a photocopy cash letter qualified for automated handling if (a) the photocopy cash letter is identified as containing photocopies of items from a lost or destroyed shipment and (b) we (or a prior collecting Reserve Bank) receive the photocopy cash letter within six calendar months after the date of the lost or destroyed cash letter. A sender should not send a photocopy cash letter to us unless the sender has determined, after making good faith inquiries, that a substantial number of the cash items in the lost or destroyed cash letter remain unpaid.

81. We present or send a photocopy as a cash item subject to all the rules as to payment and return of cash items, except for the requirement of notice of nonpayment and as otherwise provided in this paragraph and except as provided for photocopies of returned checks in paragraphs 87–89. A paying bank has the right

to return a photocopy through our Adjustments Division within 20 banking days from its banking day of receipt

- A. if 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 the photocopy and a signed statement to that effect; or
- B. if the original cash item was paid and the paying bank returns the photocopy, a copy of the front and back of the paid original cash item, and a signed statement that the original was paid, together with 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, the paying bank should include the date of the cash letter and the amounts of the items listed before and after the original item, the total of the cash letter and the batch or package that contained the original, and the sequence number of the original.

82. A correctly prepared photocopy must be a legible copy of the front and back of the cash item and must bear the sender's current indorsement and the following or an equivalent signed legend:

This is a photocopy of the original check that we indorsed and that 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 the original check remains unpaid.

83. We assume no responsibility for determining whether the return of a photocopy is timely; nor do we assume any responsibility for determining whether a report by another bank of a missing or destroyed cash item, a statement regarding the handling of a photocopy, or a photocopy of a cash item is correct. We handle, on a without-entry basis, a report of a missing or destroyed cash item received after the time set forth in paragraph 77. We undertake to handle reports and photocopies and to make entries with

respect to missing or destroyed cash items within a reasonable time after receipt but not within the time frames for handling an item.

Receipt of Both Photocopy and Original of Cash Item or Returned Check

84. If a paying or depository bank has paid an original item and subsequently receives from us and pays a photocopy of the item or has paid a photocopy and subsequently receives from us and pays the original item, that bank may send to us, within six months of the date of our charge and on a without-entry basis, the photocopy or the original item, whichever was paid later. The photocopy must be sent with a photocopy of the front and back of the original item, and the source of receipt information specified in paragraph 81B for both items. The original item must be sent with a photocopy of the paid photocopy, and the source of receipt information specified in paragraph 81B for both items.

Returned Checks Discovered Missing or Destroyed

85. We credit or refund the amount charged to a subsequent returning or depository bank for a returned check if that bank reports that it discovered during initial proving that the check was missing or destroyed or knows that the check was missing or destroyed in transit to a subsequent returning bank or depository bank. We will credit or refund the amount only if we (or a subsequent returning bank that promptly sends the report to us) receive the report within five banking days (of the reporting bank) from the date of receipt of the return letter that listed the check.

86. A paying or returning bank (other than a Reserve Bank) that sends a returned check to a Reserve Bank shall retain a photocopy of the returned check. We charge back to the paying or returning bank the amount of a returned check (a) that we discover to be missing or (b) that a subsequent returning or depository bank reports to be missing or destroyed, as provided in paragraph 85.

Handling of Photocopies of Returned Checks, Notices in Lieu of Returns

87. We handle as a returned check through our Adjustments Division a legible photocopy of a returned check (front and back) or, if a photocopy is not available to the paying or returning bank, a written notice of nonpayment containing

the information specified in paragraph 53. If we charged back the returned check to the paying or returning bank under paragraph 86 or requested the photocopy, we (or a prior returning Reserve Bank) must receive the photocopy or notice and a copy of the advice of charge-back or request within 20 banking days (of the Reserve Bank) from the day we (or the prior Reserve Bank) charged back the returned check or requested the photocopy. The prior Reserve Bank should send the photocopy and advice to us when received. The copy or notice shall clearly state that it is a "Notice in Lieu of Return" and should not contain the legend set forth in paragraph 82. By sending a Notice in Lieu of Return to us for credit, a paying or returning bank warrants that it has not received credit for the returned check and makes the warranties set forth in Section 229.34 of Regulation CC. The depository bank may return a photocopy through our Adjustments Division within 20 banking days from its banking day of receipt if the original returned check was paid and the depository bank returns a copy of the front and back of the paid original returned check and a signed statement that the original was paid, together with the information required in paragraph 81B.

88. If a returned check letter is lost or destroyed in transit to the first processing Reserve Bank, we handle legible photocopies or notices of nonpayment, identified as Notices in Lieu of Returns, in a photocopy returned check letter qualified for automated handling if (a) the photocopy returned check letter is identified as containing photocopies or notices of items from a lost or destroyed shipment and (b) we (or a prior returning Reserve Bank) receive the photocopy returned check letter within six calendar months after the date of the lost or destroyed returned check letter. A returning bank should not send a photocopy returned check letter to us unless the bank has determined, after making good faith inquiries, that a substantial number of the returned checks in the lost or destroyed returned check letter have not been returned to the depository bank.

89. We assume no responsibility for determining whether a report by another bank of a missing or destroyed returned check, a statement regarding payment of the original returned check, or a photocopy of a returned check is correct. A photocopy of a returned check shall not be sent to a Reserve Bank for collection as a cash item. We handle, on a without-entry basis, a late report of a missing or destroyed returned

check. We undertake to handle reports with respect to missing or destroyed returned checks within a reasonable time after receipt but not within the time frames for handling an item.

RIGHT TO AMEND

90. We reserve the right to amend this Operating Circular and any appendix, exhibit, or supplement to it at any time.



APPENDIX 1
U.S. GOVERNMENT CHECKS

We handle checks drawn on the U.S. Treasury ("government checks") as cash items under Treasury Department Circular No. 21 (Title 31 of *Code of Federal Regulations*, Part 240). Copies of that circular will be furnished upon request. As to matters that circular does not cover, Regulation J, this Operating Circular, and our time schedules apply.

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 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.

Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to government checks. If the Treasury refuses payment of a government check upon first examination and returns the check, or a photocopy, to us as outlined in Treasury Circular No. 21, we charge back the amount of the check to the sender and credit that amount to the Treasury. We have no responsibility to the sender or another owner or holder for the nonpayment and return by the Treasury of a government check or photocopy. The expeditious return and notice of nonpayment requirements of Regulation CC do not apply to government checks, and the U.S. government is not a paying bank under Regulation CC.

The Treasury Department is generally not required to pay a government check (a) issued on or after October 1, 1989, unless it is negotiated to a financial institution within one year after the date of issue or (b) issued before October 1, 1989, unless it was negotiated to a financial institution no later than October 1, 1990, as provided in Treasury Circular No. 21.

If the Treasury determines that a government check has been paid over a forged or unauthorized indorsement, the Treasury may reclaim the amount of the check from the presenting bank or prior indorser within one year after the date of credit by this Bank, as provided in Treasury Circular No. 21. This period is extended by 180 days if a timely claim is made against the government under 31 U.S.C. 3702. Under 31 U.S.C. 3702, a claim on a government check must be made to the issuing agency within one year after the date of issuance or within one year after October 1, 1989, whichever is later. Under 31 U.S.C. 3712, an action by the government to enforce liability on a forged or unauthorized signature or indorsement on, or a change in, a government check generally must be commenced within one year after presentment of the check. This period is extended by three years if the government gives written notice of a claim one year after presentment of the check.



APPENDIX 2

POSTAL MONEY ORDERS

We handle postal money orders (U.S. postal money orders, U.S. international postal money orders, domestic-international postal money orders) as cash items under an agreement between the U.S. 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 Operating Circular, and our time schedules apply.

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

The agreement between the Postal Service and the Reserve Banks provides that (1) the 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 Treasury (other than a claim based on the negligence of a Reserve Bank); (2) the Postal Service will deal directly with the bank or the party against which the claim is made; and (3) the Reserve Bank will assist the Postal Service in asserting the claim, including making any relevant evidence in its possession available to the 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 3

REDEEMED SAVINGS BONDS AND SAVINGS NOTES

We handle redeemed Series A, B, C, D, E, and EE savings bonds and savings notes ("savings bonds") as cash items under Treasury Department Circular No. 750 (Title 31 of *Code of Federal Regulations*, Part 321). Copies of that circular will be furnished upon request. As to matters that circular does not cover, Regulation J, this Operating Circular, and our time schedules apply.

Savings bonds sent to us as cash items may be sent in mixed cash letters containing checks and other cash items or in separately sorted cash letters containing only redeemed savings bonds. Each cash letter must show the name, address, and nine-digit routing/transit number (ABA number) of the sender, the date of delivery to the Reserve Bank, the total number of pieces transmitted, the value of each bundle in the cash letter, and the total value of the cash letter. The cash letter should be accompanied by a detailed listing of all items.

Each savings bond sent to us must have the redemption value MICR-encoded in the "Amount" field on the face of the savings bond. If savings bonds are sent to us in a mixed cash letter, the routing/transit number 000090007 must be MICR-encoded in the "R/T" field on all pre-1985 savings bonds, which do not contain a preprinted MICR-encoded routing/transit number. If a document carrier or MICR strip is used, the redemption value of the savings bond must be MICR-encoded in the "Amount" field, and 000090007 must be MICR-encoded in the "R/T" field. A savings bond must not be MICR-encoded with any other data in any field other than the auxiliary "On-Us" field and must not be MICR-encoded in the "On-Us" field for any reason.

We give immediate credit, subject to payment and adjustment upon audit by the U.S. Treasury, for savings bonds as provided in our time schedules. After we handle savings bonds, as fiscal agent of the United States, the savings bonds are subject to audit by the Treasury Department. We make an adjustment required by the Treasury Department by notifying the sender and charging back or crediting the amount of the adjustment to the sender. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to savings bonds.

Savings bonds submitted in separately sorted cash letters are not subject to cash item deposit and processing charges. We forward paying agent fees received from the Treasury Department to the sender, on a monthly basis, for savings bonds that are submitted in separately sorted cash letters. Payment of these fees is made only by the automated clearinghouse methods under Title 31 of the *Code of Federal Regulations*, Part 210. Inquiries regarding savings bonds submitted in separately sorted cash letters should be directed to Pittsburgh Branch, Federal Reserve Bank of Cleveland, P.O. Box 867, Pittsburgh, Pennsylvania 15230-0867.

Savings bonds submitted in mixed cash letters are subject to cash item deposit and processing charges. No paying agent fees will be paid for savings bonds submitted in mixed cash letters. Inquiries concerning savings bonds submitted in mixed cash letters should be directed to the sender's local Reserve Bank office.

A record of the serial number and amount paid for each savings bond must be retained by the sender. Film records of the front and back of a savings bond must be kept confidential, and prints therefrom may be made only with the permission of the U.S. Bureau of the Public Debt or a Federal Reserve Bank.



APPENDIX 4**PRESENTMENT POINT AND OTHER PAYOR BANK SERVICES****PRESENTMENT POINT SERVICES**

A paying bank may request this Bank to act as a presentment point for receipt of same-day settlement checks (as agent of the paying bank) by submitting a letter designating us as either a primary or an alternate presentment point. The request is effective 10 banking days after receipt of the letter or at a later date set forth in the letter. Same-day settlement checks are checks (as defined in Regulation CC) presented in accordance with Section 229.36(f) and other provisions of Regulation CC. A paying bank requesting a presentment point service agrees to the terms of this Appendix.

PRIMARY PRESENTMENT POINT SERVICE

By designating an office of this Bank as a primary presentment point, the paying bank designates that office as the presentment point for all collecting banks for same-day settlement checks bearing an encoded routing number of the paying bank that is associated with the check processing region of the designated office. If we receive checks identified as same-day settlement checks or other items for a paying bank that has not requested a presentment point service, we will handle the items as fine sorted cash items for collection by us under our Operating Circular. We will, upon request, provide a list of paying banks for which we act as primary presentment point. The paying bank should notify collecting banks that are using this Bank as a primary presentment point before terminating its designation of this Bank as a presentment point.

ALTERNATE PRESENTMENT POINT SERVICE

By designating an office of this Bank as an alternate presentment point with respect to a designated collecting bank, the paying bank designates that office as a presentment point for checks in accordance with a separate agreement between the paying bank and the designated collecting bank. If we receive checks identified as same-day settlement checks or other items for a paying bank that has not requested an alternate presentment point service with respect to the collecting bank from which the items are received, or a primary presentment point service, we will handle the items as fine sorted cash items for collection by us under our Operating Circular.

GENERAL

Collecting banks should directly contact a paying bank that has designated this Bank as a presentment point, before presenting checks at this Bank, concerning any conditions or requirements for such presentment consistent with the provisions of this Appendix. All items delivered to an office of this Bank as a presentment point for a paying bank must be separately packaged from items delivered to us for collection; they must state "SAME-DAY SETTLEMENT" and designate the name of the presenting bank and the name of the paying bank in accordance with our requirements. Items will be considered presented to the paying bank only when the package is delivered to the location specified by us for delivery of same-day settlement checks.

This Bank will time-stamp the packages presented to a paying bank, provide verification of receipt to the delivery agent, store the items for pickup by the paying bank, and provide verification of the time of delivery to the paying bank. If requested by the paying bank, this Bank will provide the enhanced service of notifying the paying bank concerning the identity of the collecting bank, the time of delivery, and the dollar amount of each presentment of same-day settlement checks.

This Bank does not act as a collecting bank in providing presentment point services to a

APPENDIX 4 (continued)

paying bank. This Bank has no responsibility for determining whether the items received comply with delivery, sorting, timeliness, or other requirements of the paying bank or whether the delivery complies with any separate agreement between the paying bank and the collecting bank. This Bank has no responsibility for arranging for settlement or adjustment by the paying bank for items presented or for arranging delivery of the items to the paying bank or for arranging for return of the items. Collecting banks should not include same-day settlement checks or other items presented to paying banks in settlement sheets listing items deposited with us for collection by us. If we receive checks identified as same-day settlement checks by means of transportation arranged by a Reserve Bank, such as the Interdistrict Transportation System, we will handle the items as fine sorted cash items for collection by us under our Operating Circular.

OTHER PAYOR BANK SERVICES

A paying bank may request this Bank to perform payor bank services with respect to items delivered under a presentment point service and/or with respect to items to be presented by this Bank and items otherwise presented to the paying bank by a collecting bank and subsequently delivered by the paying bank to us. These services include providing the paying bank with information concerning the total dollar amount of items by customer account, with MICR-line information from items, and with special sorts of items. A paying bank requesting payor bank services agrees to the terms of this Appendix.

LIABILITY

In providing payor bank services to a paying bank, including a presentment point service but excluding an electronic presentment service (which is governed by our Operating Circular 17, *Electronic Check Presentment Services*), this Bank shall have no responsibility or liability to any person other than the paying bank and shall be liable only for our own lack of good faith or failure to exercise ordinary care in providing the service. In providing customer account information, MICR-line information, or special sorts to the paying bank, this Bank expressly disclaims any and all warranties—express, statutory, or implied—with respect to the information, including but not limited to warranties of merchantability and fitness for a particular purpose. The amount of our liability is limited to the amount of the item, reduced by an amount that could not have been realized by the use of ordinary care, and shall not include any liability for special, incidental, or consequential damages even if such damages were foreseeable at the time of the failure to exercise ordinary care or act in good faith.

This Bank does not verify customer account information, MICR-line information, or special sorts provided to a paying bank. It is the paying bank's responsibility to validate the accuracy of such information or sorts, before relying on it or providing it to its customer, or to advise its customer that the information has not been verified.

This Bank does not act as a collecting bank in providing payor bank services, regardless of whether we may indorse items that have previously been presented to the paying bank. A paying bank requesting payor bank services shall indemnify this Bank for any loss or expense sustained (including attorneys' fees and expense of litigation) resulting from (1) a claim that this Bank acts as collecting bank with respect to an item handled under a presentment point service, or with respect to an item otherwise presented to a paying bank by a collecting bank and subsequently delivered to this Bank by the paying bank for handling under a payor bank service to the paying bank, regardless of whether this Bank has indorsed the item, or (2) any claim by a person other than the paying bank with respect to an item delivered to us as agent of the paying bank under a presentment point service.

If this Bank is delayed in acting beyond time limits applicable to a payor bank service because of interruption of communication or computer facilities, suspension of payments by a

APPENDIX 4 *(continued)*

bank, war, emergency conditions, failure of equipment, or other circumstances beyond our control, our time for acting is extended for the time necessary to complete the action, if we exercise such diligence as the circumstances require.

RECORDS

We will make available to the paying bank records of our processing of same-day settlement checks in connection with other payor bank services. If we believe that we may be compelled to provide such records or a same-day settlement check to other than the paying bank, such as by legal process, we will notify the paying bank. It is the responsibility of the paying bank to determine whether the record or check should be produced, to assert any defense to such production, and to pay all associated costs.

TERMINATION AND AMENDMENT

The provisions of this Appendix supersede any inconsistent provisions of any other agreement regarding payor bank services. This Bank or the paying bank may terminate a payor bank service by giving not less than 10 days' prior written notice to the other party. We reserve the right to amend this Appendix at any time.

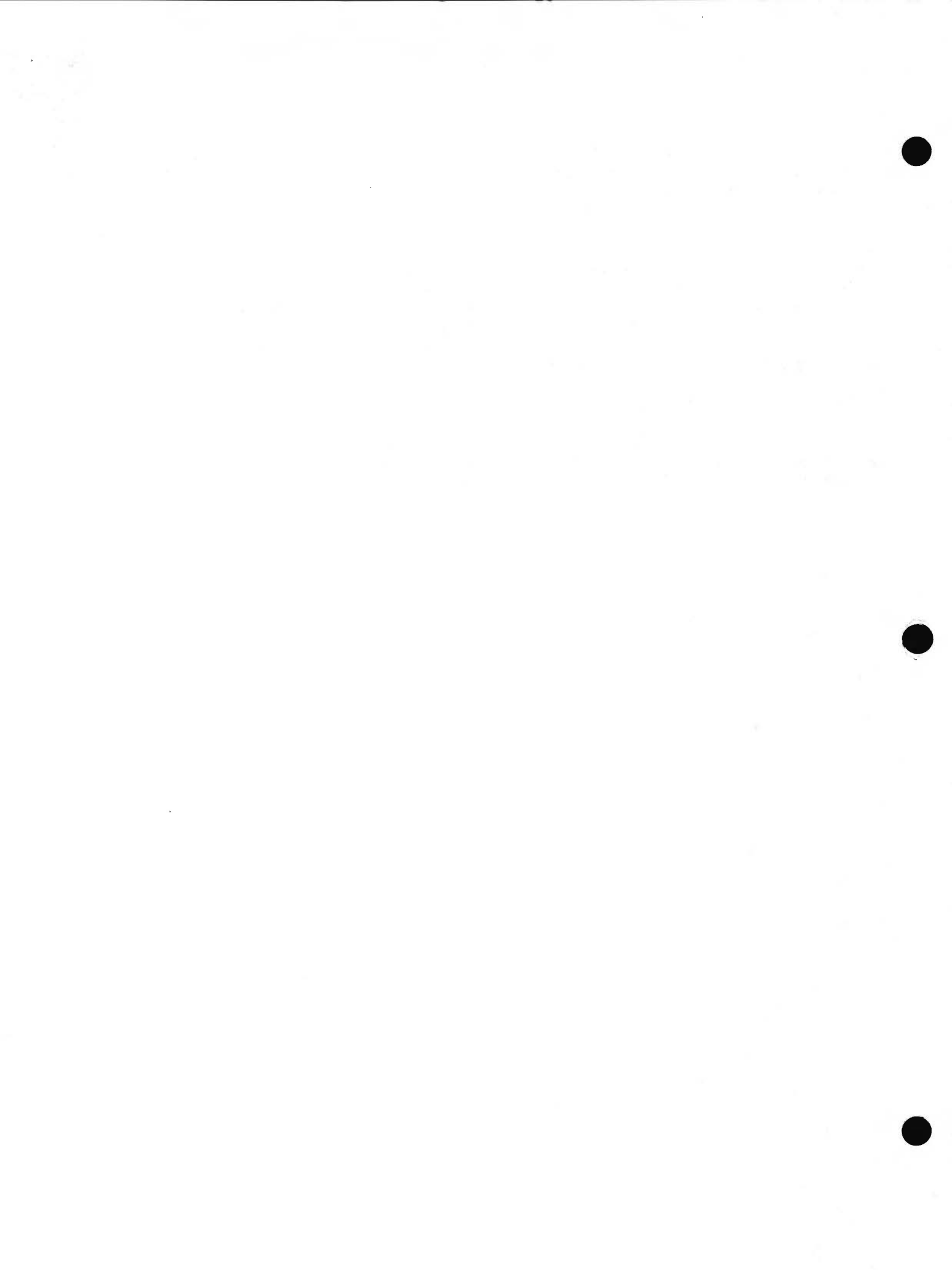


EXHIBIT 1

LETTER OF AUTHORITY TO DELIVER CASH LETTERS AND/OR RETURN LETTERS

To: Federal Reserve Bank of Dallas at

Dallas El Paso Houston San Antonio

The _____
(Name, Office, Routing Number of the Depository Institution)

hereby requests you to make presentment of all drafts, checks, and other cash items drawn on us and being presented by or through your Bank to our agent (processor), listed below, by the delivery of said items to processor or to its messenger. By making this request, this institution agrees to the terms and conditions set forth in Regulation J and Regulation CC of the Federal Reserve Board of Governors, Federal Reserve Bank of Dallas' Operating Circulars 8 and 12 pertaining to the collection and return of cash items, and any amendments and changes to the regulations and operating circulars that may be made hereafter.

Name of Processor (Agent) ()
Telephone Number

Delivery Location City State ZIP Routing Number

We also request and authorize the delivery of our return letters as indicated below.

Check One:

- Please deliver our return letters with our cash letters to our processor. Processor has agreed to accept our return letters and other settlement documents from the Federal Reserve.
- Please make our return letters available for pickup at the Federal Reserve office.
- Please mail our return letters to us.
- Other: _____.

This agreement will become effective on _____ and should be received at the Federal Reserve no later than five (5) business days before the stated effective date.

Name of Respondent Bank Routing Number(s)

Location City ()
Telephone Number

Mailing Address Authorized Signature

City State ZIP Printed Name and Title



EXHIBIT 2
BANK'S CLAIM OF LATE RETURN¹

Date _____

To: Return Items Division
Federal Reserve Bank of Dallas
_____ Branch
[Local Reserve Bank address]

The returned check ("item") described below and attached hereto is being delivered to you:

1. Amount \$ _____ (Must be **\$100** or more.)
2. Dated _____
3. Paying bank _____
4. Paying bank routing/transit number _____
5. Paying bank location _____
6. Drawn by (drawer) _____
7. Payable to (payee) _____
8. Check number _____

We sent this item to _____, in a cash letter dated _____, totaling \$ _____, tape total \$ _____, listed between items for \$ _____ and \$ _____.

This item was apparently returned by the paying bank on _____.
We received the item from _____.

on _____, in a **(CHECK ONE)** intermingled cash letter
 return item letter
dated _____, totaling \$ _____, tape total \$ _____, listed between items for \$ _____ and \$ _____.

We claim that, according to our records and the data on the item, the paying bank did not take all action necessary to recover its payment within the deadline in Regulations J and CC; and we certify that, as to notice of nonpayment of the item, we received

(CHECK ONE) advice by (method) _____ on _____.
 no advice other than the returned check.

This late return caused us to incur financial loss. Please provisionally credit our account and advise.

Bank _____
Officer's Signature _____
Routing/Transit Number _____

¹ This form may be submitted only with respect to the first time the item was sent for collection and must be sent in duplicate within two (2) months after the date you received the item as a returned check. In addition, the item must have been collected and/or returned through the Federal Reserve check collection system. Failure to provide all information requested will result in rejection of the claim.

Knowingly making a false statement to influence the action of a Federal Reserve Bank may subject the signing party to criminal penalties under federal and/or state law.

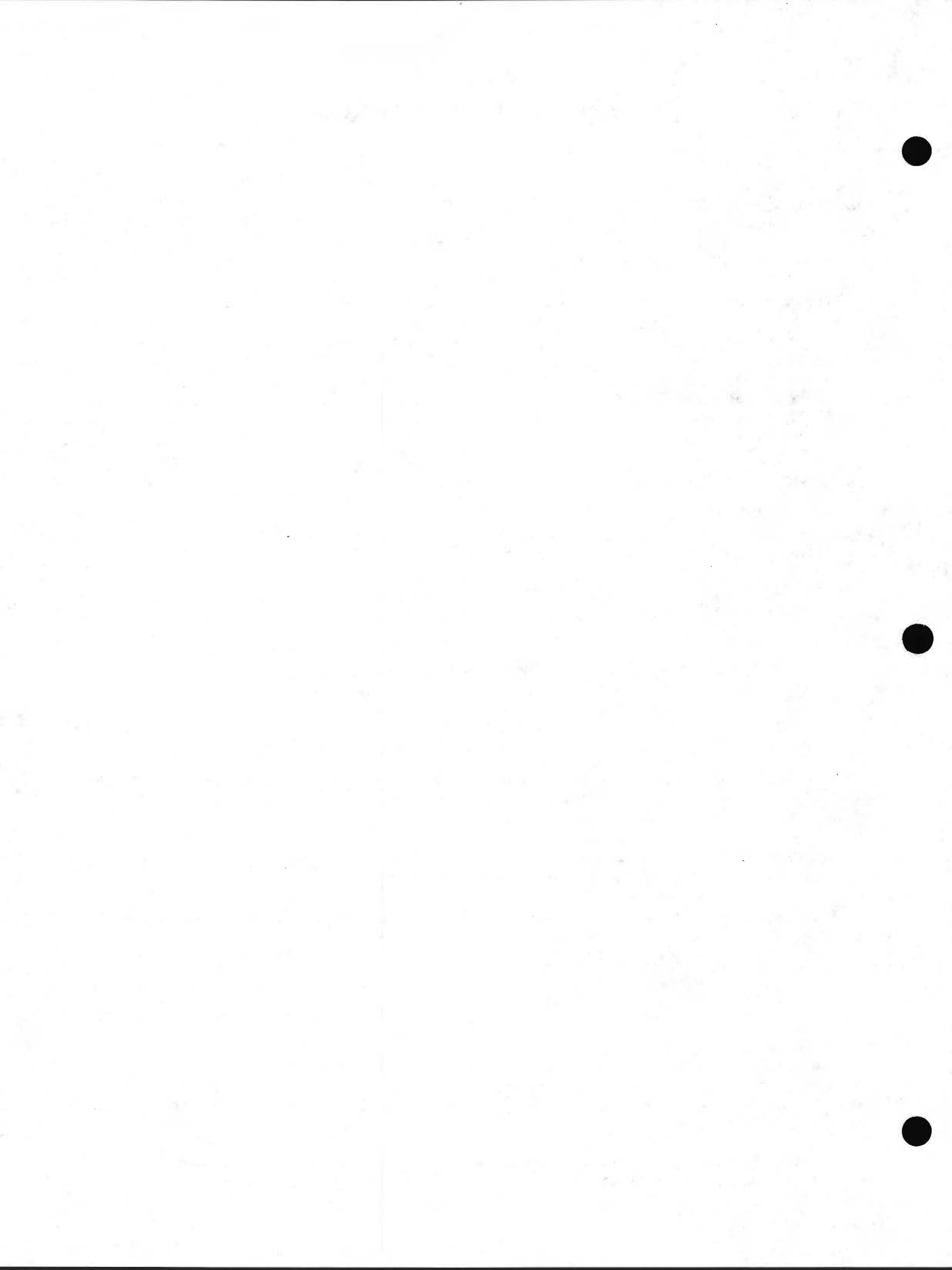


EXHIBIT 3
PAYING BANK'S RESPONSE TO CLAIM OF LATE RETURN¹

Date _____

To: Return Items Division
Federal Reserve Bank of Dallas
_____ Branch
[Local Reserve Bank address]

With your advice of debit dated _____, you forwarded to us a claim of late return with respect to a returned check ("item") in the amount of \$_____.

We certify that our records indicate that this item was received by us or our processor from _____:

as a cash item on [banking day] _____,
in a cash letter dated _____,
in the amount of \$_____, tape total \$_____,
listed between items for \$_____ and \$_____
and that the item was returned to _____

in our **(CHECK ONE)** intermingled cash letter dated _____,
 return item letter

in the amount of \$_____, tape total \$_____,
listed between items for \$_____ and \$_____.

Notice of nonpayment of this item was given to _____
by (method) _____ on _____. (Enter "None" if no notice was given.)

If the number of banking days between the banking day of receipt and the date of the return 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 deadline in Regulations J and CC. Please credit our account and advise.

Paying Bank _____
Officer's Signature _____
Routing/Transit Number _____

¹ Prepare and submit in duplicate. If you fail to send all the information requested to us within twenty (20) banking days (of the Reserve Bank) after the date we sent this form to you, the provisional credit given the claimant and our debit to your account will become final. In that case, you may be able to recover the amount of the item from the claimant if your return of the item was in fact timely, but you must deal directly with the claimant.

Knowingly making a false statement to influence the action of a Federal Reserve Bank may subject the signing party to criminal penalties under federal and/or state law.



EXHIBIT 4

PAYING BANK'S NOTIFICATION AGREEMENT

[To be typed on paying bank's letterhead]

Date _____

To: Federal Reserve Bank of Dallas at

Dallas El Paso Houston San Antonio

Attention: Return Items Division

We request that, in accordance with your Operating Circular 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,
- by telephone notification to you, or
- by 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 Routing/Transit Number

By: _____
Authorized Signature

Title

